Research Paper

Topic:

Planning For Entrepreneurial Growth: Strategic Orientation

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1. Introduction

Firms are the means for realising entrepreneurial ambitions of individual entrepreneurs (Stevenson and Jarilo, 2002). Entrepreneurial ventures work on the principle motto of profitability and growth with a long term desire of market dominance. The entrepreneurs need to be long term thinkers whereas at the same time they are necessarily required to be short term players in order to sustain entrepreneurial growth. But as the frame of reference changes the entrepreneurs need to redefine their functions and roles (Kuratko and Welsch, 2001).

It is important to first understand the context of ‘growth’ as envisaged by the entrepreneurs. O’Farrel and Hitchins (2002) analysed the major problems in evaluation of growth of small organisations. First, there is major inconsistency in defining the small firms. Second, there are also inconsistencies in the dimensions of growth; employment, profit, value addition, turnover, total asset and market share are the parameters suggested by theorists. High performing small manufacturing firms emphasise on new product development, product improvement, product quality, and customer service and the related performance indicators are adoption of new performance methods, employee productivity and efficiency, and employee welfare (Kotey and Meredith, 1997).

Growth also depends on the changing industry patterns and management; it is also about sociological evolution of the business (Storey, 1994). Prater and Ghosh (2005) in an empirical study on U.S. based small and medium sized enterprises operating in Europe reported new product development, expansion into new international markets and expansion into new European markets are the major growth strategies adopted by them. However growth carries different meanings by the different entrepreneurs. There is a strong impact of entrepreneur’s attitude and the decision on growth and there may not be uniformity in growth agenda among the entrepreneurs even if they operate in the same market (Matthews and Scot, 1995).

Growth of small organisations is influenced by three major factors – the background/resource of the entrepreneur, the nature of the firm, and the strategic decisions taken by the owner/manager (Storey, 1994). Strategic thinking is important for small firms in the time of global competition, technological change and increased dynamics in markets. Even if many entrepreneurs do not formulate business plans, the strategic planning and systematic decision-making can be considered a key determinant of survival and success of small firms. The entrepreneur needs to develop both strategic and tactical skills and abilities (Kuratko and Welsch, 2001). Entrepreneurial ventures being goal directed also need to plan to face the uncertainties (Brockhaus and Horwitz, 2002). Entrepreneurial strategy is the means through which small organisations establish and re-establish the fundamental set of relationships with the environment and the uncertainties (Stevenson and Jarilo, 2002).

In small entrepreneurial organisations the strategic decision making is vested with the entrepreneur or limited number of trusted individuals (Gibbons and O'Connor, 2005). Gibbons and O'Connor further opines that, the strategy formulation for growth is driven by the vision and motivation of the entrepreneurs. Also the motivation of the entrepreneur governs the attitude and decision on growth and the entrepreneurs may have different growth parameters to address. Entrepreneurs start venture with some innovation and growth plan, the environment in which the organisation operates poses different kind of challenges depending of the industry life cycle and industry structure (Nooteboom, 2002). This makes the strategy planning task challenging for the entrepreneur as in most of the cases he/she is the only strategic decision maker.

In this paper, the author discusses the background on the growth of entrepreneurial firms, strategic orientations, the strategic planning process as well as the key dimensions of the strategic planning.

2. Background on the Growth of Entrepreneurial Firms

The literature on small-firm growth can be organized into three streams: i) tangible and intangible growth drivers; ii) growth stages; and iii) Schumpeterian growth models (Leminen and Westerland, 2012).

The first literature stream aims to understand the tangible and intangible *drivers of growth*. Many authors identify internal resources that firms need to systematically organize for growth (Robson and Bennett, 2000), whereas others focus on strategic relationships as a way to grow (Lechner and Dowling, 2003). The internationalization perspective emphasizes processes that should be adapted to shift the firm's focus from local to global operations (Coviello and McAuley, 1999). According to the cognitive approach, Leminen and Westerland (2012) quips that organizational intention and ability, leadership and talent, and growth aspiration are necessary conditions for growth. In addition, intangible resources are just as important determinants of firm success as tangible resources (Ichrakie, 2013).

