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## CONCEPTUAL REFLECTIONS ON STRATEGIC ENTREPRENEURSHIP: INTELLECTUAL CAPITAL AND THE FRAMEWORK OF DIALECTICAL DYNAMICS

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The entrepreneurial perspective states that an organization can leverage the effectiveness impact of existing strategic management through opportunities exploration and exploitation, but little theoretical and empirical research addressed these issues. Developing the dialectical perspective on strategic entrepreneurship further, we theorize that contradictions' reconciliation shapes opportunity creating and shaping. We delineated three such contradictions, that is deliberate versus emergent opportunities exploration, analysis versus intuition in entrepreneurial growth decisions, and physical versus intellectual capital investing in organization's value. More specifically, we focus on explicating the strategic role that entrepreneurial, dialectical dynamics can play in enhancing organizational effectiveness.

**Keywords:** Strategic entrepreneurship, dialectical approach

### INTRODUCTION

The relationships between strategic entrepreneurship or more generally, corporate entrepreneurship, and organization effectiveness have attracted much research interest, but we still know relatively little about why some organizations successfully create and shape opportunities while others do not (Hitt, Ireland, Camp & Sexton, 2002; Kuratko, 2001; Wickham, 2001). From the review of the literature it is clear that the nature of strategic entrepreneurship is both complex and contested. Furthermore, the extant literature suggests that entrepreneurial performance can come from entrepreneurial orientation (Dess & Lumpkin, 2005); from real option reasoning (Kogut & Kulatiluka, 2004; McGrath & Boisot, 2003), from a match between opportunity and resources (Chrisman, Bauerschmidt & Hofer, 1998), and/or from the ability to use cognitive structures appropriately to the development of new opportunities (Alvarez & Busenitz, 2001; Sarasvathy, Dew, Velamuri, & Venkataraman, 2003). Unfortunately,

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extant corporate entrepreneurship research has generally ignored the impact and influence of dialectical dynamics. We sought in this study to fill this important void by examining how contradictions characteristics moderated the effectiveness of strategic entrepreneurship processes. Our study aims to contribute to this literature by focusing on two issues that are relatively neglected: (1) the nature and effectiveness impact of the dialectical dynamics; and (2) the differential impact of three strategic entrepreneurship contradictions and their interaction. We tap dialectical contradictions by considering deliberate versus emergent opportunity creation, analysis versus intuition in growth decisions, and physical versus intellectual capital investing in organization's value. Neither is quite new, but all three are necessary for model completion. Strategic entrepreneurship is therefore at least in part a consequence of these three contradictions and their reconciliation processes. Stemming from a dialectic approach, strategic entrepreneurship is viewed as a construct through which organizations can reconcile entrepreneurial contradictions.

In this paper, we investigate the effects of dialectical dynamics of strategic entrepreneurship processes on organizational effectiveness. Thus, we scrutinize the relatively unknown and under-researched impact of the strategic entrepreneurship contradictions presence (their reconciliation) under opportunity seeking conditions. We start by considering reasonable processes that the organization may wish to achieve – among the most important one could think of are: opportunity-seeking, and competitive advantage-seeking. In the next section, we describe our theoretical framework of strategic entrepreneurship; then we outline dialectical dynamics and core contradictions. Finally, we throw the intellectual capital as a strategic lever of a firm's value and discuss wider practical implications.

## **1. STRATEGIC ENTREPRENEURSHIP: ORGANIZATIONAL INTELLIGENCE ON THE EDGE**

Actually, more research is needed regarding how the process of firm-level entrepreneurship unfolds within organizations (Kuratko, Hornsby & Goldsby, 2004). Therefore, this research is concerned with defining how the strategic entrepreneurship process actually occurs within organizations. The question how organizations are created and renewed requires a process theory that explains the temporal order and sequence of events (Pentland 1999; Poole, Van de Ven & Holmes, 2000). This explanation should identify

the generative mechanisms that cause observed events to happen and the particular circumstances or contingencies behind these causal mechanisms (Tsoukas, 1989).

