A Process for the Entrepreneurial Decision?

(To be or not to be an entrepreneur may or may not be the question, but what is the answer?)

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Much of the writing on Entrepreneurship is concerned either with Entrepreneurial personality, i.e. what type of person is most likely to succeed or, with practical aspects of launching a new venture i.e. planning, raising capital and so on. This paper begins to address the research programme proposed by Flood (1991) as necessary for progress to be made from the narrow focus of those existing writings. This is attempted by seeking to adapt some of the ideas of strategic management to making the Entrepreneurial decision: To be or not to be?

KEY WORDS: methodology, entrepreneurship, strategic management, systemic, viable system, purpose.

1) Introduction

Flood (1991) proposed that the "narrow focus" of entrepreneurial studies be broadened by drawing lessons from the systems and management sciences. This paper attempts to follow that proposal by seeking to adapt the process of strategic management: matching the capabilities of an organisation to its environment to achieve its objectives; for use by a potential entrepreneur.

The major part of the mainstream published work on entrepreneurship is concerned either, with the "type" of person most likely to succeed as an entrepreneur, or on the practical detail of business planning, raising capital and so on. This paper suggests a process through which those with entrepreneurial inclinations can assess their position and define the opportunities open to them.

Although the need for entrepreneurs is highlighted, the question "why be an entrepreneur?" is not aske; there may be almost as many reasons as there are entrepreneurs and the answer must be for the individual to decide. Similarly, the practical aspects will not be addressed, these are covered adequately elsewhere. Instead the paper concentrates on proposing a systemic and general methodology, through which any individual or group may assess wants and needs, can review an existing position and decide upon possible courses of action. It is systemic since it attempts to deal with a whole process of decision, recognising both the continuous interaction between the individual elements of the process and that any one part of the process, taken in isolation, is unlikely to generate a productive outcome. It is

general since it attempts to deal with the process itself rather than an individual case and it is intended to be applicable to any form of entrepreneurship or intrapreneurship.

The next section of this paper will briefly review the process of strategic management adopted by many organisations.

2) The Strategic Management Process

There is no single accepted and universally applied approach to strategic management, each organisation using its own internal systems and procedures to make strategic decisions. There is though a common pattern to these processes which, if followed, is considered to increase the chances of success. It is that common pattern which will be reviewed in this paper.

The process, for simplicity of writing, has been started at defining the mission but any organisation may be at any stage of the process and may in effect start at any point. To be successful the process must be dynamic and iterative, looping forwards or backwards between points as circumstances change and new information is discovered, each subsequent stage reinforming the others.

The mission can be best described as the "purpose" of the organisation, that is to say the reason for which it exists and is viewed by Mintzberg (1983) as the "organisation's basic function in society". This conception of purpose is vital because it provides a framework within each subsequent decision can be made i.e. does this decision, or action, help towards fulfilling the stated purpose.

The second step, objective setting, may be seen as describing the attributes the organisation must have in order to fulfil its purpose, e.g. if the organisation has a stated purpose of being "a leader in new technology", then it would be expected to have attributes such as a strong research and development capability and a highly innovative management group. If it does not have these attributes then its objectives, arising from its mission statement, would be to acquire these things. Thus the objectives may be seen as more or less measureable achievements which enable the fulfilment of purpose. These objectives are shaped by the culture, norms, values and expectations of those within the organisation.

The third step in the process is the review of the general and specific environments in which the organisation operates. This enables the identification of opportunities and threats surrounding the organisation. The general environmental factors are seen as having a broad and indirect impact on the organisation. The specific environment acts directly on the organisation and is viewed by Porter(1980) as

consisting of four basic forces, potential entrants, buyers, suppliers and substitutes. The interaction of these forces indicates the level of competitive rivalry.

The review of external factors having been completed attention turns to an examination of internal factors. This means a study of the strengths and weaknesses of the organisation in relation to its mission, objectives and the external influences acting upon it. This may include finance, staff, structure, products and many other issues.

This SWOT analysis should ensure that the organisation is fully aware of its position and is able to determine the options available to it. There then follows a process of evaluating the options in order to choose between them, for which a number of techniques are available and finally development and implementation of plans to achieve strategic objectives.