The second literature stream on firm growth examines the various *stages of growth*. Conceptualizing the growth of organizations by describing their transitions through a series of stages, from birth to maturity, has considerable intuitive appeal (Phelps, Adams and Bessant, 2007). A typical venture life cycle is as illustrated in figure 1 below. Managing entrepreneurial growth may be the most critical tactic for the future success of business enterprises (Kuratko and Hodgetts, 2001). The growth stage often requires major changes in entrepreneurial strategy. Competition and other market forces call for the reformulation of strategies. For example, some firms find themselves "growing out" of business because they are unable to cope with the growth of their ventures. This growth stage presents newer and more substantial problems than those the entrepreneur faced during the start-up stage (Kuratko and Welsch, 2001).

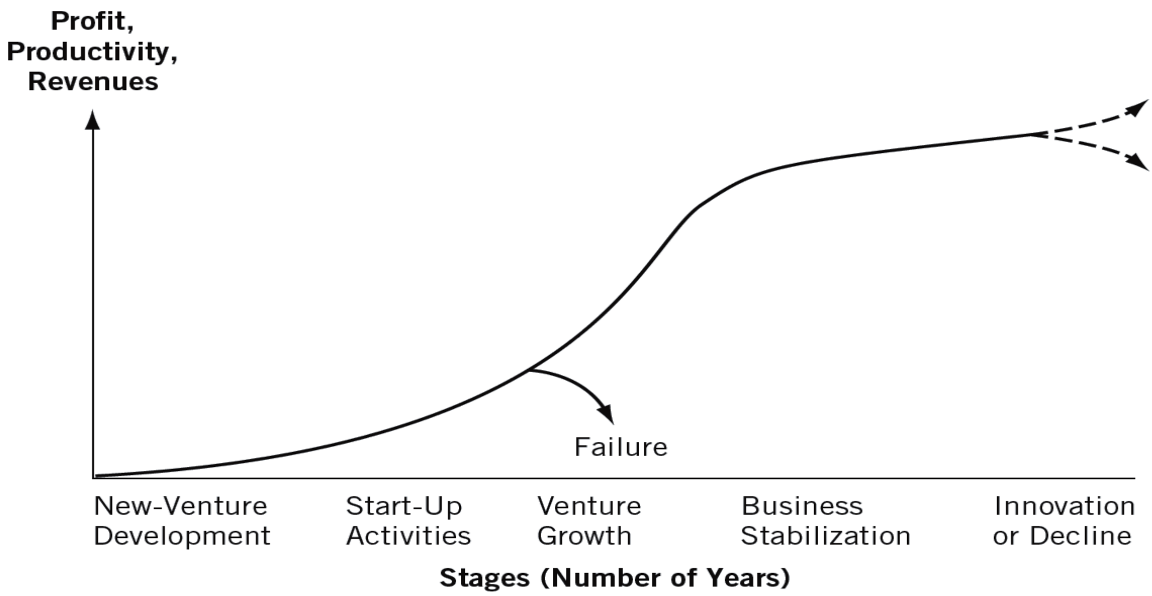

Figure 1: A venture's typical life cycle (Adopted from Kuratko & Hodgetts, 2001)

The third literature stream comprises *Schumpeterian growth models* (Leminen and Westerland, 2012). It is a particular type of economic growth that is generated by the endogenous introduction of product or process innovations (Dinopoulos, 2006).

Schumpeterian growth apprehends the benefits that result from the destruction of old products and processes by new ones. This perspective explains growth by innovation and entrepreneurial spirit and suggests investments in innovations as antecedents to organizational growth and performance (Wolff and Pett, 2006). These models emphasizes on Innovation-based growth as crucial for small firms (Lantz and Sahut, 2005).

