

Entrepreneurial Strategy in Start-up and Continuous Operation

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Introduction

Entrepreneurship and strategic planning may be conceived as two different approaches to conducting business. Entrepreneurship generates competitive advantage through the ability to discover new opportunities and to recombine resources and thereby provide new products or services – that is new economic activity (Davidsson et al, 2006). Strategy generates competitive advantage through the ability to predict gaps between future demand and the firm's capability to meet them, to plan the steps required to fill the gaps and finally, implement these steps (Mintzberg et al, 2003).

One common feature of the two concepts *strategic* and *entrepreneurial* is that there is a lack of consensus among the users of the concepts as to their definitions. Such differences in academic and empirical emphasises often lead to different observations and interpretations of the phenomena. As a consequence one finds interpretations of the two concepts that on the one hand are clearly contradicting. An example is that strategic planning is perceived to reduce risk while the typical entrepreneur often is perceived as a risk taker. On the other hand, we find clearly converging interpretations. Emergent strategy (Mintzberg and Waters, 1985) is in essence quite similar to the entrepreneurial process of discovering and exploiting opportunities. With increasing volatility in business environments entrepreneurial orientation has become essential also to strategic planning (Mintzberg et al, 2003, Meyer et al. 2002).

The term *entrepreneurial* is commonly associated with two apparently different business processes: starting up a new firm and introducing completely new ventures in an existing firm (Davidsson et al, 2006). In this paper we will reflect on strategic and entrepreneurial challenges based on one case depicting a firm in the start-up phase and one case from a firm in the development phase.

The ambition is to contribute to understanding how enterprises develop and grow through creative processes. Understanding the mechanisms is the first step in endeavours to find methods to stimulate or to control any process. The ultimate objective is to enhance control of creative processes. Since they produce novel results their outcomes are hard to predict and even harder to plan.

Concepts

Strategy and Strategic Planning

Like many of the planning and control tools of the business world, strategy derives from the military. It applies to planning and implementation of the plans in order to achieve long-term objectives through coordinated development of resources and capabilities and then to coordinate their deployment. Strategy ensures dynamics by setting goals, analysing internal and external factors that are det-

amental to achieving the goals and identifying required improvements of resources and capabilities. Importantly, strategies are implemented through plans and activities at tactical and operational levels.

The main concepts can be applied equally well for all endeavours that benefit from setting goals and preplanning. In business the purpose of strategy is to ensure the long-term survival and growth of a firm. A strategy may be a formally approved document, but quite often small and medium-sized firms (SMEs) will not be aware that they operate according to a strategy. The strategy will be manifest by decisions and activities that ensures continuity over time and are consistent over resources and areas of responsibility at each point in time.

There will usually be many optional paths from the current position and status of the firm to the future position and status that are set out in the goals. Planning is required to identify and select the steps with good prospect for success and to identify the required capabilities for the transition process. This is the contents of strategic planning.

Entrepreneurship and Entrepreneurial

The concept entrepreneur first appears in the business sector. It originally depicted a person that took on a task for economic compensation¹, but over time the meaning has shifted to a person that promotes novel ventures, activities or products. Gradually entrepreneurial has come to denote the ability to be creative and to initiate new activities in any sector of the society. With the proliferation of areas of use we see a parallel proliferation in interpretations of the word and the concept.

Many reserve the term entrepreneur for the person who starts up a business for the first time. Others will also include the habitual entrepreneur (Rosa 1998, Iacobucci and Rosa 2005) who repeatedly starts up new ventures outside or within the first business.

For the purpose of this presentation we will understand entrepreneurship as the process of starting up new business ventures (cf. Davidsson et al, 2006). The entrepreneur may choose a new legal entity, a new firm, as the venue for the start-up. This is probably the most frequent use of the concept. However, there are few differences in the generic entrepreneurial process when the new venture is launched within an existing firm. This is illustrated by the fact that in many cases, entrepreneurs have a free choice whether a new venture becomes a new business or is incorporated in an existing. As will be illustrated by one of the cases below, a new venture may start as a new business entity and be incorporated in an existing business later in the development process.

