



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.

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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-

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ical 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, provisions 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 competitive advantage over wireline (i.e., landline) network competitors and pay-phone businesses. The 1996 Act lifted long-distance restrictions on wireless companies, greatly enhancing the value proposition 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 environment. 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 performance 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 introduce 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 examining its two components: exploration and exploitation. Explanations of differences in operational activities, organizational structure, and organizational 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 tomorrow's competitive advantages. The SE concept, as we are describing it, is somewhat new for academics and business practitioners; however, the concept 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) behaviors (Ireland, Hitt, & Sirmon, 2003).

Based on both academic literature and experiences 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 advantages. In addition to being valuable and rare, sustainable advantages are also difficult for competitors 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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