3. Strategic Orientations

Understanding small-business growth strategies is today more topical than ever before. Small firms are vital contributors to economic growth and achieving rapid growth is crucial (Leminen and Westerland, 2012). In order to compete, managing organizational growth has become a priority for top management teams of small firms. However, our understanding of growth strategies in the small-business context is quite limited. Porter’s (1996) typology for discussing corporate strategies focuses on large firms and does not properly highlight growth strategies. Therefore, some authors have suggested frameworks to identify specific growth strategies (Kirchhoff, 1994), while others investigate diverse growth phases (Stremersch and Tellis, 2004).

Strategic orientation refers to the formulation of strategies with long-term objectives. It consists of both strategic intent and actual behaviour (Vermeulen and Cursen, 2008). Entrepreneurs use it to guide the efforts in the organization, because it “*reflects strategic directions implemented by a firm to create the proper behaviours for the continuous superior performance of the business*" (Gatignon and Xuereb, 1997).

In this paper, the author focuses on two types of complementary strategic orientations: innovation orientation and growth orientation.

Innovation orientation consists of market orientation and technology orientation. Market orientation describes a firm’s posture towards creating an understanding of its customers and serving customer needs (Narver and Slater, 1990). Its positive impact on organizational performance is widely acknowledged, but it reflects a reactive posture given that it concentrates on the expressed needs of current customers. On the other side, technology orientation describes a firm’s posture towards engaging in technological research and development, in analyzing technology potentials, and in forecasting technology trends (Gatignon and Xuereb, 1997). It manifests in the acquisition of substantial technological expertise and in the investment in technological leadership. Markets and technology are alternative directions of innovation orientation; however, we use the term innovation instead of technology, because many firms develop services. Consequently, small businesses focus on either exploiting markets or exploring for innovation.

Growth orientation refers to the entrepreneur's desire to achieve growth. Most firms, of course, desire growth to prosper and survive. High-growth orientation means that rapid growth is the top priority, while low-growth orientation means safe, slow, and steady growth are priorities for management (Brown et al., 2001). However, not all firms are targeting to grow and maximise their returns. Some entrepreneurs avoid risk and responsibility by limiting undesired growth. According to the results of a Norwegian survey, nearly 40 percent of the entrepreneurs did not want their firms to grow at all and nearly two-thirds did not want their firms to grow in terms of employment (Kolvereid, 1992). Firms are either growth- or control-oriented.

3.1. Growth-Strategy Framework

In this paper, the author presents a framework to describe the four diverse growth strategies of small firms using innovation orientation and growth orientation as dimensions. These growth strategies are: i) explore, ii) expand, iii) exploit, and iv) restrain. They are supported by literature on small business growth (Leminen & Westerland, 2012) and each strategy is a result of the underlying organizational orientations. In addition, other two dimensions are included describing "investments" as tangible inputs and "returns" as outputs to complement the intangible growth strategies as suggested by Kirchhoff (1994).

Innovation matures typically following a counter-clockwise cycle; starting from an "Explore" strategy. However, a firm can opt for any strategy or even skip phases during the evolution. Consequently, the framework provides us with eight categories of small firm growth (Figure 2).

1. The "explore" strategy accentuates the firm's innovation development efforts

Firms that explore their path to growth need to be innovation oriented. In the long run, it is necessary for the firm to explore new possibilities and to develop new competencies. Exploration refers to a firm's capturing of competences through activities characterized by search, variation, risk taking, experimentation, play, flexibility, discovery, and innovation (Gupta et al., 2006). Competitiveness can be guaranteed only through innovation activity, which allows survival in the market competition. However, innovation activity calls for heavy investments in research and development. Therefore, exploring firms stand on unstable grounds since they have high level of investments, but gain little or no profits from the new product introduction (Benner and Tushman,2003). It can, for example, search for new technological capabilities (Koza and Lewin, 1999). At this point, returns are at low levels because there is no concrete prospect to grab on or the development work is at an early stage. Alternatively, the firm may be *radical innovator* that challenges its competitors by proactively investing in the development of breakthrough technology. Innovation development has shifted from mere opportunity seeking into a product or service development plan and introduction.