It was stated above that this should be a dynamic and iterative process and it is important to note that at any point those involved in the process should be prepared to question and alter prior decisions when new information makes that desirable.

The process is shown diagrammatically in Figure 1.

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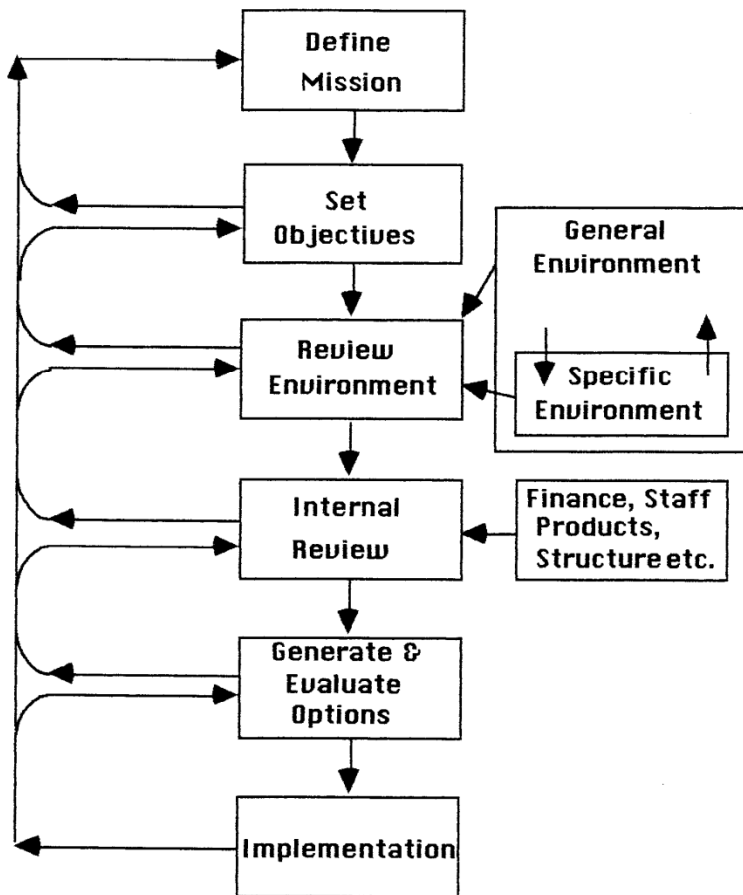
Figure 1.

A Strategic Management process

This section has reviewed a process of strategic management. The next section will show how the same process may be followed by an aspiring entrepreneur or intrapreneur.

3) An Entrepreneurial Decision Process.

Flood (1991) describes an entrepreneur as "a person (or group) who initiates and manages enterprising new ventures" whilst an intrapreneur is seen as "an innovative person (or group) in a project situation who (re)vitalises management (the five functions) to sustain and strengthen enterprising new, establishing or established venture". Such people would be displaying purposeful behaviour.

The purpose of strategic management is to enable the commencement of new ventures (initiation) and the renewal or renovation of established ventures (revitalisation). Corporate renewal is, by Flood's definition, intrapreneurial and the people charged with facilitating that renewal are intrapreneurs.

The process by which an individual can determine his or her own entrepreneurial desire may be called personal renewal. It will now be argued that individuals and groups can utilise the process of strategic management to determine for themselves whether or not To Be.

As with the previous section this process takes as its starting point the definition of purpose but must be seen as continuous, dynamic and iterative. There cannot be a "clean start" for an entrepreneur or intrapreneur because his or her current condition has arisen from the past which perpetually re-informs the present. It is important to remember throughout that human needs, wants and aspirations need not necessarily be fulfilled through paid work and that Entrepreneurial or intrapreneurial activity in pursuit of individual purpose is as valid outside the workplace as within it.

3.1 Mission: a sense of purpose, a framework for decisions.

Beer (1985) proposes that "The purpose of a system is what it does" and each human is considered by him as a "viable system", that is, a system capable of independent existence within a given environment. Following this, if humans are viable systems, and viable systems are purposeful, then we must have "purposes" around which are lives are organised and these purposes can be inferred from observation of what we do. An aspiring entrepreneur or intrapreneur can be seen as someone who wishes to review his or her "purpose and, if appropriate, make changes.

