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Integrating entrepreneurship and strategic management actions to create firm wealth

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Executive Overview

Creating wealth is at the heart of both entrepreneurship and strategic management. For general managers and entrepreneurs, a keen interest is to learn how to apply entrepreneurial and strategic tools, techniques, and concepts in ways that help the firm create increasing amounts of wealth. Many of the activities that organizations engage in to create wealth take place within six domains: innovation, networks, internationalization, organizational learning, top management teams and governance, and growth. Importantly, the entrepreneurship and strategic management literatures have insights for entrepreneurs and general managers about the value to be gained by paying attention to these six domains. We describe how these insights can be classified as entrepreneurial and strategic actions, and discuss how greater wealth can be created when firms integrate these actions when seeking to create wealth.

Organizing to Create Wealth

> Both strategic management and entrepreneurship are concerned with decisions made by general managers who have responsibility for a total business. Strategic management has placed great emphasis on examining influences on firm performance, including strategy and environment, and the sources of sustainable competitive advantage. Entrepreneurship, both in considering independent firms and corporate entrepreneurship, has emphasized processes which lead to venture creation.
>
> —Arnold C. Cooper

Professor Cooper's thoughts, drawn from his commentary in this special issue of *The Academy of Management Executive*, speak to the relationship between entrepreneurship and strategic management. This relationship is the one around which the articles in this special issue are framed.

In this introductory article, we build on Professor Cooper's insights, as well as those from other scholars and business practitioners, to advance several arguments. The most compelling and prominent of these arguments is that a primary organizational objective is to create wealth. Moreover, effective integration of entrepreneurial actions and strategic management actions facilitates a firm's wealth-creating efforts. Independently, the actions involved with entrepreneurship and strategic management processes contribute to firm growth and success. When integrated, however, these actions create synergy that enhances the value of their outcomes.

We also believe that the most successful wealth-creating organizations have employees who are fully committed to making decisions and taking actions that are intended to increase the amount of wealth their companies create. Continuous, profitable growth is a prerequisite to a firm's ability to generate wealth across time and events. Successful growth is achieved by firms that are growing faster than the majority of those competing in their industry in terms of both sales and profits.[1] Achieving this type of growth is at the center of the agendas of most CEOs and entrepreneurs as they guide their firms in the global economy's complex and turbulent competitive arenas.[2]

Entrepreneurial and strategic actions are at the core of wealth creation

To frame our discussion of how firms create wealth, we first describe the differences between entrepreneurial actions and strategic actions. Although subtle, these differences are important for the positions we take in this introduction and in the articles that follow.

Oriented to novelty, entrepreneurial actions are newly fashioned behaviors through which companies exploit opportunities others have not identified or exploited. Entrepreneurial actions are a "fundamental behavior of firms by which they move into new markets, seize new customers and/or combine (existing) resources in new ways."[3] As the 21st century dawns, many companies across virtually all industries regard entrepreneurial actions as "essential if they are to survive in a world increasingly driven by accelerating change."[4]

Strategic actions are taken to select and implement the firm's strategies. Increasingly, in globally competitive organizations, many of these strategies are framed around the pursuit of entrepreneurial opportunities by taking entrepreneurial actions. Strategic actions provide the context within which innovations, which often are the product of newly fashioned behaviors, are developed and commercialized.[5] These action types intersect; indeed, analysis of various aspects of this intersection is the focus of this special issue. This special issue demonstrates that successfully integrating entrepreneurial and strategic actions improves the firm's ability to grow and create wealth.

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Wealth creation is concerned with developing sustainable income. As an economist notes, "The ability to generate growing, sustainable income streams determines which companies create wealth."[6] Two measures of sustainable income are market value added (MVA) and firm growth. MVA measures the amount of wealth the firm is generating as a result of how it has used the capital entrusted to it by shareholders. Firm growth in sales and profits that significantly exceeds competitors' growth also results in sustainable income.

Leaders influence their firms' ability to create sustainable income streams. Glenn Rowe, in this issue, examines this influence. In the global economy, the standard for leadership excellence is more rigorous and demanding. Superior leadership is exhibited by demonstrating integrity, providing meaning to others, generating trust while working with all stakeholders, and clearly communicating values. Some believe that this set of skills and orientations yields leaders capable of capturing human hearts and motivating people to pursue organizational wealth.[7]

We offer three examples of leaders who exhibit excellence in the use of these skills to create wealth. Wayne Huizenga, interviewed in this issue, started and built three well-known firms—Waste Management, Blockbuster Video, and AutoNation. Using market innovations, Huizenga developed the world's largest company in three different industries. The sales and profit growth rates of each company exceeded those in the respective industries at crucial points in time, resulting in the creation of continuous income streams and wealth. During his tenure as CEO, Roberto Goizueta helped to form and implement strategies through which Coca-Cola generated a significant amount of wealth. Under Jack Welch's leadership, GE has grown rapidly and also created substantial amounts of wealth. GE's sales revenue grew from $28 billion in 1981 (Welch's first year as CEO) to $130 billion in 2000. Over the same time period, the firm's market capitalization increased remarkably, from $13 billion to $500 billion. In the final year of his service as GE's CEO, Welch, his successor, Jeffrey Immelt, and other GE stakeholders are forming strategies intended to further enhance the firm's wealth-creating abilities after Welch's 2001 retirement.[8]

The effective leadership demonstrated by Huizenga, Goizueta, and Welch is a relatively rare commodity. Enhancing the skills associated with successful strategic leaders can increase the number of companies that create substantial firm wealth.[9] Welch, for example, epitomizes "the CEO as maximum leader for all seasons—a human dynamo who through sheer force of personality and brilliance of vision can transform any company, no matter how big or complicated, into an engine of perpetual outperformance."[10]