Recently, Kreiser (2005) has made a clear distinction between the strategic attributes underlying firm-level entrepreneurship and the process that entrepreneurial firms utilize to develop a sustainable competitive advantage. He argued that three strategic attributes are necessary in making an organization entrepreneurial: innovation, proactiveness, and strategic renewal of key organizational strategies and ideas. These primary attributes were combined with four key processes related to the entrepreneurial act: sustained regeneration (the introduction of new products and/or entrance into new product markets), organizational rejuvenation (the development of new processes and/or alteration of existing processes), strategic transformation (the transformation of organizational strategies to align with the external environment), and domain redefinition (the proactive creation of new product-markets to create a previously untapped market opportunity). In sum, the three fundamental attributes encourage organizations to display four important processes allowing to develop a sustainable competitive advantage. As such, it is through these three attributes and four processes that organizations are able to truly become entrepreneurial in nature. We extend these findings to delineate the content and rationality of the strategic entrepreneurship.

We note that strategic management and corporate entrepreneurship are integrated, concurrent, dynamic processes within strategic entrepreneurship. Ireland, Hoskisson, & Hitt (2006: 246) draw attention to the fact that: “(s)trategic entrepreneurship is the process of taking entrepreneurial actions using a strategic perspective by combining entrepreneurial and strategic management processes to enhance the firm’s ability to innovate, enter new markets and improve its performance (...) to find and exploit tomorrow’s ‘new product’ while exploiting its current marketplace success”. We hope to bring conceptual clarity while moving towards making the entrepreneurial view more strategically relevant. Creating and shaping truly innovative opportunities has been recognized as one of the most important resources that, through the process of exploitation, can lead to a competitive advantage (Alvarez & Busenitz, 2001). Actually, the strategic aspect emphasizes the importance of organizational learning for the coevolution of opportunities and competencies (Dagnino & Mariani, 2004), unique future resource creation (Bowman & Collier, 2004), managing dualities (Achtenhagen & Melin, 2004), dynamic capabilities including searching, entrepreneurial

acting, and learning (Smith, Cao & Lofstrom, 2004). Strategic entrepreneurship includes developing an entrepreneurial mindset and culture encouraging opportunity exploration as well as managing resources strategically, developing and leveraging innovation through strategy to exploit opportunities and to create value (Hitt & Ireland, 2005; Ireland, Hitt & Sirmon, 2003).

More than two decades ago, Mintzberg and Waters (1982) emphasized a specificity of strategy creation in an entrepreneurial organization. As Chrisman, Bauerschmidt, and Hofer (1998) noted, entrepreneurship is a special case of strategic management involving a match between opportunity and resources; an important aspect of strategy properly implemented in ensuring that the organization is consistently being an entrepreneurial proposition in pursuit of its growth and renewal (Dess, Lumpkin & Taylor, 2004).

On the basis of these observations, we derive the following conceptualization: strategic entrepreneurship is about thinking and deciding strategically (deciding what opportunities and competencies to decide about, determining what type of information is worth considering for making sense of) and about acting strategically (setting precedents for subsequent entrepreneurial decisions such as beliefs, principles, procedures, and evaluation criteria). It is not surprising then that creating and shaping entrepreneurial opportunities define the contours of strategic entrepreneurship. More specifically, it requires the dialectical blend of planned and emerged efforts; creativity, intuition and analysis, logic; investments in physical and intellectual capital; in both designing and implementing entrepreneurial strategies. Applying this reasoning to the organizational level of analysis, strategic entrepreneurship can be conceptualized as concerning how strategic contradictions are reconciled in creating and shaping opportunities. We can think of the process of strategic entrepreneurship as unfolding over phases with different distinguishing contradictions playing a dominant role in each period.