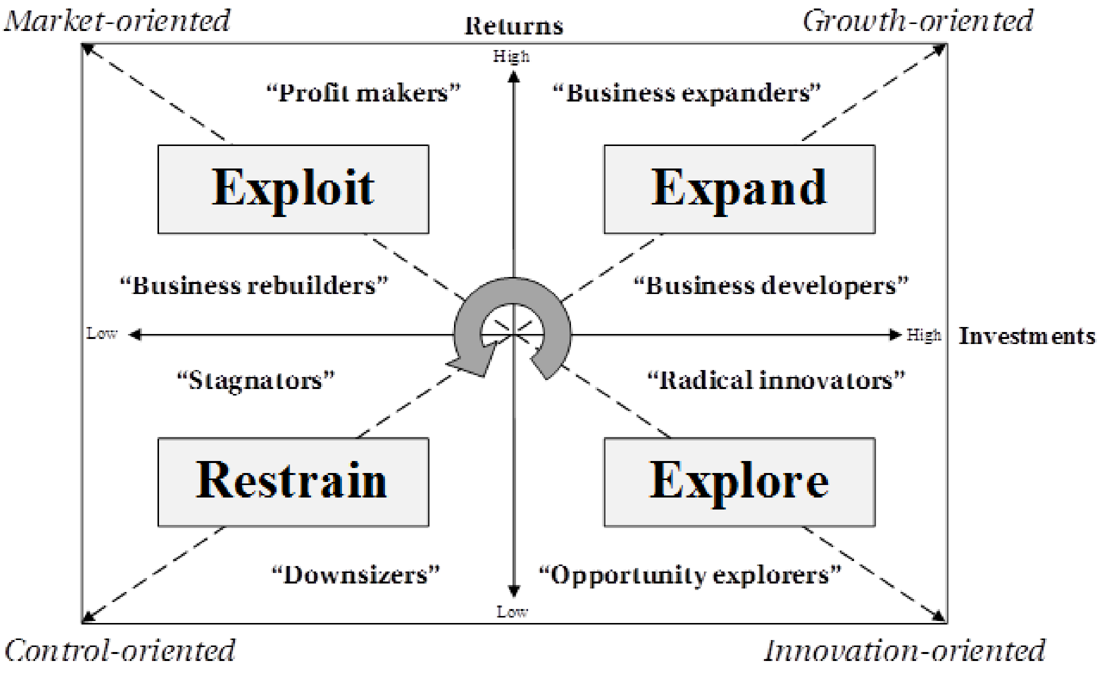

Figure 2. Framework of small-firm growth strategies and the counter-clockwise cycle of innovation maturity *(Adopted from Leminen and Westerland, 2012)*

2. The "expand" strategy reveals the firm's eagerness for growth

The expand strategy suggests that a firm is growth-oriented with a high level of investments and a high level of returns. It refers to a firm's expansion to new markets and customer domains. However, small businesses face numerous constraints to growth such as limited capital, time, experience, and information resources. Therefore, this strategy is challenging yet profitable. Growth aspiration is the most important discriminating characteristic between growth-oriented and non-growth oriented entrepreneurs (Delmar et al., 2003). It promotes a path-dependent and self-reinforcing progression toward permanently faster growth (Eisenhardt and Schoonhoven, 1990) and is positively associated with sales growth (Delmar et al., 2003).

A firm following the expand strategy may be a *business developer* targeting to develop its business processes into a better functioning entity. Alternatively, the firm may develop its commercialization methods and begin voluminous selling of the innovation. Investments in process development typically result in only moderate increases in returns, unless the staff's growth-oriented mentality enables the firm to fully utilize the inputs. Conversely, if the return on investments ratio is high, the firm may aim at rapid expansion of its business. For example, internationalization is fundamental to the rapid growth of firms in the contemporary business environment (Hadley and Wilson, 2003). Such a small firm becomes a *business expander* with a high investment rate and a high level of returns.