Local, state, and federal governments should foster environments in which business leaders and their firms are able to consistently and continuously create wealth.[11] Australia's minister for Industry, Science, and Resources observed that his government has "a range of programs specifically designed to stimulate innovation, particularly through R&D, both on the tax-concession side and the expenditure side."[12] However, there is substantial variance in new venture formation rates across nations suggesting differences in governments' intentions and/or abilities to support and promote entrepreneurship and thus new ventures.[13]

The articles in this issue emphasize that creating wealth is at the heart of entrepreneurship and strategic management. For example, developing and configuring organizational resources and capabilities to identify and pursue marketplace opportunities is a central theme for entrepreneurs and strategists.[14] Brush, Greene, and Hart describe the difficulty of this task for entrepreneurs leading new ventures, arguing that forming an initial resource base is indeed challenging for entrepreneurs. However, in some successful organizational wealth creators, including GE, Dell Computer Corporation, and Cisco Systems, entrepreneurial actions are recognized as a cornerstone of an effective strategic management process.[15]

Six domains are critical to firms' efforts to create wealth. (See Figure 1.) The entrepreneurship and strategic management literatures offer similar guidance regarding the use of these domains to create sustainable income streams by developing and exploiting competitive advantages. These articles show how firms create wealth by using entrepreneurial actions and strategic actions within the different domains.

All types of organizations can practice entrepreneurship

Large and long-established organizations such as GE can use entrepreneurial actions to create wealth, as can newer, relatively established companies like Dell and Cisco Systems, and startup ventures. Large established companies sometimes transform themselves through entrepreneurial actions and the resulting innovations. Enron, the formerly regulated natural-gas pipeline utility, has combined strategic and entrepreneurial actions to transform itself into the world's largest buyer and seller of gas and electricity, with involvement in fiber-optic bandwidth, shipping, pulp, paper, and related derivative securities. Nokia used entrepreneurial and strategic actions as the foundation for its transformation from a widely diversified conglomerate to the world's leading maker of cellular phones.[16]

Companies that demonstrate the use of either entrepreneurial or strategic actions in the different domains are shown in Table 1. Taken together, these company-specific examples highlight issues regarding entrepreneurial and strategic actions that create organizational wealth.

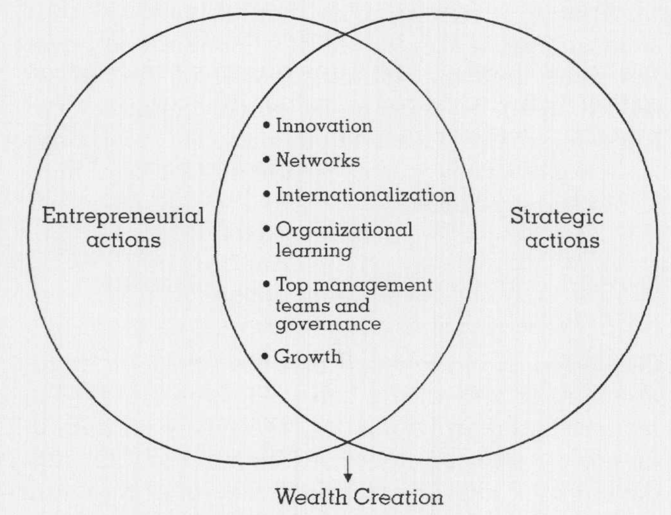

FIGURE 1
Creating Wealth Through Entrepreneurial and Strategic Actions

The Entrepreneurship and Strategic Management Disciplines

Entrepreneurship focuses on growth and innovation

While there are many definitions of entrepreneurship, there is at least general agreement regarding entrepreneurship's positive effects on firms' wealth-creating efforts.[17] We define entrepreneurship as a context-dependent social process through which individuals and teams create wealth by bringing together unique packages of resources to exploit marketplace opportunities.[18] This definition suggests that gaining access to a variety of resources and knowing how to leverage them creatively are two core entrepreneurial functions.[19] Brush, Greene, and Hart speak to and support these functions' importance. Moreover, this definition highlights that entrepreneurship is an eclectic academic discipline and business-related phenomenon. Entrepreneurship can also be used to describe a firm's actions. In this instance, an entrepreneurial firm creates wealth by concentrating on innovative, proactive, and risk-taking behaviors.[20]

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The entrepreneurship discipline is grounded in sociology, economics, and psychology. Entrepreneurship "implies an innovative and proactive approach to challenges, tasks, needs, obstacles, and opportunities."[21] As a context-dependent social

Table 1
Examples of Entrepreneurial and Strategic Actions

Domain	Entrepreneurial Actions	Strategic Actions
Innovation	BIOS Group; Sony	Juniper Networks; Enron
Networks	Wells Fargo	Ariba, Inc.
Internationalization	Nokia	Hewlett-Packard; Nova Cruz
Organizational learning	GE	Coca-Cola; Cisco
Top management teams and governance	Polaroid	Motorola
Growth	Willy Wonka Candy Factory	Internet Capital Group (ICG)

process, entrepreneurship is concerned primarily with identifying market opportunities and creating a set of resources through which they can be exploited. Entrepreneurship has both attitudinal and behavioral components.[22] Strategic actions are the pathway through which a concept or idea is moved from the invention stage to its positioning in a competitive arena.

Entrepreneurs engage in entrepreneurial behaviors often without paying much attention to their available resources. For example, Karl Ulrich started Nova Cruz Products, LLC, without venture capital. Instead, he relied on the appeal of an innovative product, an updated child's scooter, and the Internet as a primary means of distributing it. Such behavior contributes to the image of entrepreneurs as high risk takers. The most successful entrepreneurs carefully evaluate risk-return relationships, rejecting ventures when the relationship is unattractive.

