[Academic Script]

Entrepreneur and Economic Development-II

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Academic Script

1. Concept of Entrepreneurial Strategy

In this session we are going to discuss Entrepreneurial Strategy, generating and exploiting new entries. And why do Entrepreneurs fail – The Four Entrepreneurial Pitfalls suggested by Peter Drucker.

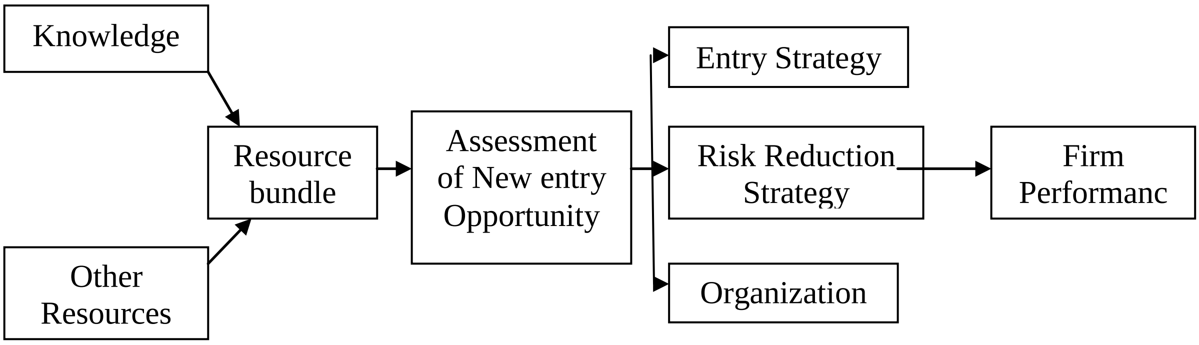
Let us begin with Concept of Entrepreneurial Strategy

According to Martin Ganco, Tim Holcomb and Rory McDonald, Strategy is the primary building block of competitiveness and advantage. As an organizational process, this encompasses a range of activities in which firms engage to establish and sustain a competitive advantage. Compared to established firms, entrepreneurial firms may face many challenges that diminish their likelihood of success and survival. Specially, entrepreneurs lack resources; they may not have well-accepted markets for their products and services and that often operate in highly ambiguous contexts. Classical arguments characterize strategy formulation as an organizational level process that encompasses a range of activities firms engage in to establish and sustain a competitive advantage. These activities include market and industry analysis, product or service design and development, operations and technology management, customer development and other varied aspects of the new firm's culture, shared value system and vision.

Now, let us start our discussion with Entrepreneurial Strategy for New Entry:

New entry refers to offering a new or established product in established or the new market by creating a new organization. Here, a new entry of firm or entrepreneur has newness in both positive differentiations from its competitors as well as negative challenges. This will became clear from this figure:

Figure No. 1: Entrepreneurial Strategy Generating and Exploiting New Strategies.



Do you know what Entrepreneurial Strategy is?

It represents the set of decisions, actions and reactions that it first generates, and then exploits over time, a new entry in a way that maximizes the benefits of newness and minimizes its costs. According to Andrew Adhikary, the elements of an entrepreneurial strategy are**:**

- The generation of a new entry opportunity, the result of a combination of knowledge and other resources into a bundle that will be valuable, rare and difficult for others to imitate.
- The exploitation of a new entry opportunity.
- A feedback loop.

• If the entry warrants exploitation, then firm performance depends on:

- The entry strategy and the risk reduction strategy.
- The way the firm is organized.
- The competence of the entrepreneur and the management team.

Despite all this, the long-run performance is dependent upon the ability to generate and exploit numerous new entries.

2. Generation of a New Entry Opportunity

Competitive Advantage: The generation of new entry opportunity by an entrepreneur should have competitive advantages. A sustainable competitive advantage comes from will provide some insight into how entrepreneurs can generate new entries that are likely to provide the basis for high firm from performance over an extended period of time.

Entrepreneurial Resources: The ability to obtain and then recombine resources into a bundle that is valuable, rare and inimitable. An entrepreneur combines the resources into such a different ways as this bundle of resources provides a firm its capacity to achieve superior performance. Resources must be:

1. Valuable: enables a firm to pursue opportunities, neutralize threats and offer valuable products and services to the customers.
2. Rare: possessed by few, (potential) competitors.
3. Inimitable: Replication of this bundle of resources should be difficult or costly for the potential competitors.

Knowledge Aspect: Knowledge aspect of an entrepreneur will be covered up with market and advanced technological knowledge.

1. Market knowledge: Possession of Information, technology, know-how, and skills that provide insight into a market and its customers.
2. Advanced Technological knowledge: Possession of information, technological innovation, know-how and skills that provide insight into ways to create new knowledge.

Our next topic is assessing the Attractiveness of New Entry Opportunity:

The entrepreneur needs to determine whether the resource is in fact valuable, rare and inimitable by assessing whether the new product or the new market are sufficiently attractive to be worth exploiting and developing. The presented below given aspects will be helpful to assess the attractiveness of the new entry opportunity.

I. **Information and knowledge on new entry:** The prior market and technological knowledge used to create the potential new entry can also be of benefit in assessing the attractiveness of a particular opportunity.