Analytic Framework

The objective of any business value creation process is to satisfy a *market demand*. The success of the firm depends on the ability to correctly identify this market demand and corresponding product or service that can satisfy the demand. The next logical step is to set up the *capability* that is required to meet this demand. This capability includes all resources and competence required for all steps from developing the product or service, to produce it and deliver it to its user. The costs of developing, setting up the value creation system as well as the actual production occurs long before payments can be received. Access to sufficient *capital* is therefore an essential part of any business venture.

¹ In Norwegian the word *entreprenør* still means a *building contractor*.

The *strategic goals* of an enterprise set out the, perceived best, interaction between market demand, capabilities and available capital, see figure 1. For most SMEs the strategic triangle defines the essential elements for systematic development of a business venture (Havnes, 2009).



Figure 1 The strategy triangle

Entrepreneurial processes generate new combinations of the elements in the strategic triangle. In some firms the entrepreneurial process takes place during their inception and start-up but never later. Other firms seem to base their competitive advantage on the ability to continuous entrepreneurial processes.

The Cases

In order to give substance to the discussion of entrepreneurial strategy, we will present two entrepreneurial processes. The first case describes the start-up phase of a new firm. The second case describes the development process of an existing firm (Havnes, 2009).

MCP

At the time of the study MCP was newly started and about to complete its first deliveries. The founders were still active in the enterprise, but no longer alone as they were at first.

The business idea of MCP was to provide cellular telephone service to ship passengers on the open sea. The service and prices for the use of a private telephone on board were comparable to using the same telephone abroad. The firm was primarily a telecom operator that provided proprietary equipment and technology. Three and a half year after the start the firm had 40 employees and a budgeted turnover in excess of 7 million euro. It had won a national innovation award and its products had gained international recognition. In a short time the company had become one of four major operators worldwide in this new sector.

MCP derived their main income from the use of cellular telephones in the operational domains constituted by the individual ships. Local calls are made within the domain, and a communication unit on the ship transmits all communication via satellite to the MPC traffic control station on land and onwards to the regular land-based telecom operators. The principle is simple, but required that a number of technical and contractual problems were solved first. The company has two technical patents for vital functions in their system. The first allows the passengers on the ship to have undisturbed com-

munication as the ship moves between the radio protocols of the different countries. The second patent allows all users on one ship to communicate locally without using the land based switching facilities.

Most of the hardware is standard components. The technical contribution of MCP was programming and system design. In parallel the proprietary systems of MCP had to be integrated with the technical, operational, legal and commercial systems necessary for land-based operators of cellular telephony networks, enabling continuous services while the vessels travel worldwide. This was a very large task that required additional competence to the technical knowledge of the entrepreneurs. Advanced negotiation skills were required when approaching the large telecom operators as a small firm, asking to be allowed to make the contractual agreements needed to regulate the service. The agreements ranged from pricing procedures to additions to the technical protocols for stationary systems.

The spark that started the firm was that the development centre of a large cellular telephone manufacturer was restructured and relocated. Four colleagues had pondered over this business idea for some time and decided to start up their venture. One left the research centre and started to work full time on their project while the remaining three worked on the venture in their free time. The imminent closure of the firm was important for the timing. Many of their colleagues would lose their jobs and become available for the new firm.

MCP was set up in a local ICT incubator. The initial financing came from personal savings and small public contributions. After one year this was supplemented by a combination of private and public seed capital funding. One year later the capital basis of the firm was once again increased to a total of about 5 million euro. The new owners were a telecommunication corporation, an investor with a background from shipping and a financial investor. Later in the same year pilot tests were successfully concluded and the first commercial sale was made to a shipping company that had participated in the pilot studies. One year later the capital basis was once more increased to about 9 million euro, and the system was operational on 25 ships and commissioned for another 3 ships. Additionally the company was in negotiations for deploying on another 90 vessels.

The basis for the new business venture was the engineers' observation of a new business opportunity and their ability to come up with technical solutions. But the development process also included financial and commercial elements. The CEO describes the technical part of the development process as laborious but straightforward. The major problems of the development process were to negotiate financing and commercial agreements.