Ranft and O'Neill report that only about 25 percent of new ventures survive their first five years. Because of the risk and entrepreneurs' desire to redefine competitive space, entrepreneurial ventures can be viewed as experiments. Arnie Cooper makes this point in his commentary, suggesting that entrepreneurial ventures are often pursued to "determine the size of particular markets or whether particular technologies or ways of competing are promising."

Entrepreneurial attitudes and behaviors provide a foundation for long-term competitive success for firms of all types competing in multiple countries across several different market economies.[23] In his article, Peng describes how entrepreneurship and associated entrepreneurial actions are flourishing in the transition economies of Central and Eastern Europe as well as in some of the newly independent states of the former Soviet Union and East Asia. Peng suggests that the increasing entrepreneurial activity in these economies is helping to transform them in vital and fundamental ways. These transformations increase the amount of wealth created by revitalized firms—companies learning how to compete in economies that are now more closely defined by market-based competition. The effectiveness of these newly emerging global competitors as wealth creators is important to the global economy's stability and overall success.

Peng's insights provide value to those wanting to know more about commitments and activities that are the pathway to transformational success. For example, he suggests that the ability to form effective networks is linked with a successful transition for a firm seeking to create wealth, especially when involved with a novel economic climate. Privatization has become a dominant means of promoting economic development within emerging and developing economies as well as in stable and growing economies.[24]

Firms operating in newly transformed or partly transformed market economies nevertheless often experience difficulties. The president of the Chinese Economic Reform Foundation suggested that a considerable number of state-owned enterprises have not yet adapted to the demands of the market economy because of "the long-term influence of the traditional system, the many problems left over from history, the redundancy of construction over the years, and the drastic changes of the market environment."[25] Thus much work remains for a large number of formerly state-owned enterprises seeking to become viable partners in a global market-based economy.

Strategic management focuses on competitive advantage

Grounded in managerial practice, strategic management is also at the core of wealth creation in modern industrial societies, and, increasingly, in emerging and transitioning economies, as suggested by Peng. The primary interest of strategic management researchers is to explain differential firm performance. Increasingly, entrepreneurship researchers share this interest, while general managers rely on strategic actions to help them create effective strategies for organizations. Environmental alignment is one of the intended outcomes of an effective strategy. When the firm develops a match between its unique competitive advantages and the opportunities in its external environment, it is aligned properly with its environment. Unique competitive advantages are grounded in the resources and capabilities the firm uses to perform value-adding transactional activities better than its competitors.[26]

Strategic management is a context-specific process that includes commitments, decisions, and actions required for the firm to create wealth. Learning how to develop, nurture, and exploit competitive advantages is critical when using the strategic management process. These advantages are the product of proper positioning within the firm's industry; effective exploitation of idiosyncratic, firm-specific resources, capabilities, and core competencies; and successful participation in unique networks or cooperative arrangements with other companies.[27] Effective strategic management processes elicit and then support newly fashioned behaviors to identify and pursue competitive opportunities that have not been previously recognized or exploited.

Intersections between entrepreneurship and strategic management

Entrepreneurship and strategic management are both dynamic processes concerned with firm behavior and performance. Strategic management calls for firms to establish and exploit competitive advantages within a particular environmental context. Entrepreneurship promotes the search for competitive advantages through product, process, and market innovations. A new venture, either an independent startup or a new unit within an established firm, is typically created to pursue the marketplace promise from innovations.

Entrepreneurial and strategic actions are often intended to find new market or competitive space for the firm to create wealth. Firms try to find fundamentally new ways of doing business that will disrupt an industry's existing competitive rules, leading to the development of new business models that create new competitive life forms.[28] The degree to which the firm acts entrepreneurially in terms of innovativeness, risk-taking, and proactivity is related to dimensions of strategic management.[29]

Flowing from these general commonalties between entrepreneurship and strategic management are specific domains for firms committed to creating wealth. These domains are innovation, networks, internationalization, organizational learning, top management teams and governance, and growth.[30] Understanding the critical intersections relative to specific domains of organizational action allows those responsible for creating wealth to increase their knowledge stocks and professional toolkits which, in turn, leads to higher quality entrepreneurial and strategic actions.

Dominant Domains of Entrepreneurial and Strategic Actions

Innovation brings novelty to the firm and to the marketplace

Innovation is the sum of invention plus the commercialization of that invention.[31] Innovation results from the firm's effective development and use of new technologies and/or knowledge about market opportunities. When Scott Kriens joined Juniper Networks as CEO and president, he and the other founders concluded that the overburdened Internet infrastructure was a growing market opportunity and that Internet Protocol (IP) would become the standard worldwide language of the Internet. Believing that more than a product was necessary to be the market leader, Juniper's leaders set out to build a business model that involved selling of stakes in the company to prospective customers interested in upgrading their networks. AT&T, Lucent, and Ericsson, among others, committed to Juniper, allowing the firm to raise more than $46 million. Today Juniper offers super-high-speed-communication routing systems that help providers meet increasing demands from their customers. As Kriens said, "While we didn't have a product initially, we did have an idea."[32]

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Research and development (R&D) is the firm's primary source of inventions—bringing something new into being—and innovations—bringing something new into use.[33] The development part of R&D is being emphasized in many large corporations. For example, a business writer noted that "the innovative content of corporate research has been greatly diminished in favor of work that supports short-term goals, like improvement of existing products."[34] In contrast, many smaller, entrepreneurial ventures are concentrating on research rather than development. Thus truly novel or radical innovations may come more frequently from smaller, entrepreneurial ventures than from large companies. For example, the startup venture Bios Group is developing pioneering software based on algorithms that mimic the movement of ants. Southwest Airlines, Procter & Gamble, Ford, Unilever, and Texas Instruments are among the firms using this software to improve management of their supply chains.