Entrepreneurial organizations have an entrepreneurial orientation that shapes their priorities and strategic decisions. In other words, it is analogous to the strategic orientation of the organization in an entrepreneurial direction. Several works (e.g., Hitt, Ireland, Camp, & Sexton, 2002; Kuratko, 2001; Wickham, 2001) have previously sought to outline the strategic entrepreneurship theoretical perspective. The phenomenon we refer to as strategic entrepreneurship clearly meets the basic logic of an entrepreneurship strategy. This strategy must also be deployed effectively.

Organizational members can use entrepreneurship strategy as a guide to what entrepreneurial actions should be taken, just as other people, use a guide for reflexive self-monitoring (Giddens, 1984). In doing so, organizations are likely to frame members' perception of the nature of opportunities and the speed at which they are pursued.

The entrepreneurial orientation is an organization-level construct that is closely linked to strategic management and strategic decision making process (Covin & Slevin 1991; Knight 1997; Naman & Slevin 1993). Moreover, the entrepreneurial orientation captures a crucial aspect of the way the organization is organized that enhances the relationship between knowledge-based resource (the ways in which organization combine and transform tangible resources) and effectiveness (Wiklund & Shepherd, 2003). We suppose, drawing on their findings, that strategic entrepreneurship could be an important measure of the strategic processes which facilitate the utilization of resources into wealth creation by focusing attention and efforts towards opportunities. The above arguments lead us to the following research questions: Is there a contingent relation between strategic entrepreneurship and measures of entrepreneurial organization (e.g., entrepreneurial orientation) in explaining organization effectiveness?

We do not feel to be in position to strictly predict which specific dimensions of entrepreneurial orientation will be more important for what aspect of strategic entrepreneurship. However, based on the above analysis of an entrepreneurial orientation and earlier discussion of corporate entrepreneurship, we suggest that dimensions of entrepreneurial orientation are positively associated with dimensions of strategic entrepreneurship.

## **2. BUILDING ENTREPRENEURIAALLY RESPONSIBLE STRATEGY**

Turning to the strategic entrepreneurship process, and consequently applying a dialectical perspective, may provide important insights into conceiving new possibilities, creating strategic change, and screening the idea for assessing the feasibility of the opportunity. Several theorists have articulated the importance of opportunities within the entrepreneurial process. Hèbert and Link (1998: 159) describe entrepreneurial action as "the creation of an opportunity as well as response to existing circumstances". Lumpkin and Lichtenstein (2005) argue that entrepreneurial opportunities are discovered (prepared, incubated, insighted) and formed (evaluated and elaborated). Likewise, Dutta and Crossan (2005) suggest reconciliation

between “opportunities discovered” and “opportunities enacted” approach. On the basis of such understandings of the phenomenon of entrepreneurial opportunities, we argue that creating and shaping these should form the core of the strategic entrepreneurship.

Opportunities, as innovative solutions to the problem of effectiveness compete for attention of managers (Ocasio, 1997) and are mainly conducted within a given organization (Leonard-Barton, 1995), frequently owing to commit to failing courses of action (McNamara, Moon, & Bromiley, 2002). Knowledge is an essential ingredient of effective action (Clark, 1997). Attention should be focused on the knowledge structures that people used to make assessments, judgments, or decisions (Mitchell, Busenitz, Lant, McDougall, Morse, & Smith, 2002). As Janney (2005) suggests, entrepreneurs are likely to be influenced by biases regarding the availability and value of the future opportunities, which is identified as entrepreneurial conceit. Entrepreneurial conceit can be characterized by an entrepreneur’s perceptions of: 1) the number and quality of opportunities available to the entrepreneur, 2) the entrepreneur’s ability to learn from existing ventures and to apply it to future opportunities, and 3) an entrepreneur’s ability to attract the requisite resources for future opportunities. There is therefore a need to identify which knowledge is considered valid and actionable in a strategic entrepreneurship context.