The entrepreneurs' enthusiasm and conviction that the system would perform were not sufficient to convince potential investors in the early stages. They had to prove success at several steps to attract investors. Successful pilot tests marked one critical achievement. Another was to make contractual agreements with telecommunication operators worldwide. Cellular telephone service on ships is a niche product with small contributions to the turnover of the large companies. They were therefore initially reluctant to sit down and discuss the technical and commercial details that needed to be in place before MCP could launch the commercial version of their product.

A telecommunications company finally took over MCP. There was mutual consent among the owners that the product had reached a phase where market development was the essential task. This required specific marketing competence and financial resources that could only be provided by a large corporation in the communication sector. The enthusiasm, ingenuity and technological competence of the founders would not be sufficient for this phase.

The rewards for the founders were a good profit and the satisfaction of seeing their idea develop into an international success. When the first CEO was challenged to look back, the problems did not catch his attention. He summed the experience up with the words: “This has been fun!”

This project could not have proceeded beyond the idea if the project “owners” had not seen the interaction between available capital and strategic plans, which is indicated in figure 2. The project was divided into strategic phases that could be financed individually. Each phase provided input to decisions on continuing and further financing. The project owners were willing to reduce their part in the ownership and profits, and take in owners with sufficient financial muscle – and finally to let other owners take over completely.

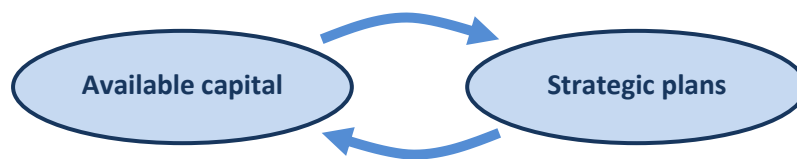


Figure 2 Interaction between available capital and strategic plans

The alternative for the founders could have been that they had continued as sole owners of a project which was technically sublime on paper, but never reached the market and therefore would have no commercial value.

Cabin

Cabin was a family firm with 19 employees at the first observation that designed and fabricated prefabricated living quarters for ships and offshore petroleum platforms. It also produced retrofit solutions based on standard-sized containers for the same markets. These containers could be used for machinery, offices, health stations, exercise rooms, etc. Their success stemmed from unique designs which combined functional qualities with cost efficiency for living quarters as well as service facilities.

Cabin had been founded about 15 years earlier by father and son. When the son graduated from his naval architect studies, the father had left his job and gone into partnership with his son. They were still in control of the firm, dividing the shares equally. The father had recently retired and was still part owner, the mother was running the administration and the son was technical manager responsible for product development, production and sales, as and when required. The management was kept small in order to minimize overhead costs.

Norwegian ship owners had been their first customers when the firm started, but soon the petroleum industry in the North Sea became their most important market niche. The size of each order in this market was typically so large that it required more than 50% of the capacity of the firm over 6 to 12 months. The income in Cabin had varied from year to year. For a long time yearly sales had been fluctuating around 1,25 million euro.

Following a fall in the oil prices the domestic markets dwindled. The choice was apparently to close down the firm or to seek new markets internationally. Shortly before this, Cabin had completed a large delivery to a new production platform that was built at an Asian yard for a domestic customer.

The experience from the delivery to Asia in combination with positive references from their renowned domestic customer helped the firm to obtain a contract for a large Asian oil company. The job meant close cooperation with project partners from several countries, and their exports rose from zero to nearly 50 % of total sales from one year to the next.

The Asian contract was successfully completed with good profit. The contract had also given valuable experience in international cooperation beyond the western European cultural sphere. By that time the domestic markets had once again improved. At this new decision point the firm chose to return to domestic markets instead of capitalizing on their experiences from export markets. Their exports once again dropped to almost 0% over the next year. The reason given for not capitalizing on their international competence was that they put higher value on low marketing costs domestically than on the potential access to larger markets by continuing exporting.

Another decade later, Cabin appears with a completely new structure. The turnover had fluctuated, but with a strong underlying growth reached around 8 million euro pro year and given Cabin a solid capital base. The former junior owner is now sole owner. Cabin is now the mother company with partly owned subsidiaries in Norway, the UK and in Singapore. The mother company is about the same size as a decade earlier, 20 persons mostly engineers, designers and architects. With affiliated companies the group has around 40 employees, but the staff will increase significantly by means of short-term engagements during projects. International sales constitute 50 % of the total turn-over. Cabin has significantly strengthened its design capabilities presenting itself as an engineering company while manufacturing is carried out in the subsidiaries. At the completion of this presentation Cabin announced that they have been awarded a large contract for a domestic client. The new contract will keep 40 persons occupied over three years with a total value of around 17 million euro.