3. The "exploit" strategy highlights the organization's profit-making objective

Firms utilizing the exploit strategy should be market oriented. Kohli and Jaworski (1990) define market orientation as the generation of market intelligence pertaining to current customer needs and the firm's responsiveness to it. Market-oriented firms exploit the existing resources in an efficient way. Exploitation includes refinement, choice, production, efficiency, selection, implementation, and execution as approaches in resource capturing (March, 1991). It consists of only a petty refinement of existing technology, because the exploitative firm sustains a price competition with a high-level profit objective. Market orientation and business performance have a strong positive link, particularly in small firms (Golann, 2006).

An exploiting strategy means that small firms have a low rate of R&D investment and a high level of returns. It enables them to exploit the market and generate immense cash flows. Companies typically move from exploration to exploitation along with the maturation of innovation. Whereas explorers invest copiously to create novel offerings for future markets, exploiters cash in the current ones. Investments in the production technology and adaptation to customer's needs may yield excessive profits and the small firm becomes a *profit maker.* Conversely, *business rebuilders* cut off R&D investments and acquire profitability through marketing spending, but this approach is effective only in the short run. Many Internet businesses spent heavily on marketing, but after the bubble burst, most of this spending stopped. Firms need to rebuild their businesses to avoid disappearance due to fierce competition and decreasing price margins.

4. The "restrain" strategy means controlling unwelcome organizational growth

The restrain strategy pertains to the manager of a small business who is reluctant to grow the business. The growth of firm and the business is restrained by controlling the activities of the staff and the operations of the firm (Eisenhardt & Schoonhoven, 1990). The behaviour with this strategy manifests in low levels of investment and low level of returns. Although it can be just a responsive action to a firm's financial predicament, many entrepreneurs refuse to enlarge their firms beyond a specific number of employees. In fact, they try to reduce the undesired growth. There are several motives for restraining strategy, such as self-employment instead of profit maximisation. Firms following the restrain strategy have generally low rates of growth (Glancey, 1998).

Considering that the restrain strategy suggests low returns and low margins, *stagnators* try to keep their businesses above the surface as long as they can. They either avoid the growth or have exceeded the time limit of exploiting market as a business rebuilder. Their trivial investments do not allow the growth of profits; rather they keep them at the current level or with a downward trend. Similarly, the restrain strategy is preferred by *downsizers*, who intentionally avoid risks of growth or who consider ending their business, for example due to the entrepreneur's retirement. Even this reaction to unsolicited growth can be profitable for a while.

However, this framework also has limitations (Leminen and Westerland, 2012). Accprding to Leminen and Westerland, similar to other studies on firm growth, an endogenous growth strategy is not exclusive, because: i) growth may be affected by changes in the industry, ii) the effective size of businesses may vary by the sector, and iii) some industries are more capital-intensive than others.

4. Strategic Planning

Formal planning is usually divided into two major types: Strategic and operational. Kuratko and Hodgetts (2001) defines Strategic planning as:

> *"the formulation of long term plans for the effective management of environmental opportunities and threats in light of a venture's strengths and weaknesses. It includes defining the venture's mission, specifying achievable objectives, developing strategies, and setting policy guidelines"*

Thus strategic planning is the primary step in determining the future direction of a business. Many factors influence a good strategic plan, however, Kuratko and Hodgetts suggests the following five 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. These basic steps can be illustrated in figure 3 next page.

The first step- examining the environment-can be one of the most critical for an emerging venture. A clear review of the venture's internal and external factors is needed, and both sets of factors must be considered when performing an enviromnmental analysis. This analysis is often called SWOT analysis. By focusing on this analysis, a firm can proceed the other steps of formulation, implementation, evaluation, and feedback (Beal, 2000).