The definition of "mission" for an organisation is seen as providing a framework for all other decisions. The first step then for potential entrepreneurs or intrapreneurs is to determine a personal mission in order to provide that framework. To have reached a stage in personal development where purpose can be reviewed the candidate(s) must already be doing something, the first question then is, "What is it that I (we) do?" Asking that question alone, though, would be to deny the whole process in which the candidate has become engaged, the mind must be opened to innovation by asking "What is it that I (we) <u>wish</u> to do?" A half-formed answer may already exist to this question, otherwise, why is it being asked.

If it is the case that what is desired is to change the context or practice of the activity rather than the activity itself (to build a better mousetrap) then the purpose that is being pursued is perhaps not the explicit activity but some higher order desire e.g. to be independent, to be different, to be satisfied, to improve the human condition. Human motivation is not the subject of this paper; it is enough that there is a desire for change. That desire may be driven by some dissatisfaction with the current state and/or some personal inspiration for improvement, albeit one persons "improvement" may be another's retrograde step. Regardless, the questions remain as fundamental to the process:-

What is it that I (we) do?

What is it that I (we) <u>wish</u> to do?

These questions can only be properly answered by the individual or group by whom they are asked, working from the meaning (to them) of the functions undertaken rather than the functions themselves. In this context to claim a personal meaning to activity as being "to make money" is as valid as "to develop knowledge". In the first case money is the motivation, whilst in the second it is something which the structure and legal framework of the developed world, in general, constrains us to possess to be considered "viable".

Once a purpose or mission has been defined the candidate can progress to the next step, objective setting, using that purpose as the framework for decisions.

3.2 Objectives: the basis for action

Objectives were described in section2 of this paper as stating the attributes the organisation must have in order to fulfil its purpose. Transferring this to the candidate entrepreneur or intrapreneur, objectives may be seen as statements of achievement which may be measures against the stated purpose. The objectives will again be closely related to the set of expectations, beliefs, values and norms of the individual(s) involved in the process.

Objectives, derived from the purpose, may be as varied as the purposes themselves. These will develop from the attributes which are already evidenced and those which are to be attained, they may be expresses very simply e.g. "to obtain a position in research" or in more financially measurable ways, e.g. for making money, "how much" and "when".

Included in these attributes may be skills and knowledge targets which are considered desirable to fulfil the purpose. An aspiring millionaire may want to acquire accountancy skills whilst someone who wishes to "influence managers" may wish to acquire consultancy and teaching skills as well as subject knowledge.

The key questions for this stage of the process then are:-

What attributes do I (we) have?

What attributes do I (we) need?

The gap between these is the basis for action.

This stage being, temporarily, complete there exists a statement of purpose and the objectives to be pursued to fulfil that purpose. The next key stage is to review the environmental factors which will influence success.

3.3 Environment: the context

The entrepreneurial decision cannot be taken in isolation from the environment of the entrepreneur, it is suggested that it is driven by that environment. The entrepreneur if regarded as a "viable system" will both be influenced by the environment and be seeking to influence it to support HIS purpose and HIS objectives. The environment may be seen as the decision context, what may be appropriate in one may be highly inappropriate in another although seemingly absurd entrepreneurial ventures do occur and succeed, such as the British construction company selling sand to countries of the Middle east.

The desire for change was suggested in section 3.1 as being derived from "dissatisfaction with the current state" or "personal inspiration for improvement". This desire for change, and perhaps the increasing level of commercial entrepreneurship particularly in the most developed economies, can be considered to arise from the enormous changes occurring in all aspects of contemporary life. Assumptions and beliefs are continuously challenged and when yesterday's fiction becomes today's fact and tomorrow's history then each individual must seek to exercise some degree of control over his or her future. This is attempted by trying to recognise and anticipate environmental changes and secure advantage from them within the context of a set of personal expectations and desires.

A major change being experienced by the Western economies is seen in the nature and structure of our large organisations and institutions. Less than a generation ago people joined such organisations with an expectation of a lifetime's employment and the organisations themselves reinforced this belief. During the 1980s and 90s the certainties promised by these organisations have been seen to become of less and less value. Neither their managements nor their employees seemed to realise the extent to which changes in technology and world politics and economics would affect their existence and operations.

