



How Entrepreneurial Firms Prosper while Larger Firms Crumble

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Abstract

Many firms are facing great difficulty surviving the declining financial markets in Fall 2008. As larger firms take drastic measures to control and cut costs while forecasting declining revenue, entrepreneurial firms view the same marketplace in a more positive light. What separate these two types of firms is their differing levels of entrepreneurial intensity.

An entrepreneurial grid positions firms upon two dimensions: Frequency of Entrepreneurship and Degree of Entrepreneurship (innovativeness, risk taking, and proactiveness). Just as managers select the placement of their firm on market dimensions such as quality and price, firms need to make a strategic position choice on where they wish their firm to be placed as related to entrepreneurial intensity. The firms listed in a recent article from *BusinessWeek* magazine titled "The World's Most Innovative Companies" portrays a higher level of entrepreneurial efforts on both dimensions; firms that would be labeled as revolutionary on the entrepreneurial grid. It would be expected that as consumers expect new and improved products and services to emerge from innovative markets, firms labeled as periodic/incremental would have difficulties in sustaining continual growth. Additionally, firms labeled as continuous or incremental, dynamic, and periodic or discontinuous on the grid would be expected to have moderate success.

Keywords: Entrepreneurial firms, Innovativeness, Entrepreneurial intensity, Financial crisis

1. Background

Perusing business journals mid-December, 2008 the citizens of the United States are alarmed by the headlines of great concern expressing financial difficulties and distress as several large decades old established firms have been unable to withstand the recent national and global economic downturn.. Many large firms have taken drastic measures such as implementing hiring freezes and careful review of expenditures to be approved for the upcoming fiscal year. Despite the doom and gloom of a real recession, aspiring entrepreneurs who see a market niche unfulfilled are ready with business plans in hand and prepared fast pitches for capturing these market opportunities. Moreover, Chapman University Alumni entrepreneurs with mid-size sales firms (over \$5 million in annual revenue) who speak about growth prospects for their firm are eager to add recent graduates to their staff as they search for more growth opportunities in their respective industries.

2. Historical frame of reference

These sharply contrasting views of the business world remind me of a passage from *A Tale of Two Cities* (1859) a historical novel by Charles Dickens, set in London and Paris:

"It was the best of times, it was the worst of times; it was the age of wisdom, it was the age of foolishness; it was the epoch of belief, it was the epoch of incredulity; it was the season of Light, it was the season of Darkness; it was the spring of hope, it was the winter of despair; we had everything before us, we had nothing before us."

During a planning committee session for the Harvard Business School Alumni Association of Orange County Entrepreneurship Conference 2009, an interesting point was raised. Conference organizers mentioned that a fast growing segment for the economy in Southern California is the growing number of established entrepreneurial firms (those worth over \$5 million in annual revenue). These firms, with values between \$5 million to \$20 million in annual revenue are looking at economic conditions more favorably than larger firms in their industry. In fact, as established firms fail, smaller firms see opportunities to capture some percent of customers now willing to switch to a new service provider.

3. World's most innovative companies

Entrepreneurial individuals and firms do not look at the economy as half empty, but instead as half full. These groups see a gap that can partially be filled by creativity and innovativeness. Consumers are demanding firms to be more

innovative by developing newer products/services, newer processes, and newer customer experiences. These innovations come from a culture that promotes creativity at the individual and team level. The firms listed in a recent article from *BusinessWeek* magazine titled “The World’s Most Innovative Companies” portrays a higher level of entrepreneurial efforts on both dimensions; firms that would be labeled as revolutionary on the entrepreneurial grid. Every manager of a large, medium, or small firm can learn from the approaches used by these fifty firms. *BusinessWeek* identified their methodology for selection:

To determine our 2008 list of the 50 most innovative companies, the Boston Consulting Group once again asked executives to vote for the most pioneering companies in the last year. In a climate when innovation will be scrutinized more than ever, we added three financial measures. For 2008, votes cast in the *BusinessWeek*-BCG survey got an 80% weighting, while three-year revenue and margin growth each got 5% and stock returns were weighted 10%.