It is possible that in order to effectively create opportunities, organizations must possess absorptive capability, e.g. the “ability to recognize the value of new external knowledge, assimilate it, and apply it to commercial ends” (Cohen & Levinthal, 1990:25). Absorptive capacity reflects the firm’s ability to import, comprehend, assimilate and exploit knowledge from external sources, and in consequence levers opportunity creation and shaping. Intuitively, the idea that entrepreneurial organizations have an absorptive capability, can be invaluable to the field of strategic entrepreneurship because it means the acquisition of new information, the assessment of its value, giving it the meaning, converting it into new opportunities and its ultimate use in order to enhance effectiveness (Cohen & Levinthal, 1994; Weick, 1993).

Ideas that turn into opportunities are not accidents. According to the opportunity enactment perspective (Gioia, Schultz, & Corley, 2000; Sarasvathy, 2001), opportunities are a part of the circumstances external to the entrepreneur that are enacted through making sense of her or his experience by individual actions and interactions with others (Weick, 2000). In this perspective, opportunity selection is a retrospective interpretation of

enacted signals. Interpretations become organizational and environmental context, where decisions and behaviours take place. A similar reasoning applies to organizational entrepreneurship.

While both real options and entrepreneurship emphasize opportunity and learning therefore, we believe, the real option literature proves especially valuable to our understanding of how entrepreneurs create and shape opportunities. The real option framework usefully highlights the links between current entrepreneurial actions and a set of opportunities. Real options logic thus appears to have a broad applicability to the organizational entrepreneurship process and indeed to the process through which entrepreneurship strategies are created.

Consequently, opportunity is “a future situation that the decision makers deem personally desirable and feasible (e.g., within their control and competence)” (Keh, Foo & Lim, 2002:125). An entrepreneurial opportunity is a situation in which a person can create a new means-ends framework for recombining resources that the entrepreneurs believe will yield the profit (Shane, 2003:18).

Entrepreneurship is about making opportunities happen. There is always a juxtaposition of the nature of the individual and opportunity (Shane, 2003). The notion is relative to organization, environment, time and person (e.g., attractive opportunities have people that are highly competent). Entrepreneurial actions are driven by the challenge, the opportunity to accomplish what others said could not, would not, or should not be done. The tendency to act upon opportunities (as well as the manner in which the entrepreneur acts) is the result of the interplay between personal characteristics, goal set, personal environment, the current business environment and the nature of the innovative idea (Reuber & Fisher, 1999).

Organizational sensemaking processes provided a fruitful context for research into strategic entrepreneurship in which participants work to create shared opportunities. We believe that all of this research highlights the importance of sensemaking as a fundamental strategic activity within organizational entrepreneurship. These studies have also demonstrated how participation in strategic conversations influences the way in which an issue was understood and enacted as a sensible entrepreneurial opportunity. We agree with Ferguson (1984), that analysis of organizations as process allow us to ask, “how does it came to be?”, rather than, “what is it?”. In an argument consistent with this line of thought, Mills (2003) suggested that a strategic sense making approach has the validity and usefulness for helping to understand organizational change. In such circumstances it may be useful

to identify the possible sequence of post hoc recognition processes as central to organization-level adaptability and innovativeness in the face of change (McGrath & Boisot, 2003).

### 3. IMPROVING ENTREPRENEURIAL PLANNING

The individual entrepreneur and the founding team are increasingly being seen as a key factor in the development of new opportunities and the founding process (Baron, 1998; Busenitz & Barney, 1997; Gartner, Shaver, Gatewood, & Katz, 1994; Shane & Venkataraman, 2000; Timmons, 1999). Their unique cognitive structures and their psychological ownership enable them to “readily navigate through a wide array of problems and irregularities inherent in the development of new firms” (Alvarez & Busenitz, 2001: 759). Thus, central to strategic entrepreneurship is the use of perceptual and reasoning skills to imagine and identify a different future and to perceive, discover, recognize or assess opportunities. Chandler, Dahlqvist and Davidsson (2002) claim that the process of opportunity detection, whether through proactive, reactive or fortuitous search, may have implications for the subsequent development and exploitation of the opportunity. This has led to a conclusion that there is no such a thing as perfect opportunity. Its capitalization depends more on the mode of seizing and pursuing than on its pure, economic characteristics. The process of sorting through ideas and recognizing and making sense the pattern, which can become entrepreneurial opportunity, develops a much broader and richer perspective on the often turbulent and unpredictable nature of organizational and environmental context. In this view, organizational entrepreneurship mainly involves the selective identification of future events and conditions and the imaginative interpretation of their meanings as opportunities.

