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ENT 624
Entrepreneurial Strategy

Lecture 06



Strategic Pivoting and Competitive Positioning

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“If people haven’t laughed at your dreams, then you aren’t dreaming big enough, just keep pushing forward.”

- *Daymond John*

Entrepreneur Quotes to Inspire Your Own Success



17. "I definitely see a correlation between how many things a company gets right and how fast a company grows." - **Garrett Camp**, co-founder of Uber

18. "In a world that's changing really quickly, the only strategy that is guaranteed to fail is not taking risks." - **Mark Zuckerberg**, founder of Facebook

19. "As a leader, it's a major responsibility on your shoulders to practice the behavior you want others to follow." - **Himanshu Bhatia**, founder & CEO of Ricovr Healthcare

Learning Objectives

1. Understand the importance of planning as an ongoing activity central to entrepreneurship, the four reasons why entrepreneurs and managers of new ventures should plan, and the strategic entrepreneurship perspective.
2. Know how to create a strategic vision for the new venture; learn how each component of the vision contributes to the development of the strategic plan.
3. Understand the important benefits of managing company values and ethics.
4. Learn how to create a code of ethics to guide firm behavior in support of the overall business strategy.

Strategic Planning and Entrepreneurship

- When the idea and the opportunity for the new venture have been formulated, it may seem that the next step is to launch the business. This can prove to be **a fatal mistake**, no matter how much potential the opportunity has. **Many entrepreneurs and managers of ventures neglect to take the time to plan strategically for their businesses.**

Systematic planning is a formal process that is well worth the investment of time and effort. It provides the road map for the new venture.

- History's greatest person of ideas, Leonardo da Vinci, once said, "He who loves practice without theory is like the sailor who boards a ship without a rudder and compass and never knows where he may cast."

Strategic planning requires taking a long-range view of the venture and developing the vision to guide operations.

- It involves identifying opportunities and threats in the external environment and assessing how the venture's internal strengths and weaknesses can be leveraged to take advantage of the opportunities and minimize the threats.
- Although a feasibility analysis or comprehensive business plan may be written, these do not take the place of strategic planning—an activity that should be ongoing throughout the life cycle of the new venture.
- New ventures that have a strategy and plan accordingly outperform those firms that do not.

There are four major reasons why entrepreneurs and managers of new ventures should embrace planning:

1. The **probability for business success increases.**
2. Managerial leaders can more effectively adapt to change.
3. Planning **provides a meaningful context and direction for employee work.**
4. Planning helps align controls to key objectives.

- **Historically**, entrepreneurs have tended to avoid strategic planning, thinking it was only for “big” companies and that it was a rigid, formalized process that took up valuable time and resources.
- **Today**, the roles of strategy and strategic planning in new venture formation are considered prerequisites of success, and entrepreneurs are likely to be proactive in their approaches, ensuring the survival and longevity of their ventures.
- Planning helps founders to make decisions, to balance resource supply and demand, and to turn abstract goals into concrete operational steps, reducing the likelihood of that ventures disband and enhancing product development and venture organizing activity.

Entrepreneurship and Strategic Management: The Creation of Wealth and Value

- **Entrepreneurship**, as we have described earlier, is the **discovery and exploitation of profitable opportunities**.
- **Strategic management** involves the development of a *sustainable competitive advantage* and the *ability of the firm to create wealth through these efforts*.
 - Management scholars have shown that favorable market positions (Porter, 1985) and acquisition of **resources** that are **valuable**, **rare**, and **difficult to imitate** (Barney, 2001) are the most common ways **to achieve sustainable competitive advantage**.

The integration of entrepreneurship and strategic management leads to an emergent framework for new venture formation and growth:

- Entrepreneurship and strategic management both focus on how firms create change (adapt or proact) by exploiting opportunities resulting from uncertainty in their external environment.
- Firms create wealth by identifying opportunities in their external environments and then developing competitive advantages to exploit them.
- We conclude that **strategic entrepreneurship** results from the integration of entrepreneurship and strategic management knowledge.
- Figure 1 illustrates the strategic entrepreneurship perspective, in which wealth and value are created by integrating knowledge from the two fields.
- **Strategic entrepreneurship does not pertain only to small firms.**

- **Enterprises of all sizes need to continually search for opportunities and create and sustain competitive advantages in order to survive.**

In this chapter, we examine the role and process of strategic visioning, as well as the importance of the strategic plan.