Although the degree to which innovations will be successful is difficult to predict, firms are increasingly recognizing innovation's importance as a primary driver of growth and wealth creation.[35] Entrepreneurs and general managers should understand, however, that they must provide strong support for the entrepreneurial and strategic actions intended to bring about innovations, or the probability of innovation success is reduced.[36] CEO Ken Lay's support and emphasis on innovation contributed meaningfully to Enron's success, creating an organization "where thousands of people see themselves as potential revolutionaries."[37] Pioneering the practice of helping energy users protect themselves against fluctuations in energy prices, Enron used innovation to generate sustainable income streams.

Innovation is also an important component of an economy's productivity. In economies falling short of international competitive standards, calls are made to develop a collective vision that places greater weight on innovation, risk taking, and individualism.[38] Moreover, in large corporations and entrepreneurial ventures, innovation is the foundation on which strategies should be built and wealth can be created.[39]

In successful firms, innovation does not exist for its own sake, but is used as a critical component of strategy and becomes an embedded capability. Hamel suggests that the real story of Silicon Valley is not e-commerce but innovation and the strategies used to exploit its outcomes. He refers to this story as the power of i.[40]

Wealth enhancements result when the firm's entrepreneurial and strategic actions are focused on innovation. For this focus to evolve, innovation must become a vital part of the company's competitive mindset.[41] Dell Computer Corporation's ability to deliver the exact computer to consumers at low cost is an example of significant value created through a competitive mindset based on innovation. An entrepreneurial mindset is the foundation on which leveraged buyouts can be used to pursue entrepreneurial opportunities, an insight presented in this issue by Wright, Hoskisson, and Busenitz.

Innovation has long been an important part of both entrepreneurship and strategic management and the actions associated with them. Peter Drucker, for example, believes that "innovation is ... the means by which the entrepreneur either creates new wealth-producing resources or endows existing resources with enhanced potential for creating wealth."[43] Strategic management scholars argue that innovation that is difficult to imitate, is consistent with market realities, exploits the market-timing characteristics of an industry, and relies on the use of unique capabilities is linked strongly to the firm's ability to create sustainable competitive advantages.[44]

The entrepreneurial use of the strategic management process allows the firm to engage in product market innovation and somewhat risky ventures. Such firms are usually the first to introduce innovations, beating competitors to the market.[45] Thus entrepreneurial actions dramatically increase the probability of successful innovations. Sony's AIBO products—artificial intelligence robots—resulted from Sony's nurturing of employee actions that are designed to find new markets or ones that are unexploited. At $2,500 per unit, Japan's first-time allotment of 3,000 AIBOs sold out in 20 minutes. Sony's U.S. servers crashed as millions tried to buy the 2,000 AIBOs allocated for America.[46] Sony views these responses as an indication that consumers are ready to purchase entertainment robots.

In general, the failure to create wealth through innovations can result from either an inability to develop new goods or services or to establish the organizational routines required to successfully implement innovations, especially those based on a new business model. Ineffective implementation is the cause of innovation failure.[47]

Routines required for successful implementation are developed only in organizational cultures that support innovation and where the users' values are matched with the entrepreneurial and strategic actions that generate innovations. Entrepreneurial actions, especially in smaller firms or startups, lead to more supportive cultures than do strategic actions. Both entrepreneurial and strategic actions are required—the former to promote creativity and spontaneity, the latter to provide the framework within which creative and spontaneous activity occurs. However, emphasis should be placed on entrepreneurial actions when trying to create value through innovations.

Networks bring firms and people together

Networks are patterned relationships between individuals and groups.[48] They take many forms, including strategic alliances, joint ventures, licensing arrangements, subcontracting, joint R&D

endeavors, and joint marketing activities. An organizational network is a voluntary arrangement between two or more firms that involves durable exchange, sharing, or codevelopment of new products and technologies. Capital, technology, and other firm-specific assets are examples of what partners may commit to a network. Increasingly, these networks are extending across country borders.[49] Networking is the act of building a resource network and of strengthening the ties within it.[50] Thus networks are products of intentional entrepreneurial or strategic actions; they do not evolve on their own. Advantages include faster market penetration, sharing of financial risk, increased production efficiencies, enhancements of innovation capability, and access to competitively valuable knowledge. In short, networks allow firms to gain access to resources they need but do not possess and to learn new capabilities.[51]

Alvarez and Barney emphasize in their article that networks are frequently linked to wealth creation in startups and small firms as well as in large corporations. Thus both entrepreneurial and strategic actions are involved with developing and effectively using the firm's batch of patterned relationships. Although networks are used to accomplish both tactical and strategic objectives, their complexity and their significant role in creating wealth result in their being used more frequently for strategic, rather than tactical, purposes. Moreover, networks are a primary driver of internationalization, another domain of intersection between entrepreneurship and strategic management.

Wells Fargo used networks with entrepreneurial dot-com startup ventures to shape its future and strategic objectives. Fearing that it could become a dinosaur because of rapidly changing technologies and the new market-based capabilities they demand, Wells Fargo decided to reinvent itself around the Internet. Through cooperative arrangements with startups such as Scient Corp. and RightWorks, the company has become the nation's leader in online banking. With a customer base exceeding two million and continuing to grow, Wells Fargo's actions with its partners reshaped corporate banking practices. Payroll and benefits were but two of the financial services Wells Fargo offered to small businesses via the Internet. The continuous learning Wells Fargo obtained from its partners was the source of innovations and wealth creation.[52]

The interest of entrepreneurs and strategic leaders in networks is not surprising. As noted earlier, effective use of interfirm cooperative arrangements is one of three key paths to develop competitive advantages. Firms able to combine resources in unique ways may realize an advantage over competing firms that are unable or unwilling to do so.[53] Alvarez and Barney's suggestion that the value of network arrangements could reach $40 trillion by the end of 2004 is consistent with this expectation.