II. **Window of Opportunity:** The period of time when the environment is favourable for entrepreneurs to exploit a particular new entry.

III. **Comfort deciding under uncertainty:** The trade-off between more information and the likelihood that the window of opportunity will close provides a dilemma for entrepreneurs. Here, entrepreneurs usually commit two types of errors:

1. Error of Commission occurs from the decision to pursue this new entry opportunity, only to find out later that the entrepreneur had overestimated his or her ability to create customer demand and to protect the technology from imitation by competitors. The cost of the entrepreneurs was derived from acting on the perceived opportunity.
2. Error of Omission occurs from the decision not to act on the new entry opportunity only to find out later that the entrepreneur had underestimated his or her ability to create customer and protect the technology from imitation by competitors. In this case, the entrepreneur must live with the knowledge that he let an attractive opportunity slip through his fingers.

IV. **Decision to exploit or not exploit the new entry:** Assessment of new entry's attractiveness determining whether the entrepreneur believes she or he can make the proposed new entry work. When, an entrepreneur enters as 'being first' in competitive market, he gets some of benefits or advantages and faces few disadvantages:

- **Advantages of 'being first':**

1. First mover develops a cost advantage.
2. First mover faces less competitive rivalry.

3. First movers can secure important channels.
4. First movers are better positioned to satisfy customers.
5. First movers gain expertise through participation.

- **Disadvantages of 'Being First':**

1. Demand Uncertainty: Considerable difficulty in accurately estimating the potential size of the market, how fast it will grow, and the key dimensions along which it will grow.
2. Technological Uncertainty: Considerable difficult in accurately assessing whether the technology will perform and alternate technologies will emerge and leapfrog (game) over current technologies.
3. Uncertainty of Customers: Customers may have considerable difficulty in accurately assessing whether the new product or service provides value for them.

3. Why do Entrepreneurs fail?

Mostly people become entrepreneurs to fulfill the desire of one's boss, to succeed financially, for job security and for being improved quality of life. But, some of ventures may fail owing to lack of a proper business idea, lack of preparation, flaws in the business plan, changes in the environment, competition, changes in government laws, failure to predict the end of the product life cycle, lack of finance, labour unrest and rapid expansion. Various kinds of problems can emerge in new venture like financial, marketing, administrative, production and technological problems. Due to that, the firm fails.

According to Peter Drucker, in a concern of pitfalls, "The better a man is, the more mistakes he will make, for the more new things he will try. I would never promote to a top-level job a man who was not making mistakes. Otherwise he is sure to be mediocre."

Many ventures start out with an enthusiasm and perform well in beginning and then suddenly are up to their ears in trouble. Are there typical mistakes entrepreneurs make? Peter Drucker pointed out there are four entrepreneurial pitfalls where the new and growing businesses typically get into troubles, which are:

- **The first pitfall** is that the majority of successful new products or services do not succeed in the market the founder-entrepreneur thought it would be. But they succeed in a totally different market. Many businesses fail because the founder-entrepreneur is so obsessed with his or her original plan and refuse to grab the opportunity in the unexpected market.
- **The second pitfall** is that entrepreneurs do not pay enough attention to cash flow. Entrepreneurs believe that profit is what matters most in a new enterprise. But profit is secondary. Cash flow matters the most. Many businesses are getting caught in a cash crunch because entrepreneurs are

financially illiterate and have a hard time grasping the concept of cash flow.

- **The third pitfall** is that the entrepreneur outgrows his management base when business grows rapidly beyond expectations. Starting out, the typical founder does everything himself. When business grows, the entrepreneur begins running around like the proverbial one-armed paperhanger. Unfortunately, the entrepreneur does not realize that he has outgrown his management capabilities. He does not get the management team in place quick enough. Then all of a sudden, everything goes wrong. The quality falls out of bed. Customers don't pay. Deliveries are missed. The business is eventually hit hard by management crunch.
- **The fourth pitfall** is the entrepreneur begins to put himself and his needs before his business when the business is a success. He has worked eighteen hours a day for fourteen years. He does not enjoy it anymore. He knows he's not concentrating on the right things. But it is difficult for him to face up the harsh reality and start asking "What does the business need at this stage?" and "Do I have those qualities?" He does not realize that it is time to bring in an outsider. He ends up killing himself and the business.

Conclusion:

Failure should be considered as an opportunity for learning. As much as you get reactions of business failures, the business success will be closest. Success and failure both are inter-dependent and inter-related especially in relation to expectations. Most of the problems or causes of failures are under the control of the entrepreneur. Thus, entrepreneurs can avoid venture failures by managing known causes of failures, which are under their control.

4. Summary

Entrepreneurial Strategy represents the set of decisions, actions and reactions that it first generates, and then exploits over time, a new entry in a way that maximizes the benefits of newness and minimizes its costs. The generation of a new entry opportunities, the result of a combination of knowledge and other resources into a bundle that will be valuable, rare and difficult for others to imitate. The entrepreneur needs to determine whether it is in fact valuable, rare and inimitable by assessing whether new products or new markets are sufficiently attractive to be worth exploiting and developing. However, many ventures start out with an enthusiasm and perform well in beginning and then suddenly are up to their ears in trouble, which has been explained by the four pitfalls of Peter Drucker.