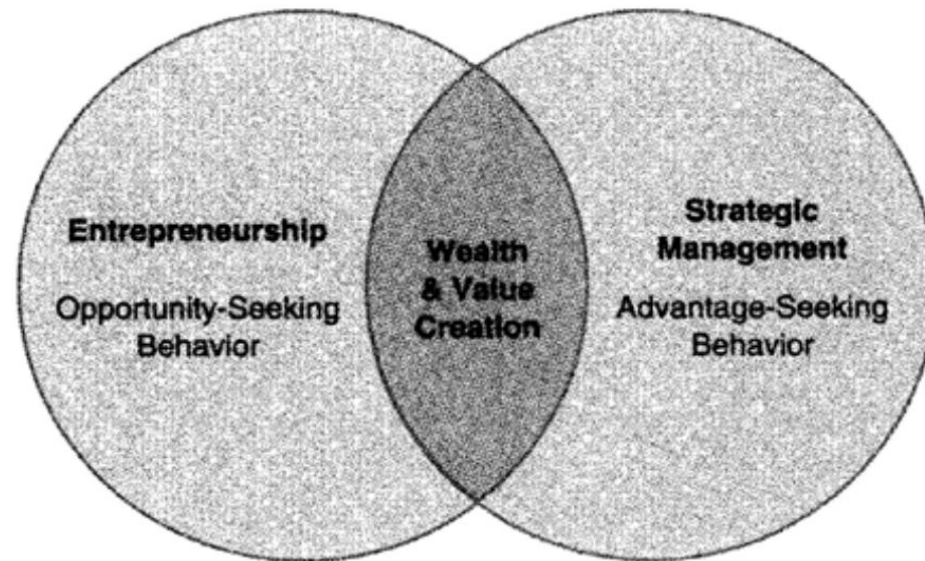


Figure 1 The Strategic Entrepreneurship Perspective

Creating the Strategic Vision: Articulating Need and Purpose

- Searching for the idea and developing the business opportunity involve creativity and rigorous research.
- This work should lead to the creation of the **strategic vision: an articulation of what the new venture is about and the need that it fills.**
- Each person involved in the venture needs to know why it exists.
- Although this seems obvious to the entrepreneur, other key players such as employees, management team members, suppliers, lenders, investors, and so on do not necessarily understand it.
- **The identification of the new venture's purpose reveals the real values that the organization will impart.**

- This is a critical step in ensuring that the venture is on its way to success and that it can persist through difficult times. If the founding team has not done this step, it is likely to exhibit symptoms of passivity (the “whatever” attitude), nonengagement (“I don't know”), and disconnection (“that's not my problem”).
- **Creating the strategic vision** is a process of *merging and combining*, then *deciding and eliminating*.
- Take the time to bring out all the possibilities and individual visions of each of the key players (*diverge*), give them careful thought, combine them, and merge (*converge*) perspectives before deciding to eliminate any one.

- **Divergence and convergence** are two modes of thinking that are necessary for a decision to be made, yet it is important to recognize the difference between the two modes of thought.
- Typically, when people get together to make a decision or to solve a problem, as soon as a few ideas are suggested, people begin evaluating and judging them.
- Common reactions include phrases such as, “Yes, but...” “That's not in the budget,” or “We already thought of that and here's why it won't work...”
- This premature **convergence** shuts down the flow of creative thinking, suppressing new ideas and potentially innovative solutions and decisions.

- **Divergence** involves generating ideas and thoughts, building on them, and allowing all the ideas to remain on the table for a period of time.
- When there is a sufficient quantity of ideas (more than one or even five!), **Convergence**, or **judging and evaluating the ideas**, can be introduced.
- This is the time for the **ALUO** (Advantages, Limitations, Uniqueness, and Opportunity) tool, a **very helpful tool for developing (or refining) your vision**. Individuals in the new venture bring different perspectives and have value to contribute.
- Co-creating the strategic vision is the first step toward establishing respect among the venture's key constituents.
- It is the first real symbolic event that helps set the stage for an innovative business environment and operation.

- Some entrepreneurs avoid formal strategic planning because they believe they must strictly adhere to the plan in the future. That is, they view the vision as something that is set in stone, immutable, and static. This is a **misconception** of the planning process.
- **Having a vision** enables the venture to launch with a purpose, and it helps it keep going under circumstances that are unanticipated, including crises that threaten the firm's survival.
- The **vision** that the entrepreneur and management team creates at start-up will probably look different one year or five years later because it **will evolve to reflect changes internal or external to the organization.**

Strategic Visioning

The following questions are posed by the entrepreneur to each of the key players involved in the new venture (including the entrepreneur), who will answer them individually. When the group comes together, responses are shared.