Networks can help an entrepreneurial venture establish legitimacy and develop a desirable reputation in the marketplace.[54] For example, Scient and RightWorks may gain legitimacy from their relationship with Wells Fargo. Most entrepreneurial ventures, especially in the startup phase, rely on effective networks for survival.[55] As noted by

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Brush, Greene, and Hart, ventures can use networks to build competitively valuable social capital.[56] Along with financial resources and personal skills, social capital plays a critical role in entrepreneurial efforts to create wealth.[57] However, social capital is also linked to wealth creation in large, established organizations.

Being able to assemble a viable set of resources when founding an entrepreneurial venture is an important indicator of organizational legitimacy. As Brush, Greene, and Hart note, there have been few studies of the efficacy of different processes used to build the resource base an entrepreneurial venture needs to maintain financial stability in the short term and to create wealth over time. Similarly, entrepreneurs rarely identify the appropriate configuration of resources for the successful launch of a venture. Yet an adequate and properly constituted resource base is the foundation for the strategic actions necessary to successfully implement a venture's strategy. Brush, Greene, and Hart present detailed and insightful pathways that several firms followed, that are extremely valuable for entrepreneurs approaching the launch stage of a venture.

Entrepreneurial ventures find both formal organizational and personal networks to be of value in efforts to compete successfully against more established and larger corporations. The strongest personal networks are based on trust among partners; less effective ones are framed around casual relationships. For entrepreneurs leading new ventures, developing and enhancing social skills, perceiving others accurately, making favorable first impressions, and being able to adapt quickly and effectively to a wide range of social situations are important sources of strong and successful personal or social networks.[58]

In general, networks are linked with the competitive success achieved by a large established company. For entrepreneurial ventures, especially emerging ones, networks are linked both with survival and wealth creation. Strategic and entrepreneurial actions are targeted to creating formal and informal networks used to fashion new behaviors to pursue marketplace opportunities.

Organizational networks are formed among firms of all types and sizes. Competitors sometimes join forces to work on high-risk, capital-intensive projects. Large corporations establish cooperative arrangements with other large companies and with small entrepreneurial ventures. Likewise, entrepreneurial ventures form partnerships with large corporations. Ariba, Inc., for example, has a cooperative relationship with IBM. A leader in the B2B e-commerce sector, Ariba builds virtual marketplaces that network companies in a highly integrated electronic market for purchasing and commercial services. Networks have been crucial to Ariba's success. The company president and founder strives to form what he views as a 60-60 deal—one in which each party derives significant, but equivalent benefits.[59] This is difficult to do. As noted by Alvarez and Barney, entrepreneurial ventures should exercise caution when developing formal organizational networks with large corporations. Without careful attention to the actual workings of a cooperative arrangement, the entrepreneurial venture may find much of the wealth generated by the network going to its larger partner. Alvarez and Barney provide guidelines for entrepreneurial ventures to increase the likelihood that they will receive their fair share of the wealth created. These guidelines can serve as hurdle rates when evaluating potential networks.

Internationalization extends the firm's reach and potential

Internationalization, where a company sells its products in nations outside its home country, is a primary driver of the global economy, and influences the set of entrepreneurial and strategic actions used throughout the company.[60] As shown in Table 2, the percentage of sales revenue generated by at least some large firms outside their home markets continues to expand. Recognizing internationalization's potential benefits, Hewlett-Packard's CEO, Carly Fiorina, radically reorganized her firm to make it easier for customers throughout the world to buy H-P's products. Because of rapidly developing global markets, managers at all levels must be actively involved in internationalization. The CEO of ST Microelectronics reminds his managers: "We are all heads of international. The scope of every manager is the world."[61]

"We are all heads of international. The scope of every manager is the world."

Firms can use several entry modes to internationalize their operations in efforts to create wealth. Exports, licensing, acquisitions, strategic alliances, and foreign direct investments are examples. Fewer entry modes are viable for entrepreneurial ventures. Peng argues that regardless of the entry mode used, companies entering foreign markets should always treat those with whom they become involved with respect—especially network partners—and should concentrate on finding ways to promote mutual interests. At a minimum, firms should establish a global mindset, which will result in entrepreneurial and strategic actions that balance competing country, business, and functional area concerns.[62]

Some of the firms shown in Table 1, such as GE and Nokia, are recognized worldwide for their ability to innovate through entrepreneurial and strategic actions. In fact, Nokia's ability to beat competitor Motorola in the global cell phone market has been attributed to its superior innovation skills. Participation in a large number of markets outside the home country stimulates innovation. Nokia is based in Finland, a relatively small country, and thus had to develop a global mindset early in its existence to survive and grow. In so doing, it also developed innovative capabilities that have provided a competitive advantage in the wireless communications market.[63]

Positive wealth-creating outcomes accrue to firms through international diversification. Organizational learning and improvements of innovative skills resulting from such diversification contribute to higher returns, for example. However, international diversification can reduce wealth when the firm lacks the infrastructure and entrepreneurial and strategic capabilities required to cope with the complexities of operating in multiple, diverse markets.[64]

Historically associated with large, established companies, entrepreneurial ventures such as Nova Cruz Products LLC are now diversifying internationally in record numbers in the pursuit of wealth, and are increasingly prominent in the global economy.[65] International entrepreneurship is defined as "new

