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ENTREPRENEURIAL BARRIERS TO STRATEGY

Abstract

A limiting factor to strategic management is often the education and experience of the entrepreneur, which may have a tendency to determine certain strategies. Moreover, it is characteristic for hierarchies to maintain the strategies formed at the foundation. Organisational learning seems to be a way to overcome this difficulty.

Key words: Organisational inertia, organisational learning, entrepreneurship, strategy

Introduction

According to classical economics the markets for input, output and financing limit the growth of a company. This challenge is an important reason to study strategic planning (Ansoff, 1965). The relationship between the concepts of *change*, *strategy* and *entrepreneurship* is crucial, since assuming a lack of change, combined with homogeneous elements in the production function, leaves no role for the entrepreneur to play (Schumpeter, 1934; Baumol, 2006). It is not only the limits of the markets, financing and economic recession that impede growth. For several decades it has been put forward that the entrepreneur as a person or a function may restrain the strategic options available. Several important issues relating to this limit are mentioned in Mason and Harvey (2013). One question is whether opportunities are objective realities, in an Austrian sense (Kirzner, 1973), or socially constructed (Plummer et al., 2007). Ambiguity concerning the *possibilities* of creating and changing the strategy in a hierarchy to encompass external changes has caused an ongoing debate concerning two different hypotheses. Hypothesis 1: development is a consequence of a change in strategies in hierarchies due to adaptation; and Hypothesis 2: development is a consequence of the survival of hierarchies with suitable existing strategies (subject to minor changes). Today—almost 50 years after the publication of Ansoff (1965)—there is still no agreement concerning the degree to which the entrepreneurial function can make sufficient adaptation to changed technical or social conditions.

In this article central arguments impeding strategy are put forward from an entrepreneurial point of view. The discussion is structured based on factors that impede change of strategy in a hierarchy, e.g. external barriers and institutional inertia. The latter is partly caused by limited rationality, and the fact that a hierarchy is also a coalition. These factors are of importance to the entrepreneur when carrying out the task of strategic management. The importance of learning is presented as part of a solution to the challenge of organisational slackness.

Organisational inertia

Several of the economic *theories of the firm* substantiate why the growth of firms is impeded. Jensen and Meckling (1976) advance the principal-agent argument; Penrose (1959) emphasises the limited capacity of the management, while Leibenstein (1968) describes the employees' option of departing from the optimum. Theories with an evolutionary approach (Schumpeter, 1934; Nelson & Winter, 1982) advocate the importance of the routines of the firm. As a consequence of routines the fundamental business model or concept of the company is difficult to change, and the economic development results from the pressure of selection among companies and strategies, where the fitter (or fittest) survive. Several other approaches are based on the assumption that only a few possibilities exist to change the strategy, the concept or the vision. Klein (1996) argues from an Austrian point of view that the need for markets for intermediate goods places limits on the scale and scope of the organisation. Organisation theorists Thushman and Romanelli (1985) advance an intermediate attitude in their analyses of the development of hierarchies and in this regard the complex processes and ties between hierarchy and strategy. They describe the development of hierarchies as the result of two contrary forces: 1) constant, stabilising forces, and 2) periodical, changing forces. The stabilising forces are as a main rule dominating. Therefore stabilising periods with small marginal changes are of a comparatively long duration and imply an adaptation to the new circumstances. The stabilising forces are as a main rule dominating. Therefore stabilising periods with small marginal changes are of a comparatively long duration and imply an adaptation to the new circumstances. But external or internal reasons can occasionally cause the changing forces to be dominating. Thus the changes indicate frontiers between periods stamped by stability. It is the difficult task of the leaders of the firm to overcome inertia in order to change the hierarchy when external circumstances necessitate an adaptation to new conditions.

The question, then, concerning both the products and routines of the hierarchy, is to which degree changing the comparative advantage of the firm is possible in a manner similar to that described by, e.g. Ansoff (1965).

The problem put forward by the present argument can be boiled down to this question: Why do companies in stagnation or recession not, or more often, enter into trades in growth? The aim of the following is to emphasise certain difficulties facing the entrepreneur if a change of strategy is needed.