BCG sent the 17-question survey electronically in November to the 2,500 largest global corporations by market value. More than 2,950 executives responded, our largest sample ever.

Insert Table 1 here

These specific managerial approaches utilized by the entrepreneurial firms surveyed in this study are effective in explaining the various elements of what it means to be innovative and successful.

4. Entrepreneurial Grid

Michael Morris presents an entrepreneurial grid that positions firms on two dimensions: Frequency of Entrepreneurship (number of events) and Degree of Entrepreneurship (innovativeness, risk taking, and proactiveness). The firms listed on *BusinessWeek*’s “The World’s Most Innovative Companies” display a higher level of entrepreneurial efforts on both dimensions.

Insert Figure 1 here

Innovativeness choices available to a firm can vary greatly from basic options to advanced options. Basic options involve cost reductions, repositioning, and new applications for existing products and services. Intermediate options for innovations include product improvements and revisions, additions to product/service lines in a company, and new product or service lines in a company. Advanced options for innovativeness include novel market products and services created for global consumers.

The combination of frequency of entrepreneurship and degree of entrepreneurship is used to determine the entrepreneurial intensity of a firm. The Business Week listing of the world’s most innovative companies includes firms that would be labeled as revolutionary on the entrepreneurial grid. As consumers expect new and improved products/services, firms labeled as periodic/incremental would be unable to sustain growth. Additionally, firms labeled as continuous or incremental, dynamic, and periodic or discontinuous on the grid would be expected to have a moderate likelihood of success.

Michael Morris and Donald Kuratko illustrated the application of the entrepreneurial grid to organizations. The figure presents their views on the placement of example firms; as some subjective assessments are involved, some may disagree with the positioning of the organizations.

Insert Figure 2 here

5. Implications

The difficulties with several larger firms is the failure of their own past success--- as they gained larger market share and efficiencies from higher volume and economies of scale, they lost an entrepreneurial spark to constantly pursue new opportunities. We have seen countless examples of larger firms, with more financial resources and larger staffing, beaten in the market share by smaller capitalized startups. Many firms and managers describe themselves as being market driven and being customer driven; in today’s business marketplace, both the market and customers are forcing firms to become more entrepreneurial. Some firms in the past looked upon their frequency of entrepreneurship (number of events) and their degree of entrepreneurship (innovativeness, risk taking, proactiveness) as simply offensive strategies to gain market share; now many firms see these moves as a defensive necessity to maintain market share.

Albert Einstein is quoted as having said imagination is more important than knowledge. In today’s business market, perhaps imagination is more important than larger financing. Success with entrepreneurial efforts depends less upon the amount of a firm’s Research and Development budget and more upon how creative the individuals in the firm are with using their finite resources given to them. Even Chapman University’s Leatherby Center for Entrepreneurship and Business Ethics has faced a similar struggle competing against more endowed entrepreneurship programs at larger campuses. The Chapman University programs are nationally Top 10 ranked in entrepreneurship at both the graduate and undergraduate levels as surveyed by *The Princeton Review* and *Entrepreneur* magazine. With the Center’s limited staff, it has become apparent that being entrepreneurial, creative, and innovative is essential to staying afloat throughout an

economic recession. After all, the Center would be hypocritical if it didn't practice what it taught.

As the winter of despair for some is going to turn to the spring of hope for others, the United States will see a shake-out in the market of some firms that were too low in their frequency and degree of entrepreneurship. For the remaining firms, they should see better times.

References

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Table 1. "Top Ten World's Most Innovative Companies 2008"

Rank	Company	HQ Country	HQ Continent	Revenue Growth 2004-07* (in %)	Margin Growth 2004-07* (in %)	Stock Returns 2004-07** (in %)	Most Known for its Innovative... (% who think so)
1	APPLE	USA	North America	47	69	83	Products (52%)
2	GOOGLE	USA	North America	73	5	53	Customer Experience (26%)
3	TOYOTA MOTOR	Japan	Asia	12	1	15	Processes (36%)
4	GENERAL ELECTRIC	USA	North America	9	1	3	Processes (43%)
5	MICROSOFT	USA	North America	16	8	12	Products (26%)
6	TATA GROUP	India	Asia	NA	NA	NA	Products (58%)
7	NINTENDO	Japan	Asia	37	4	77	Products (63%)
8	PROCTER & GAMBLE	USA	North America	16	4	12	Processes (30%)
9	SONY	Japan	Asia	8	13	17	Products (56%)
10	NOKIA						