1. What is the opportunity or problem that led to the launch of the new venture?
2. What obstacles do you perceive for yourself and the team?
3. What stands in the way of your progress?
4. How will you know if you are on the right track?
5. For what do you desire to be known?
6. What difference do you want the venture to make?
7. What are you passionate about?
8. What talents/abilities do you personally want to contribute?
9. What kind of organization do you wish to build?

Individual answers to the above questions are shared, and the information in the table below is constructed from the pooled responses. This helps the entrepreneur and the team create the strategic vision that will guide the venture through start-up and early growth.

Table 1 Strategic Visioning

<u>Question/Area of Inquiry</u>	<u>Component of Strategic Vision</u>
• What opportunity or problem led to venture launch?	Purpose: What we are attempting to do
• What obstacles confront the venture team?	Potential pitfalls to overcome
• What blocks progress?	Resources needed
• How will we know we are on the right track?	Data to be gathered
• For what do we desire to be known?	Values we will formulate and actions we will take
• What difference do we wish to make?	Customer and market needs
• What is each key player passionate about?	Personally meaningful goals
• What talents and abilities do the venture members wish to contribute?	Who we can be as a team
• What kind of organization do we wish to build?	New venture culture: shared values and behaviors

Strategic Reflection Point: Communicating the Vision

An interesting way to be sure you can **articulate the vision for your business in an effective manner is to try the elevator test.**

- It helps you think about how you would tell someone about the product or service you provide (what it is you do) in the time it takes to get to your floor in an elevator.
- Your statement should communicate quickly and clearly the purpose of your product/service in the following form:

For ... (the target customer)

Who wants ... (the key need)?

The ... (name of your product/service)

That ... (what do you in fact provide)

Unlike ... (competitive product and key benefit)

Our product ... (competitive advantage)

Strategic Reflection Point: Communicating the Vision (*cont.*)

- Once you have articulated the strategic vision for your business, the next step is to begin the strategic planning that will enable you to carry out the vision in the operations of the company.
- **Communicating and operationalizing strategy** are two of the most critical components of the strategic planning process.
- A company's vision is **only** as strong as the actual entrepreneurial behaviors support.

Values Creation: Developing Strategy in Good Company

Business ethics and values are the subject of increasingly great attention today in light of the numerous scandals involving unethical and unlawful actions on the part of managers.

- In 2002, the **Sarbanes-Oxley Act** was passed, **requiring** every publicly held company **to** annually **disclose the code of ethics espoused by the company's CEO and senior financial officers.**
- **Compliance** is one reason for founders and managers to consider values and ethical **behavior**; however, there are several practical and rewarding aspects to the process of actively managing ethics in entrepreneurial organizations, including conducting business on a higher level of trust among the stakeholders.
- **Ethics** is behavior that conforms to moral principles and values, and business ethics is the discipline of developing and practicing business relationships that conform to these moral principles.

- **Many businesses design formal ethics programs, including creating a code of ethics.**
- Many businesses have had what is called a **code of conduct**, a corporate code of ethics, or values-based management since the beginning of the 20th century.
- One interesting result of the **Sarbanes-Oxley Act** is that the **ethical commitments embodied in the codes act as a signal to potential investors, employees, and customers that these are good firms with which to do business.**

Research has identified key strategic benefits to businesses that have ethics programs:

- Build employee loyalty, reducing hiring and training costs
- Reduce theft and other anticompany activity
- Drive sales and build customer loyalty
- Create community goodwill that can lend support for tax advantages and strategic alliances
- Attract quality applicants with minimum investment in recruitment
- Maintain loyal vendor relationships, reducing loss of suppliers and unexpected cost increases

In summary, research shows that firms can gain competitive advantage through the appropriate management of business ethics, or managing company values.

Writing a Code of Ethics

- **It is never too early in the formation of a new venture to write a code of ethics.**
- Even if there are no employees, or just one or two, the organization always has several stakeholders: customers, suppliers, other businesses, and community members.
- Once written, the document can and should be revisited each year, and as the firm grows, more information can be added to it.