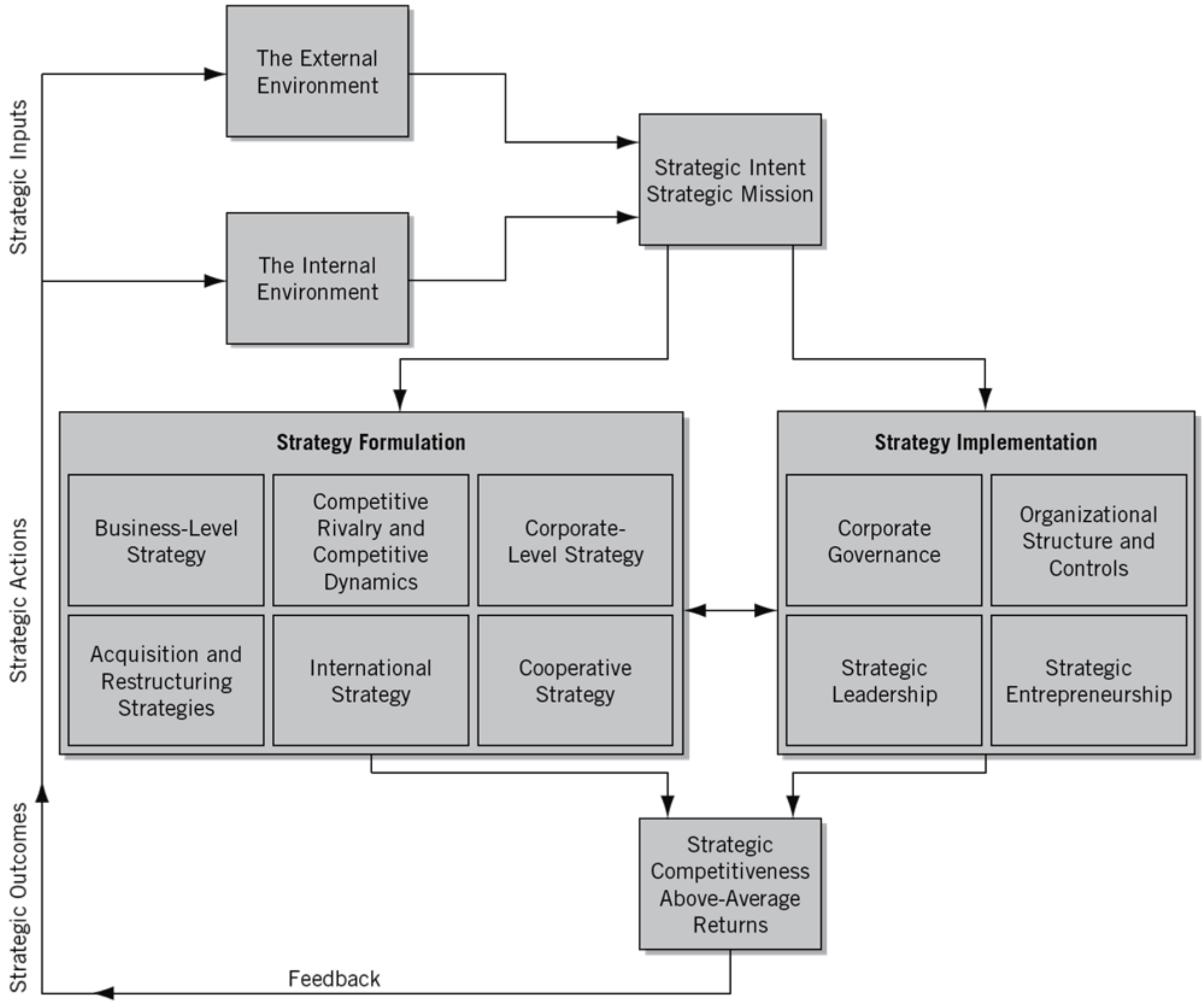

Figure 3: Strategic Management Model (Source: Michael A. Hitt, R. Duane Ireland, and Robert E. Hoskisson, (2009) Strategic Management: Competitiveness & Globalization, 8th ed. Mason, OH: South-Western Publishing