Table 2
Increasing Percentages of Nondomestic Sales Revenue

Company	Year 1993	Year 1999
General Electric	16.6%	30.1%
Wal-Mart	0%	13.8%
McDonald's	46.9%	61.5%
Nokia	85.0%	97.6%
Toyota	44.6%	49.5%

Source: Edmondson, G. All the world, see the borders. *Business Week*, 28 August 2000, 113–114.

and innovative activities that have the goal of value (wealth) creation and growth in business organizations across national borders."[66]

International entrepreneurial ventures need to adapt quickly to the competitive pressures brought about by the global economy's complexity and dynamism. As they enter more new international markets, they are presented with increasing opportunities to learn new technologies and processes, enhancing their performance. The extent to which an entrepreneurial venture is able to diffuse that knowledge throughout its operations affects its wealth-creating ability.[67]

In a growing number of cases, entrepreneurial ventures internationalize their operations at the time of their founding, often using the Internet as their entry mode. Entrepreneur Karl Ulrich, a holder of 15 patents, and a professor at the University of Pennsylvania, used the Internet to internationalize Nova Cruz Products LLC, creating a Web site to promote sales of Xootrs, his updated child's scooter. A shortage of scooters in Asia, especially in Japan, found customers turning to Ulrich's Web site to buy his scooter. At prices ranging from $269 to $489, unit sales were expected to reach 50,000 by the end of 2000.[68]

Organizational learning occurs through rapid transfers of knowledge

Organizational learning is the development of new knowledge that has the potential to influence behavior and help the firm create wealth. It takes place through information acquisition, information dissemination, and shared interpretation.[69] The degree to which a firm is committed to learning is a strategic choice. Because learning is a capability, it requires skills and processes that must be activated for knowledge to be developed and shared. In a growing number of companies, the decision to emphasize learning is reflected in formal positions that highlight learning. Judy Rosenblum spent five years at Coca-Cola Company as vice president and chief learning officer, creating the Coca-Cola Learning Consortium, which served as a catalyst for learning throughout the company. The consortium's directors of learning strategy served as liaisons between learning efforts and the firm's business units. The consortium also formed four small internal consulting operations focused on learning skills, knowledge management, competency development, and global training support. Participating with Rosenblum's activities allowed people to understand the value of learning and the organizational relationships, both personal and structural, that should be established for it to occur.[70]

Firms must be able to quickly disseminate new knowledge to all parts of the company in which it can contribute to wealth-creating efforts. Knowledge sharing is one of only three business processes for which GE CEO Jack Welch alone is responsible (the other two are allocating resources and developing people).[71]

Facilitating knowledge transfer and the organizational learning resulting from it at GE is the firm's executive development program. High-potential managers are identified early in their careers and then rotated through a variety of units and jobs, rarely remaining in one position for more than two years. Broad exposure to GE's businesses helps managers learn how to quickly pinpoint problems and propose solutions, recognize the value of entrepreneurial and strategic actions in different settings, and learn how human resources can be a source of competitive advantage.[72]

Rapid knowledge transfers are also vital in entrepreneurial ventures, particularly in international markets.[73] As Brush, Greene, and Hart note, the ability to share knowledge influences the effort to form the initial resource base necessary for long-term wealth creation.

As with GE, organizations that have the capability to learn and transfer knowledge quickly by effectively using their human capital rely on this skill as a source of competitive advantage. Innovative individuals, the types needed engage primarily in entrepreneurial actions and to generate important new knowledge in the process, develop chunks of knowledge, sets of patterns and relationships that have evolved over time.[74] Chunks are used to make connections among events across time; they are quite valuable when seeking novel solutions to problems.

Effective companies recognize, however, that programs should be in place to facilitate the type of learning that results in knowledge chunks. At Cisco Systems, executives believe that people lose their competitive value if they are not learning continuously. As vice president of worldwide training, Tom Kelly used the Web to create e-learning inside Cisco. Kelly designed a "lesson plan for e-learning" that may lead to Internet education so broad and deep that it will make e-mail traffic almost inconsequential by comparison. Kelly's plan focuses on providing different types of learning experiences, including structured learning and emergency learning.

Organizational learning is a prerequisite to innovations and the establishment of new ventures or business operations.[75] Strategic management and entrepreneurship researchers have found that organizational learning is linked to firms' abilities to innovate continuously and generate competitive advantages. The development of new knowledge from organizational learning reduces the likelihood that a firm's competencies will become outdated. Instead, the competencies on which the advantages are based remain dynamic, and change in accordance with environmental contingencies.[76] This is an important outcome of learning, for as Ranft and O'Neill note, at least in certain entrepreneurial settings, success reduces the likelihood the firm will explore how to develop new competitive advantages.

The development of new knowledge derived from organizational learning reduces the likelihood that a firm's competencies will become outdated.

The increasing competitive value of such intellectual assets as the knowledge stocks of individuals, corporate brands, and organizational reputations as a means of wealth creation highlights the importance of organizational learning.[77] Intellectual assets, which are stored and transferred through several processes, including the firm's idiosyncratic organizational learning patterns, often have a greater potential to contribute to sustainable income streams than do tangible assets. In fact, these intellectual assets affect the implementation of firm strategies and are directly related to firm performance.[78] Through effective entrepreneurial actions, the firm is able to use its intellectual assets to fashion new behaviors through which unexploited market opportunities can be pursued. Intellectual assets are rapidly becoming the foundation of strategic actions the firm uses to create wealth.