Codes of ethics should contain the following types of information:

- Purpose
- Policy
- Procedures (with examples of behaviors)
 - Honesty and fairness
 - Conflicts of interest
 - Purchasing and selling goods and services
 - Discrimination, harassment, and professional work environment

Writing a Code of Ethics (*cont.*)

- Confidentiality of compensation information
 - Labor and employee relations matters
 - Confidentiality and insider trading
 - Intellectual property
 - Immigration law
 - Compliance with antitrust laws
- Environmental
- Accurate and complete records
- Workplace safety
- Bidding, negotiation, and performance on contracts
- Reporting suspected violations
 - General policy
 - List of designated personnel
 - Complaint procedures

Writing a Code of Ethics (*cont.*)

- Training
- Review procedures
 - Employee input
 - Timeline

Case Study:

Patagonia's Strategic Vision and Ethical Framework for Sustainable Growth

Background

- **Patagonia**, Inc., founded in 1973 by Yvon Chouinard, is a California-based outdoor apparel and gear company renowned for its commitment to environmental sustainability and ethical business practices.
- By 2024, Patagonia has grown into a global brand with annual revenues exceeding \$1.5 billion, maintaining its mission to "**save our home planet**" while competing in the highly competitive outdoor **retail industry**.
- This **case study** explores how Patagonia's **strategic vision** and robust **code of ethics** have driven its **success**, aligning with the principles of strategic entrepreneurship and ethical management.

The Opportunity and Strategic Vision

- Patagonia's strategic vision emerged from Chouinard's recognition of an opportunity to create high-quality outdoor gear while addressing environmental degradation caused by consumer industries.
- The company's vision, articulated as "**We're in business to save our home planet**," guides all operations, from product design to supply chain management. This vision was formalized through a strategic visioning process involving key stakeholders, including employees, suppliers, and customers, *answering critical questions such as:*
 - **What is the opportunity?** Producing durable, environmentally friendly products that minimize ecological harm.
 - **What difference do you want to make?** Leading the industry in sustainable practices and inspiring other businesses to prioritize the planet.
 - **What are you passionate about?** Environmental activism and transparency in business operations.

By 2022, Patagonia took a bold step to reinforce its vision: Chouinard transferred ownership to a trust and a nonprofit, ensuring all profits fund environmental initiatives. This move solidified Patagonia's commitment to its values over profit maximization, distinguishing it from competitors.

Strategic Planning and Execution

- Patagonia's strategic planning process integrates entrepreneurship and strategic management to maintain **a sustainable competitive advantage**.
- The **company leverages its internal strengths**—innovative product design, a loyal customer base, and a culture of activism—to **capitalize on opportunities like growing consumer demand for sustainable products**.
- It **conducts ongoing environmental scans** to identify threats, such as regulatory changes or supply chain disruptions, and adapts swiftly.
- For example, Patagonia's adoption of 100% organic cotton in the 1990s and its investment in recycled materials by 2024 **demonstrate proactive planning to align with its vision**.
- The company **employs divergence and convergence thinking** to foster innovation.
- **Teams brainstorm creative solutions**, such as the Worn Wear program, which **encourages customers to repair and recycle clothing, reducing waste**.
- These ideas are then evaluated and implemented to ensure alignment with strategic goals.

Code of Ethics and Competitive Advantage

Patagonia's code of ethics is a cornerstone of its operations, reflecting the lecture's emphasis on managing company values. ***Key components include:***

- **Purpose:** To operate responsibly, prioritizing environmental and social impact.
- **Policies:** Commitments to fair labor practices, transparency, and reducing carbon footprints.
- **Procedures:** Specific guidelines for ethical sourcing, workplace safety, and environmental compliance.

This code has yielded measurable benefits, as outlined in the lecture's objectives:

- **Employee Loyalty:** Patagonia's ethical culture **attracts and retains talent, with employee turnover rates below the industry average of 15%** (Patagonia's rate is ~4% as of 2023).
- **Customer Loyalty:** **Transparent practices**, such as publishing supply chain audits, **have built a loyal customer base**, with 70% of sales from repeat customers in 2024.
- **Vendor Relationships:** **Long-term partnerships with ethical suppliers reduce costs and ensure supply chain stability.**
- **Competitive Advantage:** **Patagonia's ethical stance differentiates it** in a crowded market, contributing to a 20% annual revenue growth from 2020 to 2024.
- The code is revisited annually, incorporating stakeholder feedback to address emerging issues like diversity, equity, and inclusion, ensuring it remains relevant as the company scales.