Handy (1989) wrote of the "Age of *Un*Reason", an age in which change would not be gradual and incremental, a part of a pattern, but "discontinuous", when the biggest differences in the way we live will arise from the way our work is organised, and, when our thinking will have to become discontinuous in order to match the turbulence of the environment.. It seems to me that it is entrepreneurs, innovators, agents of change who are embracing this most effectively because they have recognised that "The Age of *Un*Reason" has already arrived.

Oliga, quoted by Flood (1), referred to "phenomenal changes found in science and technology, political structures and new visions of a global market". The impact of these changes on society collectively and individuals is the concern of the general environmental review, an environment of increasing complexity, dynamism and diversity. All of these factors increase the number of options available to the individual and must be considered relevant to the entrepreneurial decision.

The need then is to undertake an environmental review in relation to entrepreneurial aspirations and not to simply recognise the changes that are happening, but to critically assess and interpret those changes and their potential impact on the stated purpose and objectives.

The specific review should focus on issues of direct relevance to the venture under consideration. Porter's model (1990), which is intended to identify the sources of his four forces and to enable the development of a strategy which maximises opportunity while minimising threats, provides the inspiration for this review. Whilst Porter attempts to determine the level of competitive rivalry through an examination of the factors directly acting on the business, the terms used in this adaptation are derived from factors considered to affect entrepreneurial opportunity and attempt to allow for a more general interpretation in any entrepreneurial or intrapreneurial context.

The terms are substituted as follows:-

Potential Entrants: Resistors
- those forces which act to inhibit change in the chosen field. These may be Legal, Financial, Technical, Political, Social etc. and may be either external to
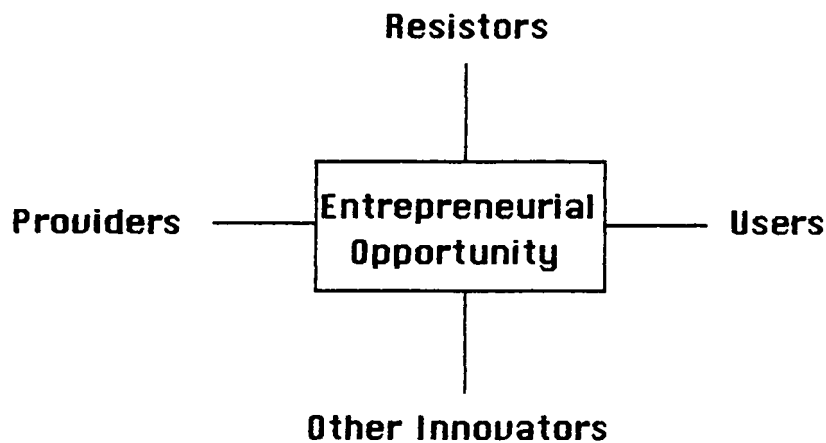
the entrepreneurial environment or internal for intrapreneurial activity in an existing organisation.

Substitutes: Alternative Innovators
> - other actors addressing or seeking to address the identified need by other means. A high level of alternatives would suggest strong recognition of the need for change.

Buyers and Suppliers: Providers and Users
> - those exercising some power or influence over the area to be addressed. Power is high when these control either the inputs to or the outputs from the motivation.

Resistors

Providers ——— |Entrepreneurial Opportunity| ——— Users

Other Innovators

Figure 2: Forces acting on Entrepreneurial Opportunity

The purpose of the general and specific studies is to inform the decision maker about the state and nature of the environments. This stage should reveal to the would-be entrepreneur. This stage should reveal to the would-be entrepreneur whether there is any perceived value in his or her idea, whether and how the need for change is already being addressed and what threats are in evidence against a successful outcome.

The candidate has now reviewed his or her mission, set objectives and reviewed the opportunities and threats in the environment. The next stage is an internal review of strengths and weaknesses.

3.4 Internal audit: Self-assessment?

This stage of the strategic management process requires a critical review of the organisation to reveal its strengths and weaknesses in relation to the purpose, objectives and environmental opportunities and threats to be faced.