Strategic leadership has a strong influence on the firm's ability to use intellectual assets both entrepreneurially and strategically. In his article, Rowe speaks to strategic leadership's importance for all organizational types, including not-for-profit agencies and governments, as well as large, established corporations and entrepreneurial ventures. Rowe views strategic leadership as a form of influence that causes organizational actors to behave in ways that simultaneously enhance the firm's long-term viability while ensuring its shorter-term financial performance. Rowe contrasts strategic with managerial and visionary leadership, believing that strategic leadership has the highest probability of contributing significantly to the generation of greater firm wealth. Those able to effectively use strategic leadership make investments that shape a competitively viable future while maintaining an appropriate level of financial stability. While strategic leadership can be exhibited at any level in the firm, it is critical for the top management teams that we discuss in the next section.

Top management teams and governance mechanisms serve stakeholders

A top management team has the final responsibility for selecting the firm's strategies and ensuring that they are implemented in ways that will create wealth and thus can be a source of competitive advantage. It is responsible for the strategic actions that mitigate external environmental threats and exploit opportunities by effectively using the firm's unique resources and capabilities. The performance of the strategic actions selected and implemented is important in both entrepreneurial ventures and large, established corporations.[79] In emerging entrepreneurial ventures, the top management team's influence on strategic goals and actions is especially significant.[80]

To reverse Polaroid Corporation's inability to create wealth, the relatively new top management team initially decided that the firm had to simultaneously rely on innovation to rejuvenate its core businesses and develop digital products. After only five years, Polaroid introduced between 20 and 25 new products annually and broadened its reach into the digital market with new cameras and an innovative technology that produces low-price, high-quality prints. A major success from the innovation focus is the $25 I-Zone instant camera that produces stamp-size sticker prints. Introduced in 1999, the I-Zone quickly became the world's best-selling camera.[81]

Top managers are often key players in networks to support entrepreneurial and strategic actions. Janice Webb, senior vice president—Networks Group at Motorola, describes herself as a human modem. Seeking to make her company a leader in the wireless Internet market, Webb is a "master at relationships: brokering them, managing them, surviving them and striking them in such a way as that benefits of such relationships are evident to all sides."[82]

Governance is concerned with determining and ensuring that the firm's direction has a high probability of satisfying the expectations of stakeholders—shareholders, employees, suppliers, boards of directors, investors, and local communities. In market-based economies, shareholder satisfaction is the dominant concern of governance decisions. In essence, governance decisions specify relationships among all stakeholders with a vested interest in the firm's performance and its ultimate success in terms of wealth creation. Variance in preferred outcomes among stakeholders sometimes must be addressed. For example, Ranft and O'Neill note that there may not be an obvious parallel between the interests of the founder/owner of an entrepreneurial venture and those of new investors. Resolution must be achieved by those bearing the responsibility for governance of the firm's operations. The goal of these members of the top management team and the board of directors should be the specification and use of actions to create wealth.

In market-based economies, shareholder satisfaction is the dominant concern of governance decisions.

The firm's board of directors is also an important source of governance decisions. Moreover, evidence indicates that the board's decisions affect the firm's wealth-creating performance.[83] Some believe that the actions by DaimlerChrysler's board had a negative effect on the firm's ability to create wealth. Approximately 60 percent of the value of the combined Daimler-Benz and Chrysler Corporation shares was lost between January 1999 and the end of 2000. A business periodical observed: "Investors should start scrutinizing the board. It's supposed to represent the interests of workers and shareholders."[84] However, the precise expectations that are the legitimate purview of a board of directors such as DaimlerChrysler's have not been established.[85] The board members of entrepreneurial ventures tend to be more involved in selecting and implementing strategies. In larger companies, board members allow more discretion to top-management team members to select strategies and influence the choice and implementation of entrepreneurial and strategic actions to create wealth.

Ranft and O'Neill found that a board's behavior has a stronger influence on its ability to make decisions that will enhance wealth creation than does its composition. They suggest that an independent board, lacking ties to the top management team, be established early. Input from initial venture capitalists or other investors can serve this need well. Doing this is critical, because successful founders and entrepreneurs tend to prefer weak boards.

Another insight from the Ranft and O'Neill study is the importance of an orderly succession plan; failure to implement one is a hallmark of ineffective boards. The actions called for by these authors will be of keen interest for board members, particularly in entrepreneurial ventures, and will improve the odds that effective governance will evolve and remain in place across time.

Governance mechanisms sometimes fail, strongly reducing the firm's ability to create wealth. Leveraged buyouts (LBOs) are a tool through which a firm's performance can be turned around and its wealth-creating capabilities restored. Often focusing on improving the efficiency of the target organization, LBOs can be used to address governance failures in large, established corporations as well as in entrepreneurial ventures. The most successful use of LBOs is to make efficiency improvements in large mature firms whose actions are constrained by operational inefficiencies that have evolved through rigid structures.

Wright, Hoskisson, and Busenitz argue that LBOs can also be used as a means of wealth creation. This is a dynamic and fascinating argument, suggesting that, when structured appropriately, LBOs provide a foundation to pursue marketplace opportunities that remain unexploited or underexploited. To create wealth, LBOs help develop an entrepreneurial mindset to view problems as opportunities to innovate. This article will interest those contemplating involvement with LBOs and those who have participated in buyouts that did not meet their expectations.

Growth stimulates success and change

Mergers and acquisitions provide rapid growth, long a primary goal of large, established organizations. As such, this strategic option is popular in many firms competing in the global economy. A desire to engage in these transactions is not necessarily ill-advised; when managed successfully, mergers and acquisitions can help firms generate additional wealth.[86] Growth is also a key objective for entrepreneurial ventures; however, their size and asset base commonly make it more difficult for them to acquire others. Because it has been argued that growth is the essence of entrepreneurship, these firms must find other ways to grow. In this context, wealth creation is an outcome of entrepreneurial growth-oriented actions.[87] Innovativeness, risk-taking, and proactive behaviors often form the basis of entrepreneurship.