The entrepreneur specializes in judgmental decision-making, especially in finding urgent solutions in novel and complex situations where objectives are ambiguous (Casson, 2003). Also, strategic entrepreneurs need the skill of judgment, which Vickers (1965) refers to insights and heuristics developed from experience used in sizing up unstructured situations and judging the significance of various facts. Research on entrepreneurial decision making has showed the potential advantages and disadvantages of different decision-making patterns may lead to a competitive advantage as well as a competitive disadvantage (Alvarez & Busenitz, 2001). Some scholars suggest that decision-making associated with entrepreneurial mindset can



rely on biases and heuristics as opposed to a systematic decision making style, particularly under conditions of environmental uncertainty and complexity (Baron, 1998; Wright, Hoskisson, Busenitz, & Dial, 2000). Other empirical research (Allinson, Chell, & Hayes, 2000; Busenitz, & Barney, 1997) revealed that the use of intuition is an important element of entrepreneurial thinking and enhances the performance in entrepreneurial activity. In addition, research has found intuition to be positively related to financial performance (Sadler-Smith, 2004). On the other hand, several studies have shown that planning is a valuable part of the entrepreneurial process (Aldrich, & Baker, 2001; Castrogiovanni, 1996; Harper, 1996; Reynolds, & White, 1997). It may therefore be argued that these two opposing forces should be somewhat reconciled for strategic entrepreneurship to flourish. We believe that understanding this dynamic interplay between intuition and deliberation will be essential in better explaining and predicting strategic decision making and entrepreneurial judgment.

Cognitive scientists have drawn a clear distinction between two modes of thought: systematic processing, which involves analytic, conscious thinking, and heuristic, automatic processing, in which information is processed quickly and effortlessly (e.g., Plous, 1993; Sternberg, 1999). Moreover, researchers as well as managers are increasingly debating the intuition and the rational analysis as two complementary and mutually reinforcing systems of knowing (Das & Teng, 1999; Khatri & Ng, 2000; Sadler-Smith & Shefy, 2004; Stanovich & West, 2000). The first one allows strategic decision makers to focus on those potentially important but weak signals that fuel imagination, creativity and innovation. The second enables strategic decision makers to act on them and entails the acquisition of knowledge through the power of conscious reasoning, deliberative analytical thought, and logical choice. We suggest that entrepreneurial success is enhanced when organization participants and stakeholders base their decision process on dialectical dynamics surrounding rational analysis versus intuition contradiction. Moreover, we argue that neither intuition nor formal analysis is more correct.

It is important to recognize that the strategic entrepreneurship pertaining to contradiction reconciliation explains the variance in an organization's intelligence. Thus taking the view that the reconciliation of strategic entrepreneurship contradiction in decision-making will trigger organizational entrepreneurship. We propose that organizations which appropriately

reconcile analysis and intuition in growth decisions will exhibit a higher effectiveness of strategic entrepreneurship than those that do not.

#### **4. INTELLECTUAL CAPITAL AS A STRATEGIC LEVER OF A FIRM'S VALUE**

Recent theoretical frameworks have emerged that emphasize the strategic importance of intangible assets such as human capital (Linnehan & De Carolis, 2005). The knowledge and skills inherent in human capital are the essence of competitive advantage. Under this framework, creating value is a function of building firm-specific human capital that yields competitive advantage. An alternative view of human capital and its relationship to competitive advantage is proposed by Coff (2002), who suggests that human capital, owing to its specificity, social complexity may entail negative consequences, in particular, turnover, opportunistic behaviour, and shrinking. However, under a transactional value lens (Zajac & Olsen, 1993) the potential costs of these negative consequences that emanate from human capital may be outweighed by the anticipated value created by employees embedded in firm-specific systems and organizational culture.