At the first observation point Cabin did not wish to capitalize on their newly gained international experience. The strategic choice was to return to the well known and less risky markets when it became possible. Later development indicates that the international experience combined with market opportunities, did set off a new direction of development and the dominating orientation towards domestic markets weakened. It should be noted, however, that some of their international contracts are with international suppliers to Norwegian companies. Cabin therefore also takes advantage of its intimate knowledge of the domestic end-users' preferences, specifications and requirements.

Like most small firms Cabin has no written strategy plan. However, the aggregated effect of decisions in daily operations has produced long-term development consistent with strategic planning. This is a strong indicator that a mutually accepted "understanding" has been guiding daily decisions with the same effect as a formal strategy document. A few main elements can be identified which have directed the strategic development of Cabin:

- Work is carried out in project organisation. Each project is large compared to the total capacity of Cabin and will typically last for several months up to more than one year.
- Cabin is the main contractor for its deliveries.
- Sufficient capacity for projects has been secured through resources provided by external partners and project engagement of personnel. Attempts were early made to formalize partnerships, but with no great success until the last decade.
- Due to the large size of individual projects, the dominating operational mode of Cabin has alternated between manufacturing and marketing.

- The business network of Cabin including former clients and partners, has extended marketing channels and provided reference for tenders.
- Small staff reduces vulnerability to drop in sales, but necessitates that personnel periodically switch tasks. This strengthened flexibility as a special capability, and subdues professional specialisation.
- Looking back on a quarter century development, Cabin has displayed organizational stability while at the same time continuously responding to market development and adapting its strategy accordingly.

Differences in Entrepreneurial Strategies

The two cases illustrate two different patterns of entrepreneurial business development and associated entrepreneurial strategy. The first case, MCP, illustrates the classical start-up of a new business venture by first-time entrepreneurs. The case encompasses three development processes that all were novel to the entrepreneurs:

- 1 Developing a new product including market introduction and securing required legal and commercial framework.
- 2 Developing the business venture while simultaneously learning how to run a business.
- 3 Extending the business from a size adapted to prototype development to the efficient size for and international supplier of communication services.

The second case, Cabin, describes a firm that has successfully completed its start-up process. This case illustrates entrepreneurial development of a mature venture. The developing processes are founded on current activities, products and resources, from which the firm develops new business concepts and ventures into new markets. The case describes entrepreneurial processes with different characteristics than observed in the first case:

- 1 Applying existing technology and manufacturing processes to new products for the existing markets.
- 2 Moving from existing (domestic) markets to new (global) markets with the existing products.
- 3 Soliciting additional resources as and when required for project development. Current resources and capabilities are not regarded as barriers for new ventures.

The two firms engaged in the entrepreneurial processes with different capabilities. Cabin had aggregated experience and resources. They had also established procedures and channels to access further resources when required. The size of the original company has been maintained over the years with adaptation to volume requirements in each project. MCP had no previous record and experience. They therefore had to build experience, to prove their capability stepwise to attract partners and resources. Finally, commercial success required a scale that it was far beyond the capacity of the initial entrepreneurs. They therefore sold out to capitalize on the full potential of their accomplishment.

The main strategy of MCP has been guided by the intent to develop and commercialize a novel product. Their limited resources and previous experience have necessitated a strategic approach with many milestones. By reaching milestone objectives MCP have documented their ability to deliver according to plans and thereby solicit further support. As the development proceeded, the competence base, complexity and number of tasks necessitated that the firm grew. Finally, MCP outgrew the capacity of its founders who capitalized by selling out.

Through its strategic approach Cabin has ensured its flexibility, which has allowed the firm to exploit new opportunities in response to changing market conditions. Their market approach has been entrepreneurial while maintaining a stable structure and size of the firm. The ability to reorganize, recombine resources and compete in new markets has close resemblance to destructive creation described by Shumpeter (1961). Its growth in sales and economic results clearly indicate that this has been a winning strategy for Cabin.