Growth is an outcome sought in large, established corporations, as well as in entrepreneurial ventures. Two major types of growth opportunities are significant changes in social, political, demographic and/or economic forces; and inefficiencies in existing markets, such as information asymmetries or limits to technology.[88] In both cases, these growth stimulants call for innovations to deal meaningfully with emerging opportunities. Since the most successful innovations are products of properly designed and implemented strategies, entrepreneurial actions and strategic actions are linked to the type of growth through which firms are able to create more wealth.

The Willy Wonka Candy Factory, selected as *Candy Industry's* 2000 Manufacturer of the Year, had a growth rate in sales that exceeded the industry's. Innovation is the key to its growth. According to Group Vice President David Hubinger: "Innovation has always been part of the brand. Innovative, imaginative, unpredictable—that's the platform for any kind of Wonka product or package."[89] Nerds Rope, Xploder Bar, Oompas, and a relaunch of Laffy Taffy are examples of recent innovations. Long-tenured employees, close interactions with children—the firm's target customer group—and a desire to create enjoyment for kids drive Wonka's entrepreneurial actions.

Extremely ambitious entrepreneurs who lead high-growth ventures demonstrate intensity and have effective and powerful visions of the wealth they can create.[90] By effectively integrating entrepreneurial and strategic actions, these high-growth ventures utilize unique configurations of different strategies to create wealth.[91]

Extremely ambitious entrepreneurs who lead high-growth ventures demonstrate intensity and have effective and powerful visions of the wealth they can create.

High growth can also create discontinuities. Established routines can be disrupted and uncertainties about cause and effect relationships may surface. The challenges resulting from these conditions are particularly acute in entrepreneurial ventures, especially emerging ones. Internet Capital Group (ICG), a holding company, was a high-flyer, going public in August 1999. At that time, the split-adjusted price of a share of the firm's stock was $6; by December 1999, it was $212. However, by December 2000, the price per share approximated the initial $6. According to some analysts, the firm's growth was frenzied in design and flawed in execution. With stakes in 80 B2B Internet companies, ICG acquired companies quickly, often paying excessive premiums. To restore its luster and performance, the firm recently restructured its portfolio, identifying holdings with potential and those that should receive less financial support or be divested. ICB executives anticipated the first six months of 2001 would be weak, but were hopeful that the IPO market for Internet startups would improve in the second half, providing money to finance its intended turnaround.[92]

Top-Management Challenges

In the final analysis, the firm's top management team bears the responsibility of dealing with the issues and problems growth can create. A first step in this process is to verify that the firm's entrepreneurial and strategic actions are integrated effectively to create wealth. The firm's leaders should also remain flexible in determining actions to cope with growth challenges. Simultaneously, all employees must be flexible and focused on the ultimate objective of wealth creation. Following these prescriptions increases the likelihood that the firm will be able to generate appropriate opportunities to achieve growth.

Flexibility is critical to create wealth while competing in the global economy.[93] Continuous organizational change is needed as firms seek to navigate in an increasingly turbulent competitive landscape. Brown and Eisenhardt suggest that the key strategic challenge for current firms is managing organizational change.[94] Effective management of change is required but difficult, because change is risky.[95] Outcomes from organizational change processes are a product of the firm's motivation, opportunity, and capability to change.[96] Many smaller entrepreneurial firms have the type of flexibility that yields an advantage, compared to many larger firms, in initiating and managing organizational change. This advantage may be one factor that accounts for the ability of smaller entrepreneurial firms to be more innovative than their larger counterparts.

Each of the articles featured in this special issue speaks meaningfully to an aspect of wealth creation in firms competing in the global economy. We believe that, individually and collectively, the authors' insights have significant potential to enhance managerial and entrepreneurial practice in today's organizations, and to stimulate analysis of how to improve those practices as the 21st century unfolds.

Endnotes

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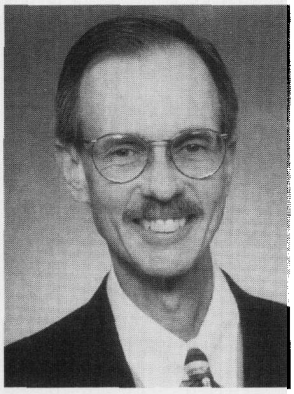

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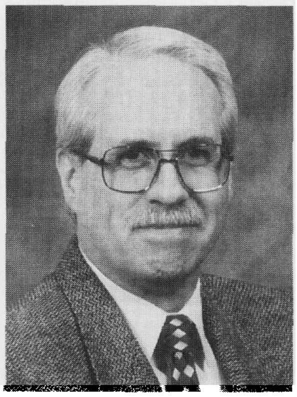

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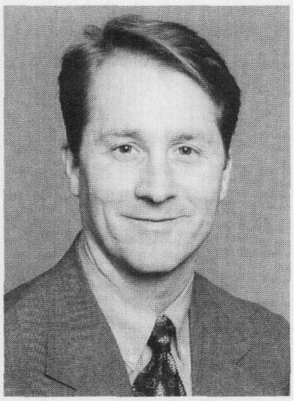

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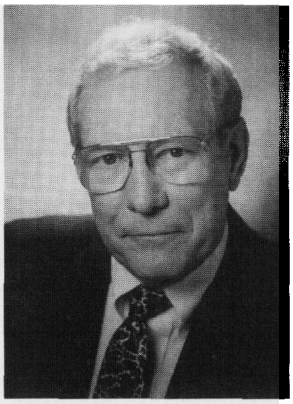

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