Nahapiet and Ghosal (1998) argued that for creating new knowledge and converting it into new opportunities and products or services, parties must have access to one another, and in consequence be capable of combining and exchanging ideas and information on this social capital basis. Recently Tribó and Surroca (2005) proposed a theory that the relationship between financial and social performance relies exclusively on their mutual connection with an organization's intangible investment. Overall, a firm's performance is at least partially a function of the value of its human and social capital (Hitt, Bierman, Shimizu, & Kochbar, 2001). Entrepreneurial human capital, as indicated by a set of knowledge and skills that organizational members can bring to bear to explore and exploit opportunities, is strongly linked to entrepreneurial social capital, as indicated by the individuals' use of social ties, and both contribute to new venture success (Coff, 2005; Davidsson & Honig, 2003; Gimeno, Folta, Cooper, & Woo, 1997).

Entrepreneurs create and invent new and unique approaches to organizing and managing work and a new way of exploitation of physical and intellectual capital. They "bring new means-ends decision-making frameworks" (Shane & Eckhardt, 2003:167). It is important to note that although organizational effectiveness may be driven primarily by physical

and intellectual capital, both drivers may be at work simultaneously. Warner and Witzel (2004) define the forces that influence the nature and extent of an organization's intangible capital and its ability to add value. Four of the five forces – skills, innovation, knowledge of the market and knowledge of the environment – are interdependent variables; how they are managed, their nature and size is determined by the fifth force, internal co-ordination. Knowledge only adds value when it is put into action through human agency in one of these five ways. Moreover, the organization's strategy, structure and culture have an important impact on the generation of intangible resources at all levels, and themselves contribute to the organization's ability to succeed competitively. It follows that managers need to develop organizations that have both physical and intellectual components.

Both tangible and intangible organizational elements, independently, complementary and interactively have an important role in creating an organization's value. However, Carmeli and Tishler (2004) argue that in any cost effective development six intangible elements (managerial capabilities, human capital, internal auditing, labour relations, organizational structure, and perceived organizational reputation) and interactions among them, need to be taken into account. Thus, there is no such thing as a completely physical capital. Nor is there any such thing as a completely intellectual capital. Every organizational capital consists of a mix of intellectual and physical elements, indeed, they interpenetrate each other. There is no either/or choices between the two elements. And the choice is never a final one. These components should be reconciled into an entrepreneurial organizational form. Thus, going entrepreneurial is a strategic option, the utility of which depends on the organization's capacity and needs to put capital components together and ultimately create new value.

## 5. CONCLUSIONS

The major conclusion on this paper can be stated quite succinctly: a dialectical perspective can prove extremely valuable to the field of strategic entrepreneurship. In this article we explore how organizational effectiveness is influenced by strategic entrepreneurship. To enhance our understanding of how opportunities are created and shaped, we focus on a dialectical dynamics of these processes. We posit that a reconciliation of contradictions reflects the extent of strategic entrepreneurship that serves as an organizational effectiveness driver. Despite its limitations, this study has significant implications for theory, research and practice.

We believe that the strategic entrepreneurship model is a measurable and useful tool to explain the intensity and scope of entrepreneurship in established organizations. Searching for additional studies that note a similar approach, organizational entrepreneurship, called usually corporate entrepreneurship, appears in multiple research domains most frequently as entrepreneurial orientation. This is an important avenue of research since an organization's entrepreneurship has a direct impact on its survival and performance.

Despite its limitations, we feel this work advances strategic entrepreneurship theory. We modeled the effects on organizational effectiveness of strategic entrepreneurship. Although our approach does not answer the question as to which specific level of contradictions' reconciliation is best, it does per se set the basis for theoretical propositions but has not shown organizational effectiveness outcomes empirically. Thus, we hope that our findings and suggestions of this neglected but important topic can be expected to fuel strategic entrepreneurship theory as well as future investigations.

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