Alignment of Vision and Practices

- Patagonia aligns its vision with practices through tangible actions. The company invests 1% of sales in environmental grants through its 1% for the Planet initiative, launched in 1985 and still active in 2024.
- Its Fair Trade Certified products, covering 87% of its apparel line by 2024, ensure ethical labor practices. Patagonia also communicates its vision effectively, using campaigns like “**Don’t Buy This Jacket**” to encourage mindful consumption, resonating with customers and reinforcing brand authenticity.

Challenges and Obstacles

- Patagonia faces challenges in **scaling its ethical model while maintaining profitability**. Rising material costs and competition from fast-fashion brands adopting “**greenwashing**” tactics threaten its market position.
- Additionally, **global supply chain disruptions** in 2022–2023 tested Patagonia’s ability to source sustainable materials. **The company mitigated these through strategic partnerships and innovation, such as developing bio-based fabrics.**

Outcomes and Success

- Patagonia's strategic vision and ethical framework have driven its success. By 2024, **it achieved B Corp certification** with a score of 151.3, among the highest in its industry.
- **Its focus on sustainability has attracted a growing demographic of eco-conscious consumers, with a 25% increase in market share in the outdoor apparel sector since 2020.**
- **The company's ability to adapt to change** is evident in its pivot to e-commerce, with online sales accounting for 40% of revenue in 2024.

Lessons for Entrepreneurs

Patagonia's story offers several lessons for entrepreneurs in other industries:

- **Integrate Vision with Action:** **A clear, purpose-driven vision must be supported by concrete strategies and measurable outcomes.**
- **Prioritize Ethics Early:** **Establishing a code of ethics from inception builds trust with stakeholders and fosters long-term loyalty.**
- **Embrace Adaptability:** **Ongoing strategic planning enables ventures to navigate external threats and seize opportunities.**
- **Leverage Values for Differentiation:** **Ethical practices can create a sustainable competitive advantage, even in competitive markets.**

Discussion Questions

- How does Patagonia's strategic vision align with the principles of strategic entrepreneurship?
- What elements of Patagonia's code of ethics contribute most to its competitive advantage?
- How can entrepreneurs in non-sustainable industries apply Patagonia's approach to strategic visioning and ethical management?
- What challenges might arise when scaling an ethical business model, and how can they be addressed?

Case Study:

Speaking of Strategy: Red Hat—Bringing New Value and New Values to the Marketplace

Speaking of Strategy: Red Hat—Bringing New Value and New Values to Marketplace

- Red Hat, Inc., is the world's leading open source and Linux provider. Founded in 1993, Red Hat is headquartered in Raleigh, North Carolina, with satellite offices worldwide.
- Red Hat is leading Linux and open-source solutions into the mainstream by making high-quality, low-cost technology accessible.
- Red Hat provides operating system platforms along with middleware, applications, and management solutions, as well as support, training, and consulting services to customers worldwide and through top-tier partnerships.
- Red Hat's **open-source strategy** offers customers a long-term plan for building infrastructures that are based on and leverage open-source technologies with a focus on security and ease of management.
- **Red Hat's mission** is “to be the defining technology company of the 21st century.” They describe what they do: “We serve global enterprises through technology and services made possible by the open-source model. Solutions include Red Hat Enterprise Linux operating platforms, sold through a subscription model, and a broad range of services: consulting, 24×7 support, Red Hat Network.
- Red Hat's global training program operates in more than 60 locations worldwide and features RHCE, the global standard Linux certification.”

How does open-source technology work? Here is how Red Hat describes the process: “All software is written with source code. With open-source software, the code is protected by a special license that ensures everyone has access to that code. That means no one company can fully own it. Freedom means choice. Choice means power.”

Open source enables the customer, not the software provider, to have control over the technology used. “Customers can see the code, change it, and learn from it. Bugs are more quickly found and fixed. And when customers don't like how one vendor is serving them, they can choose another without overhauling their infrastructure. No more technology lock-in.”

How does Red Hat make a difference? “We believe open-source simply creates better software. It multiplies one company's development capacity many times over. Everyone collaborates, and the best software wins. Not just within one company, but among an Internet-connected, worldwide community. It's no coincidence that the rise of open source closely followed the rise of the Internet. The perfect breeding ground for collaboration, the Internet moves ideas and code around the world in an instant.”