The main elements of the entrepreneurial strategies of the two case firms are summed up in Table 1.

Two cases are not sufficient to draw a conclusion as to the general nature of the strategic approach to entrepreneurial processes during start-up and continuing development of enterprises. However, these cases illustrate that the strategic approach to these two entrepreneurial processes are different. We may distinguish them by the terms *start-up strategy* and *continuing development strategy*.

Start-up Strategy deals with the person or persons that start their business base their start-up on a novel business concept. Very often the first-time entrepreneur has little or no business experience. Since the business concept is new, there is usually little opportunity to draw upon previous experience or mimic role models. Their entrepreneurial process entails: Developing the product or service, setting up the value creation process, secure sufficient support and extend markets.

Continuing Development Strategy deals with the situation where a person or persons – the entrepreneur(s) – within an existing firm observes new opportunities and rearrange the resources and competencies of the firm to supply the services or products that are required to exploit the opportunity. In this case the entrepreneur commands certain capabilities and also extensive business experience. Development processes focus on finding new markets within the same sector and adapting capacity to project requirements.

Entrepreneurial strategy	Case 1 – MCP	Case 2 – Cabin
Market	Prototype development in cooperation with potential customer. First market introduction with internal resources. New industrial owner provided market capability and muscle. Original entrepreneurs sold out prior to final commercialization.	Initial preference to domestic and well known market. Driven to global markets by failing domestic markets. Subsequent return to domestic markets at first opportunity. Later capitalizing on international experience and returning to global markets. Range of products and services based on same concepts.
Capability	Original entrepreneurs held product and technology competence. Limited requirements to facilities in early stages. Gradual build-up of capacity and staff in step with increasing complexity and volume of the development project. New partners included to comply with stepwise increased with capability requirements.	Stable base staff over long period. Capacity and competence supplemented on project basis when required. Stable core competence over long periods. Internationalisation facilitated by setting up subsidiaries in cooperation with partners.

Capital	Start capital was own funding and public support. Investors invited on successful completions of stages. Industrial partners provided additional capital along with competence and market access.	Mainly own funding through aggregated profits.
Strategic goals	Adapting to changing intermediate goals during the start-up process. Initial focus on securing technology competence, partners and financing prototype stage. Later focus on securing the commercial and legal framework for the communication platform. Gradual growth in line with increased demand on completion of end products. Entrepreneurs sold out to industrial buyer with sufficient capacity for commercial operation.	Niche oriented specialised products to national professional customers. Slim base organisation in mother company over a quarter century. Capacity extended when required by subcontracting, project employment and partnerships. National focus replaced by internationalization following haphazard international experience.

Table 1 Summary of entrepreneurial strategy

Concluding Remarks

The notion of business strategy usually captures systematic plans for attaining future goals and the subsequent steps taken to implement the plans. Entrepreneurial processes are often less systematic since new opportunities trigger activities that cannot be consistent with preconceived goals.

The two cases discussed here indicate that entrepreneurial strategies are focused on accessing and organizing resources that give the firms the flexibility required to adapt to changing and unforeseen circumstances. This may be achieved by setting goals for the interaction between markets, capabilities and capital that ensures the flexibility.

The two cases, furthermore, illustrate that the approach to entrepreneurial strategy appears to be different for business start-up and development of existing firms. The focal elements of the entrepreneurial process change rapidly of a firm in the start-up process while they may be quite stable when the firm has matured and found an efficient structure. As other authors also have pointed out, entrepreneurial processes cannot be interpreted correctly without taking the context into account (discussed i.a. by Wiklund, 2006). The MCP case illustrates a situation where the entrepreneurial oriented organization had completed its function once the venture had reached the stage that required commercialization within a scope of closely related services. The Cabin case illustrates the situation of a firm that continuously adapts to a very dynamic market. Flexibility is ensured by maintaining entrepreneurial orientation over longer period than the total life expectancy of most newly started firms.

This brief discussion of the two cases have disclosed similarities as well as differences in start-up and continuing development strategies. Research should be encouraged to investigate the phenomena that have been briefly explored here.

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