4.1. Key Dimensions Influencing a Firm's Strategic Planning Activities

According to Kuratko and Hodgetts (2001), five factors shape the strategic management activities of growing small firms. These are as below:-

a. *Demand and strategic manager's time:* The increasing demand on key owner-manager's time that accompanies the complexity brought on by growth of the entrepreneurial firm brings about a need for more rigorous strategic management practices. Increased strategic planning activity provides the means to accommodate owner-manager's needs to maintain control and direction of the enterprise, while giving up some activities in recognition of increased time pressures (Frost, 2003).

b. *Decision-making speed:* As the firm expands, the decision to be made can be expected to increase both in number and frequency (Davidsson et al.,2002) . These pressures are referred to as “delegates demands” on the growing firms’ management. More systematic strategic planning practices are needed from entrepreneurs to guide and control the increasing decision making within the firm.

c. *Problems of internal politics:* Strategic planning practices are seen as one way to alleviate difficulties associated with the dysfunctional effects on internal politics on organizational decision making. By providing a formal process by which to channel partisan organizational priorities, strategic planning helps to control the politics that emerge as an entrepreneurial firm grows and develops organizational power seekers (Barringer et al., 2005).

d. *Environmental Uncertainty:* Research has suggested that the need for strategic planning is greater in the presence of increased environmental uncertainty (Beal, 2000). Thus, it appears likely that environmental uncertainty is a key factor influencing the strategic management activities of entrepreneurial firm with an increasingly life-cycle diverse product and market base (Kuratko and Hodgetts, 2001).

e. *The entrepreneur’s vision:* To a large degree, venture planning is an extension of the entrepreneurial ego. Planning is the process of transforming entrepreneurial vision and ideas into action. Kuratko and Hodgetts (2001) suggested that the process involves three basic steps.

  - Step 1: Commitment to an open planning process. Many entrepreneurs are suspicious of planning. They fear the loss of control and of flexibility. Quite often this fear is the obstacle to future success because it blinds the entrepreneurs to the ideas of othe knowledgeable people
  - Step 2: Accountability to a corporate conscience. This takes the form of an advisory board, which is highly effective form of corporate conscience. It can substantially enhance the functioning of entrepreneurial ego. This committee differs from a board of directors by its lack of legal standing and the fact its primary objectives are to increase the owner’s sensitivity to larger issues of direction and make the owner accountable, albeit on a voluntary basis.

- Step 3: Establishment of a pattern of subordinate participation in the development of the strategic plan. The planning process can create organizational energy, especially if key members of the organization are instrumental in creating it.

4.2. Benefits of Strategic Planning

Research shows that strategic planning pays off. The following are some of the benefits that would accrue upon having a strategic plan according to Kuratko and Hodgetts (2001):-

- You'll stay on strategy. It's hard to stick to strategy through the daily routine and interruptions. Use a strategic plan to summarize the main points of your strategy and as a reminder of what it both includes and rules out.
- Business objectives will be clear. Use your plan to define and manage specific measurable objectives like web visitors, sales, margins or new product launches. Define success in objective terms.
- Your educated guesses will be better. Use your plan to refine your educated guesses about things like potential market, sales, costs of sales, sales drivers, lead processing and business processes.
- Priorities will make more sense. Aside from the strategy, there are also priorities for other factors of your business like growth, management and financial health. Use your plan to set a foundation for these, then to revise as the business evolves.
- You'll understand interdependencies. Use a plan to keep track of what needs to happen and in what order. For example, if you have to time a product release to match a testing schedule or marketing to match a release, your business plan can be invaluable in keeping you organized and on track.
- Milestones will keep you on track. Use a business plan to keep track of dates and deadlines in one place. This is valuable even for the one-person business and vital for teams.
- You'll be better at delegating. The business plan is an ideal place to clarify who is responsible for what. Every important task should have one person in charge. Your plan keeps track.