Establishment of strategies

Interest in the process from which strategies derive has been limited. First it is of importance to analyse the influence the circumstances at the time of foundation have on the establishment of strategies, and second the degree to which this influence is maintained subsequently. Initially, a hypothesis must be drawn up as to how a strategy arises by establishment of a hierarchy. Establishing a firm is realised from a more or less articulated concept or vision that expresses an idea of the firm and its aims. This phase, however, comprises neither hierarchy, procedures, routines or physical facilities. Kimberly (1979) compares the importance of the early development of the firm to the first years of human life. Formulating strategy is not only an analytically objective process that can take place without influence from the value norms and other conditions of those who construct the coalition of the firm (Cyert & March, 1963). The conception, belief systems and experience of the entrepreneurs who are the founders of the firm are decisive factors in the process of organising a hierarchy and routines. Especially the strategy of the firm is a token of the entrepreneur's background.

According to Schumpeter (1934) an entrepreneur's aim is to create an organisation (a 'monarchy') by realising a vision or a concept. This takes place, for example by creating a management organisational body and by employing staff that confirm this concept. The entrepreneur has the opportunity to establish a hierarchy based on his own valuations and ideas regarding what management is and how it should be realised. This aspect is probably a motivating feature for entrepreneurs.

On the other hand, the entrepreneurs do not have the option of establishing a firm that is exclusively the product of original thinking (Simon, 1976). As described by Nelson and Winter (1982) the memory of the recently founded firm will be embedded within the individuals involved rather than in the structures and processes of the hierarchy. Entrepreneurs can also avoid the impossible task of deciding on every possible detail in connection with the establishment by using concepts, models and ideas that they can imitate. A number of studies substantiate that these ideas are a reflection of the entrepreneurs own background and earlier experience. Also, the professional leader's personal valuations are extremely important when choosing strategy (Hrebiniak & Joyce, 1985). Correspondingly, it appears from a number of research findings that the entrepreneur's attitudes are engrafted onto the hierarchy via the institutionalisation of roles and structures which reflect the entrepreneur's own evaluations and habits. In this way the entre-

preneurs' vision becomes an inheritance which is retained after his retirement from the hierarchy.

Realisation of the aim of a hierarchy implies the setting up of institutions and routines. Engaging staff, organising procedures and the distribution of influence will be stamped both by the entrepreneur as a person and the surrounding environment. Engaging staff and allocating the resources of the hierarchy establish the institutions and routines of the hierarchy in the firm. The creation of a comparative advantage is more than just a result of the entrepreneur's selection of a certain product and market. Before the establishing phase, the firm's product and market will often only be known as preliminary considerations (Dew et al., 2011). The concept or vision of the firm becomes institutionalised by certain activities that are considered highly prestigious and therefore receive resources and consideration. This is the exact manner in which a comparative advantage evolves. By copying well-known routines the firm obtains the same comparative advantages in the fields in question as the firms that are copied or used as paradigms. In addition, imitation reduces the risk involved compared to employing untried procedures. This is one of the advantages franchising offers. One of the drawbacks of copying, however, is that the entrepreneurs do not sufficiently reap the possible advantages of renewal that innovation offers.

A successfully concluded establishment phase is thus characterised by an institutionalisation of structures and processes. This does not mean that the structures and processes chosen are the most efficient or that every possible alternative has been considered. The entrepreneurs have sequentially examined a number of possibilities according to the principle of satisficing until they have found a satisfactory solution (Simon, 1976).

Imprinting from the environment

The entrepreneurs' background is not the only factor of importance to the characteristics of the organisation. The structure and processes of a hierarchy are at the same time products of the surrounding environment in the form of general cultural as well as business-specific institutions at the time of establishment. Chandler (1977) emphasises the importance of contemporary concrete historical and cultural factors on the development of hierarchies. The environment determines not only the needs that a hierarchy meets by establishing, for example a railway or production of goods, but also the internal structure of a company is due to the characteristics of the established hierarchies at the time. Stinchcombe (1965) concludes that hierarchies are stamped by the trade in question at the point of time when the hierarchies are established. Along this line Beckert (1999: 778) mentions the question "If organizational structures and strategies are shaped by institutional

environments, what is the role of 'strategic choice' (Child, 1972) in the management of organizations?"