This adapted process for entrepreneurial decision making has the same purpose but need to take account of some additional factors. Typically, within an organisation the internal business audit would take account of issues such as marketing, production capability, finance and staffing. These remain relevant issues for the entrepreneur/intrapreneur interpreted as follows:-

Marketing   how is the proposed change to be promoted?

Production capability   what resources are available to enable the change?

Finance   what funding is available to sponsor the change?

Staffing   what skills are available, how do they match the requirements of the proposed task?

These questions may be asked either at the level of the organisation or the individual, the answers being particular to a given case.

For individuals wishing to become entrepreneurial/intrapreneurial there are additional questions which need to be addressed. These come closest, in this paper, to asking the question why (or why not?) be entrepreneurial? A need for change has been established and the individual must determine whether he or she is to contribute to it.

The questions are as follows:-

How strong is the personal determination to initiate or innovate, and to make it successful?

What level of support/resistance can be expected from family and friends?

In an intrapreneurial situation, whilst resistance to change has already been assessed through the environmental review what support or opposition can be expected from the immediately superior or subordinate in the organisation?

How strong is the network of support?

It will be apparent that the greater the strengths revealed throughout the review the more likely the entrepreneur is to achieve success in the innovation.

3.5 Self-determination?

The equivalent part of the strategic management process seeks to bring together all of the work so far undertaken in a SWOT analysis which reveals the current state of the organisation in its environment and highlights the need for action.

For the model this stage of the process is, perhaps, the most critical. An individual, or group, have recognised a need for a new purpose, have identified attributes which they must possess to fulfil that purpose, reviewed their external environments and assessed themselves and their resources.

They will then be aware of all of the constraints acting on them and the opportunities presented. There are then two key questions for this stage:-

How can I (we) take advantage of the opportunities?

How can I (we) overcome the constraints?

The answers to these questions will reveal the extent to which the subject can control his or her own destiny; how the future may be self-determined.

The opportunities and constraints now revealed provide a prompt for the introduction of systems methodologies to address them. A suggested approach to this is to utilise the Total Systems Intervention approach proposed by Flood & Jackson (6), this enables an appropriate methodology to be chosen for handling the issues present in a variety of situations. Flood (1) showed how ideas from Cybernetics, Soft Systems Thinking and Critical Systems Thinking could help to deal with the problems of choice and organisation.

It is intended that through the application of systems approaches, opportunities can be exploited and constraints overcome.

3.6 Reiteration

Figure 3 reveals the whole process diagrammatically. The process is shown as looping back to its, arbitrarily, start point of "mission" since it is considered to be the case that the "self-questioning" can never be complete as the present and future are continuously reinformed by the past.

For those unfamiliar with systems thinking it is perhaps worthwhile to reiterate the process for which the diagram is a representation.

Firstly, the process is composed of a number of parts of which continuously interact with the others. This means both, that the outcome is a product of the whole process and the result of the interaction between the parts, and that to undertake

any one stage in isolation from the others would lead to a different and arguably less useful outcome.

Secondly, the arrows on the diagram indicate flows of information which are continuously in operation; the process does not stop and start.