- Managing team members and tracking results will be easy. So many people acknowledge the need for regular team member reviews and just as many admit they hate the reviews. The plan is a great format for getting things in writing and following up on the difference between expectations and results with course corrections.
- You can better plan and manage cash flow. No business can afford to mismanage cash. And simple profits are rarely the same as cash. A cash flow plan is a great way to tie together educated guesses on sales, costs, expenses, assets you need to buy and debts you have to pay.
- Course corrections will keep your business from flopping. Having a business plan gives you a way to be proactive -- not reactive -- about business. Don't wait for things to happen. Plan them. Follow up by tracking the results and making course corrections. It's a myth that a business plan is supposed to predict the future. Instead, it sets expectations and establishes assumptions so you can manage the future with course corrections.

4.3. Entrepreneur's limitations to strategic planning

Research has shown a distinct lack of planning on the part of new ventures. Five reasons have been established to be part of the causes for the lack of strategic planning:

a. *Time scarcity:* Managers report that their time is scarce and difficult to allocate to planning in the face of the day-to-day operating schedules
b. *Lack of Knowledge:* Small form owners have minimal exposure to, and knowledge of the planning process. They are uncertain of the components of the process and the sequence of those components. The entrepreneurs are also unfamiliar with many planning information sources and how they can be used.
c. *Lack of expertise/skills*: Small business managers typically are generalists, and they often lack the specialized expertise necessary for the planning process.
d. *Lack of trust and openness*: Small firm owners/managers are highly sensitive and guarded about their businesses and the decisions that affect them. Consequently, they are hesitant to formulate a strategic plan that requires participation by employees or outside consultants.

e. *Perception of high cost:* Small business owners perceive the cost associated with planning to be very high. This fear of expensive planning causes many business owners to avoid or ignore planning as a viable process.

4.4. Fatal Mistakes in Strategic Planning

Michael Porter (1996) took note of five fatal mistakes entrepreneurs continually fall prey to in their attempt to implement a strategy. Outlined are the flaws:-

a. *Misunderstanding industry attractiveness*-Too many entrepreneurs associate attractive industries with those that are growing the fastest, appear to be glamorous, or use the fanciest technology. This is wrong because attractive industries have high barriers to entry and the fewest substitutes. The more high-tech a business is, the more likely a lot of new competitors will enter and make it unprofitable.
b. *No real competitive advantage*-Some entrepreneurs merely copy or imitate the strategy of their competitors. That may be easy tactic, and it is certainly less risky, but it means an entrepreneur has no competitive advantage. To succeed, firms must develop unique ways to compete.
c. *Pursuing an unattainable competitive position*-Many aggressive entrepreneurs pursue a position of dominance in a fast-growing industry. However, they are so busy getting off the ground and finding people to buy their products that they forget what will happen if the venture succeeds. For example, a successful software program will be imitated quickly. Real competitive advantage in software comes from servicing and supporting buyers, providing regular upgrades. Sometimes, small companies simply cannot sustain an advantage.
d. *Compromising strategy for growth*-A careful balance must exist between growth and the competitive strategy that makes a new venture successful. If an entrepreneur sacrifices his or her venture’s unique strategy in order to have fast growth, then the venture may grow out of business.
e. *Failure to explicitly communicate the venture’s strategy to employees*- It is essential for every entrepreneur to clearly communicate the company’s strategy to every employee. Never assume employees already know the strategy. Always be explicit.

5. Conclusion

Entrepreneurial growth strategy in small business environment is a complex body of knowledge which is not completely explored. Small entrepreneurial organisations are different form large corporates where strategic decision making is vested on a body which is assisted by a large set of professional talent. In small entrepreneurial organisations the strategic decision making is vested with the entrepreneur or limited number of trusted individuals. The strategy formulation for growth is driven by the vision and motivation of the entrepreneurs. Also the motivation of the entrepreneur governs the attitude and decision on growth and the entrepreneurs may have different growth parameters to address. Entrepreneurs start venture with some innovation and growth plan, the environment in which the organisation operates poses different kind of challenges depending of the industry life cycle and industry structure. This makes the strategy planning task challenging for the entrepreneur as in most of the cases he/she is the only strategic decision maker. However, the owner-manager can increase his success by addressing the limitation highlighted in this paper as well as avoiding the flaws described.

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