Strategic entrepreneurship: Creating competitive advantage through streams of innovation

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Abstract In today’s fast-paced competitive environment, firms face the need to be increasingly nimble and adaptive. While often able to establish a certain level of performance based upon existing technologies, firms are equally as often to be left flat-footed in the face of emerging, novel technologies. We discuss strategic entrepreneurship as the means through which firms simultaneously exploit their current competitive advantages while exploring for future opportunities. Achieving a balance between exploration and exploitation consists of more than merely allocating resources evenly between the two processes. As discussed, exploration and exploitation are operationally, structurally, and culturally distinct processes.

1. Managing tension for competitive advantage

Think of today’s organizations. In your view, aren’t most of them faced with the challenge of changing frequently in order to meet the needs of those they serve, such as customers, suppliers, and shareholders? Indeed, for many organizations, using their resources and skills to change in ways that will create value for stakeholders, and perhaps especially customers, is becoming increasingly difficult. Among other executives, those leading General Motors (GM) and Ford would likely support these views if we were able to ask them to do so. For these tradition-rich manufacturers, a stream of continuous value-creating innovations by global competitors (e.g., Toyota and Honda), increasing health-care costs, and the effects of escalating energy prices combine to create extremely challenging conditions.

In addition to companies such as GM and Ford, the challenge of continuous and dynamic change is affecting firms across multiple industries. This includes the computer storage industry, in which flash memory innovations are radically changing the nature of competition. The “winners” and “losers” resulting from changes in this particular industry remain unknown. Consider the situation being created by SanDisk and an Intel-Micron joint venture, both of which are using novel technolog-
tical capabilities as the foundation for competing in 
this industry. By employing these strengths, the 
new competitors are creating for customers value 
that seems to exceed that which is being generated 
by firms using less-novel technologies. Being able 
to create a more attractive value proposition for 
customers is making it quite difficult for some of 
the more traditional hard-drive manufacturers, 
such as Maxtor and Iomega, to keep pace on the 
pathway to success in today’s rapidly changing and 
dynamic competitive environment. Similarly, pro-
visions associated with the Telecommunications Act 
of 1996 redefined the nature of competition in the 
telecommunications industry, and appear to have 
provided wireless companies a long-term competi-
tive advantage over wireline (i.e., landline) net-
work competitors and pay-phone businesses. The 
1996 Act lifted long-distance restrictions on wire-
less companies, greatly enhancing the value propo-
sition these firms could choose to offer customers. 
Although not a complete substitute for wireline 
services, evidence suggests that consumers are at 
least opting for wireless subscriptions instead of 
adding a second or third wireline phone (Weaver, 
2001).

The examples we offer, covering several firms 
and the different industries in which they operate, 
suggest a few things about competition in today’s 
complex, increasingly globalized business environ-
ment. Not surprisingly, the challenging nature of 
competing in a global environment creates several 
tension-filled questions for firms: In what markets 
should we compete? Should we offer standardized 
products across all markets or should we modify our 
products for local preferences? How much risk are 
we willing to accept to compete in markets with 
which we are not deeply familiar? What kinds of 
skills should we develop in order to become more 
innovative? The issues raised by these questions 
have the potential to create tensions in today’s 
firms.

All of these tensions (and certainly others) are 
important and demand careful consideration by 
those interested in organizational success. What is 
of interest to us, though, is a particular type of 
tension that the need to rapidly change creates for 
firms; specifically, the need for a firm to learn how 
to simultaneously exploit today that which it does 
well relative to rivals, while also exploring to 
determine what it needs to do to be successful in 
the future. This is the tension we consider in this 
article. In essence, this tension is between doing 
what is necessary to exploit today’s competitive 
advantages and exploring today for innovations 
that can be the foundation for the firm’s future 
competitive advantages. We think that the ability 
to effectively manage this tension is rapidly 
becoming a key differentiator between maintaining 
organizational success and facing dwindling perfor-
ance over time. The Fortune 100 annual survey 
rankings indicate that most firms do, in fact, find it 
difficult to sustain their performance over a 
considerable period of time. As evidence for this 
assertion, consider the fact that only 26% of the 100 
companies listed in Fortune’s 1980 ranking 
remained on the list in 2001 (Cappelli & Hamori, 
2005).

Our paper proceeds as follows. First, we intro-
duce strategic entrepreneurship as a concept with 
the potential to influence the degree of success 
today’s organizations can achieve while engaging 
their rivals in competitive exchanges. We then drill 
deeper into strategic entrepreneurship by examin-
ing its two components: exploration and exploita-
tion. Explanations of differences in operational 
activities, organizational structure, and organiza-
tional culture that contribute to effective strategic 
entrepreneurship are included as parts of these 
discussions.

2. Introducing strategic 
entrepreneurship

As some of our earlier comments suggest, strategic 
entrepreneurship (SE) is a term used to capture 
firms’ efforts to simultaneously exploit today’s 
competitive advantages while exploring for the 
innovations that will be the foundation for tomor-
row’s competitive advantages. The SE concept, as 
we are describing it, is somewhat new for academ-
ics and business practitioners; however, the con-
cept is important in that effective SE practices 
result in a firm being able to form a balance 
between opportunity-seeking (i.e., exploration) 
and advantage-seeking (i.e., exploitation) behav-
iors (Ireland, Hitt, & Sirmon, 2003).

Based on both academic literature and experi-
ences being witnessed in a growing number of 
companies committed to practicing SE, we believe 
that effective SE helps a firm position itself such 
that it is capable of properly responding to the 
types of significant environmental changes that 
face many of today’s organizations. Beyond this, 
and importantly so, effective SE helps the firm 
develop relatively sustainable competitive advan-
tages. In addition to being valuable and rare, 
sustainable advantages are also difficult for com-
petitors to fully understand, and difficult to imitate 
as a result of that lack of understanding (Barney, 
1991). As this initial discussion of SE suggests, 
continuous innovation is at the core of what firms
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