Institutional inertia

According to Mintzberg and Waters (1982) there is a general tendency for strategies not to change, but to remain unchanged for a number of years. In addition, the circumstances surrounding a change of strategies are so complex and multifaceted that systematic analysis is difficult. The choices made in connection with the establishment of a hierarchy will have a permanent influence on the characteristics of the hierarchy in question and impede utilisation of the strategic possibilities in subsequent phases. Well recognised is the fact that leaders of hierarchies facing new problems have a tendency to apply well-known solutions (Cohen et al., 1972; March, 1981). This can be ascribed based on a tendency to solve problems using original reflections as a starting point and to retain existing routines.

An investigation of the entrepreneur's role during the process of establishment in a number of firms led to the conclusion that the entrepreneur's original ideas concerning the future development and aims of the firm gradually became institutions (conventions and rules) in the firms (Schein, 1985). Moreover the established institutionalised ideas continued to remain in force, also when the firms outgrew the size where the ideas in question ceased to be suitable. Thus institutionalised ideas appear to survive the replacement of personnel. Two important reasons for institutional inertia are limited rationality and the hierarchy as a coalition in equilibrium.

Limited Rationality

The evolution of the institutions and routines of a hierarchy is not only a question of efficiency, but also the possibility of overcoming institutional opportunism under limited rationality (Williamson & Ouchi, 1981). The processes of selection and perception limit the aspects of possible strategies the entrepreneur takes into consideration (Starbuck, 1976). DiMaggio and Powell (1983) state that some decisions within a company often depend on processes that resemble rituals more than rationality. Starbuck (1982) even maintains there is an ideological influence on hierarchies in essential fields and writes that the structure and technology of hierarchies can best be described as 'primarily arbitrary'. In other words technology and procedures in a firm are related not only to the outer world by rational processes of decision but rather often by imitation and the managers' standard of values.

The coalition as equilibrium

During the formation phase, the fundamental coalitions of the hierarchy of importance of the initial strategic plans are worked out. The entrepreneurs maintain the dominance of their own personal kind of human capital in the hierarchy by engaging managers with the same kind of human capital. The entrepreneurs' selection of staff consequently has a determining effect on the strategic choices made. The relative influence of the departments that have come into existence during the establishment phase subsequently contributes to maintaining the strategy formed. Often the leaders of a hierarchy find it suitable to engage staff with a homogeneous background, e.g. individuals with a certain degree from a certain educational institution (Kohtamäki et al., 2012). The managers engaged by the entrepreneur will be in charge of engagements and promotions where people with equivalent qualifications and attitudes are preferred. Therefore the patterns of influence in a hierarchy are not only the result of earlier choices, but also an indicator of the tendency of future decisions. A mutual understanding is derived from this process that will become part of the established routines and system of human capital in the hierarchy. On the other hand a tendency to hierarchal introspection might turn up that entails difficulties in receiving and employing new information, which is necessary in a turbulent market.

Organisational learning

Two central concepts related to entrepreneurship are alertness and learning (Kirzner, 1973). The concept of alertness covers an understanding of the market as a process. Opportunity seeking fits with organisational and individual learning. According to Rae and Carswell (2001) and subsequent research along these lines, learning seems to be an important factor for overcoming different kinds of organisational inertia. Rae and Carswell (2001: 152) mention four important principles or focus areas of organisational learning:

- vision, decision-making and planning;
- growing the business by being close to the market;
- balancing between control and 'letting go';
- managing through people.

A recent study by Kohtamäki et al. (2012: 171) concludes that "participative strategic planning helps company management to commit personnel to strategy implementation that in turn positively affects company performance". A similar study involving interviews with Danish entrepreneurs and leaders of companies

confirm this conclusion and the importance of the concept of organisational learning in overcoming embedded organisational inertia.

Summary

This article reviews certain organisational and strategic barriers as factors that restrict the growth of hierarchies. In this connection it is maintained that the impeding factors are of importance when the strategy is changed and should not be ignored when analysing entrepreneurship and strategy. The learning perspective is proposed as one of the means to overcome impeding factors.

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