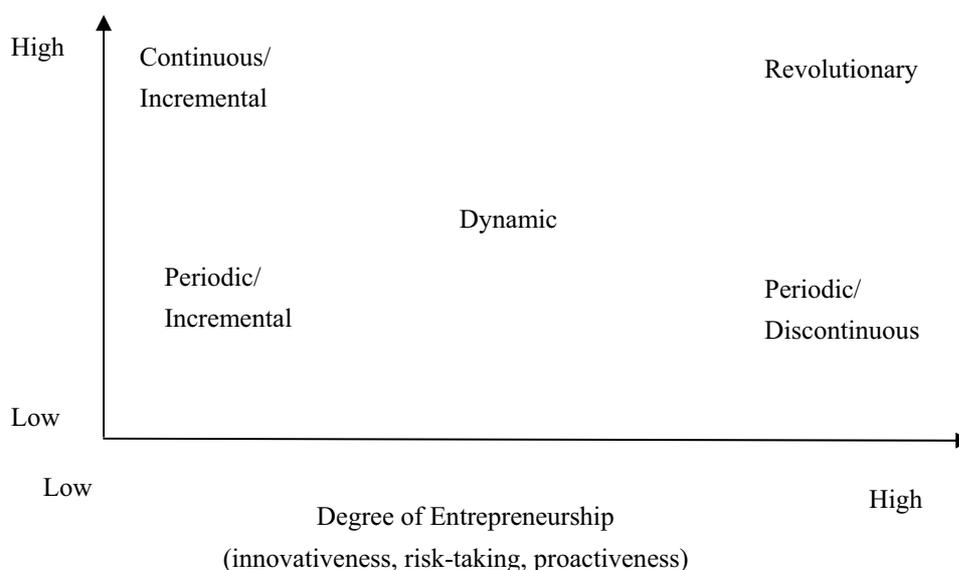


Figure 1. Entrepreneurial Intensity: Combining Degree and Frequency of Entrepreneurship

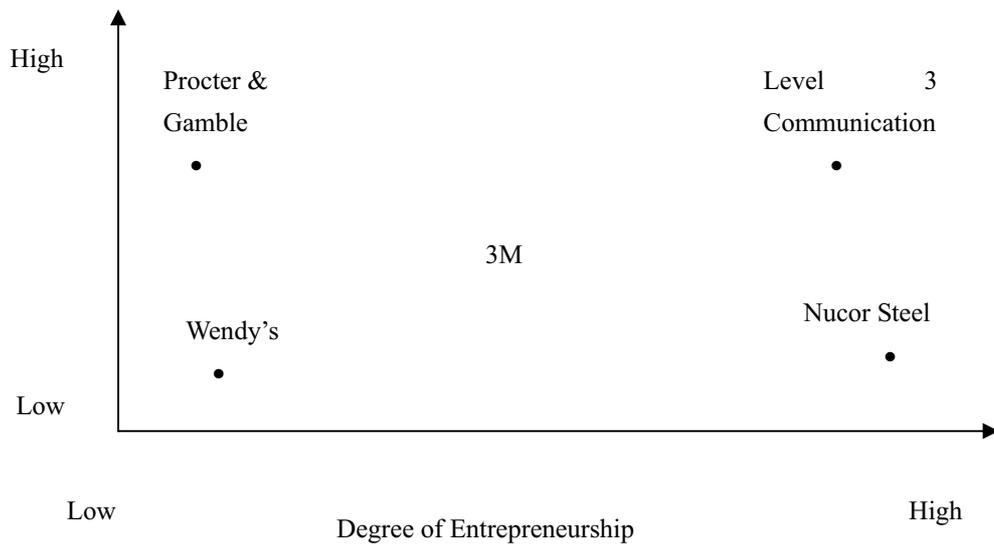


Figure 2. Applying the Entrepreneurial Grid to Organizations