- Red Hat points out that “the concept behind open-source is not new. For centuries, universities and research communities have shared their work. Monks copied books by hand. Scientists publish new discoveries in journals. Mathematical formulas are distributed, improved, redistributed. Imagine if all of this past knowledge was kept hidden or its use was restricted to only those who are willing to pay for it. Yet this is the mentality behind the proprietary software model. In the same way shared knowledge propels the whole of society forward, open technology development can drive innovation for an entire industry.” [The culture of Red Hat is closely connected to its mission and values.](#)
- Red Hat has been described as the biggest small company in the world. “With more than 800 Red Hatters across 26 offices worldwide, we rarely think of ourselves as a small company. Until you consider our competition. We stand among giants—competing and partnering with companies many times our size. This is a challenge we've always welcomed. Despite our relative size, our continued success is proof of the power of the open-source model. We pride ourselves on collaboration, openness, and the exponential value that comes from joining people of different perspectives to find the best way.”

- According to Red Hat, “Open source forms the foundation of our company's culture because open source is changing the world. **In our industry**, it returns the balance of power to the customer. **In our society**, it allows people to be exposed to technology who might not otherwise have the opportunity. No matter how large we grow, we hold these ideals close. Red Hat may be small compared to the company we keep—but don't underestimate the power of more than 800 people who've found a cause worth being passionate about.”
- According to Jennifer Lamb, enterprise sales engineer, working at Red Hat is a different experience from working at other organizations: “Red Hat is a very open, innovative company with very few political or procedural barriers. It's one of the few companies I know of that allows its employees to directly effect change at all levels and across departments. The people who work here are well rounded, motivated, open-minded, and committed to constantly growing intellectually, professionally, and culturally on an individual and team basis.” Her feelings are echoed by software engineer, Todd Warner: When asked to describe the best part about working at Red Hat, he responded: “Three things: the people, the code, and the cause.”

SOURCE: <http://www.redhat.com>. Printed with permission.

Discussion Questions

1. What do you think is the vision of Red Hat, Inc.?
2. What elements of the strategic visioning process can you identify in the Red Hat vignette?
3. In what ways does Red Hat align its vision with its practices? How has it managed to become so successful?
4. What lessons can be adapted by entrepreneurs in other industries from the Red Hat story?

Recap

- Strategic planning
- Importance of strategic planning
- Four reasons for strategic planning
- Strategic vision
- Components of strategic vision
- Communicating the vision
- Strategic benefits of managing company values and ethics
- Code of ethics

Summary of Lecture Objectives

1. Understand the importance of planning as an ongoing activity central to entrepreneurship, the four reasons why entrepreneurs and managers of new ventures should plan, and the strategic entrepreneurship perspective

- Systematic planning is a formal process that is well worth the investment of time and effort. It provides the road map for the new venture. *Strategic planning* requires taking a long-range view of the venture and developing the vision to guide operations. It involves identifying opportunities and threats in the external environment and assessing how the venture's internal and external strengths and weaknesses can be leveraged to take advantage of the opportunities and minimize the threats.

The four reasons why strategic planning should be done are:

- The probability for business success increases.
- Managerial leaders can more effectively adapt to change.
- Planning helps provide a meaningful context and direction for employee work.
- Planning helps align controls to key objectives.

Summary of Lecture Objectives

2. Know how to create a strategic vision for the new venture; learn how each component of the vision contributes to the development of the strategic plan.

- Having a vision enables the venture to launch with a purpose, and it helps it keep going under circumstances that are unanticipated, including crises that threaten the firm's survival. The vision that the entrepreneur and management team creates at start-up will probably look different one year or five years later because it will evolve to reflect changes internal or external to the organization.
- The areas of inquiry that shape the components of the strategic vision include the opportunities and obstacles confronting the new venture, how progress will be tracked, the difference the new venture intends to make, and the contributions of the key members of the organization that will support the vision.

Summary of Lecture Objectives

3. Understand the important benefits of managing company values and ethics.

- While founders and managers consider compliance with the law one reason for considering values and ethical behavior, there are several practical and rewarding aspects to the process of actively managing ethics in entrepreneurial organizations.
- Managing ethical behavior leads to several positive outcomes, including building employee loyalty, reducing hiring and trainings costs, driving sales, building customer loyalty, maintaining loyal vendor relationships, and reducing loss of suppliers and unexpected cost increases.

4. Learn how to create a code of ethics to guide firm behavior in support of the overall strategic vision

- The Sarbanes-Oxley Act is a new requirement for businesses, and one result has been that the ethical commitments of the code of conduct for a new venture act as a signal to potential investors, employees, and customers that these are good firms with which to do business.

See you next lecture 07

Thank You