Convenience of writing has determined a start point for the investigation of "Defining the mission", a process continuously informed by the past, present and desired future. This process is in itself continuously influenced by previous outcomes. The second stage is the selection of objectives, this may be seen as identifying desired attributes to "close the gap" between where and what we are and what we would like to be. The third and fourth stages, environmental review, considers the influence which acts upon the achievability of the stated mission and objectives. This is a two stage process looking both at general environmental factors and at particular influences on entrepreneurial opportunity (see diagram 2), the specific environment is contained within the general environment as a sub-system.
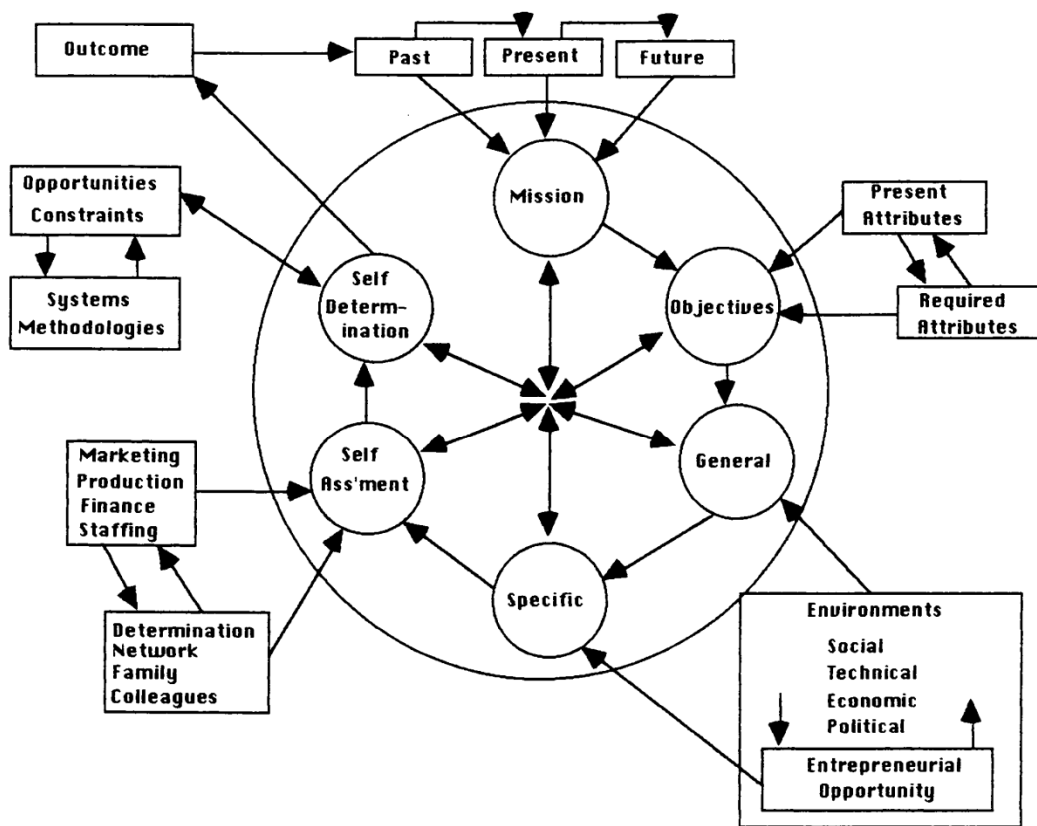
Figure 3: An Entrepreneurial Decision Process

The fifth stage, self-assessment again deals with two sub-systems, the first of these assesses the availability of resources to promote and sustain the change, the second at the strengths and weaknesses of the individual and his/her support. These sub-systems again interact with each other.

The final stage is called self-determination and requires the subject to make a decision based on the information now gathered. This information will suggest opportunities and constraints acting upon the decision maker. It has been suggested that the methodologies of systems thinking are used to help inform the decision by enabling a systemic review of the problem situation.

Completion of the final stage will lead to an outcome; that outcome reinforms the stated mission and the process of the model is ready to commence.

3.7 Conclusion

This section has suggested an entrepreneurial decision process aimed at revealing the factors and issues bearing upon that decision for any particular case.

If, the decision is to proceed with a new venture or innovation, then, the next stages will be unique to the case although the literature on management provides considerable assistance.

If, the decision is to maintain the status quo, perhaps the individual knows why he or she has chosen that route.

4. Summary

This paper has endeavoured to follow Flood's proposal that in order to provide some basis of principle for the study of entrepreneurship we should extract lessons from the systems and management sciences. It has done this by attempting to adapt the process of strategic management to the entrepreneurial desire and has brought in to that process systems methodologies which help to address the opportunities and constraints which act on the aspirant entrepreneur.

It is hoped that this work starts to answer Flood's request for a discipline of entrepreneurship which respects human well-being and is innovative.

This paper was first used as a teaching device for MBA students in Hong Kong and the validity of the ideas has been explored through that process. Their comments and criticisms, particularly from Tom Lun, helped in formulating this version of the paper and the model.

It is hoped that there is some value in these ideas, firstly in that it allows each of us to define for ourselves what "success" means and, secondly that it may make a contribution to reducing the failure rate of new ventures of all types.

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