



Managing Innovation and Entrepreneurship

Building an Innovative and Entrepreneurial Organization

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Building an Innovative and Entrepreneurial Organization

What impact does the changing environment have on innovation and entrepreneurship within an organization? What is the role of strategic management in the development of an innovative and entrepreneurial organization? What is the link between innovation and entrepreneurship with strategy, and how can this be developed? What internal organizational characteristics make some organizations more innovative and entrepreneurial than others?

Scenario: Xerox

Founded in 1903, the M.H. Kuhn Company became the Haloid Company in 1906 in Rochester, New York, with the focus of manufacturing and selling photographic paper. Chester Carlson (American inventor, physicist, and patent attorney) was the man whose discovery of xerographic printing fueled Xerox's global growth and changed an industry. Carlson pursued the concept of electrophotography and in 1938 made the first xerographic image—a handwritten notation of “10-22-38 ASTORIA”—in his Astoria, Queens, New York City lab. In 1948, xerography was formally announced, and that same year the word *Xerox* was trademarked. In 1949, based on the process outlined in Carlson's xerography manual, the Model A became the world's first xerographic copier, requiring multiple steps to produce a single copy. The Haloid Company and the Rank Organization plc (United Kingdom) formed Rank Xerox in 1956 as a joint venture to manufacture and market Haloid (later Xerox) equipment initially in Europe and eventually in Africa and Asia. In 1958, the Haloid Company changed its name to Haloid Xerox Inc. to reflect the organization's focus on commercial xerography. Further emphasizing their focus on xerographic products and services, in 1961 Haloid Xerox Inc. changed its name to Xerox Corporation.

In 1962, Rank Xerox Limited and Fuji Photo Film Co. Ltd., a Japanese photographic firm, formed a joint venture known as Fuji Xerox Co. Ltd. to distribute Rank Xerox products later to undertake significant research and development (R & D). In 1970, the Palo Alto Research Center, known as Xerox PARC, opened in Palo Alto, California. This world-class team of experts in information and physical sciences was formed to create “The Office of the Future.” Their innovative strategy, leadership, and focus on R & D were developing further. R & D has been the foundation of growth for Xerox.

The Xerox Research Centre of Canada (XRCC) was established in 1974 as an exploratory chemistry research center for Xerox Corporation in Mississauga, Ontario; this became fundamental to their worldwide research operations. Xerox's total quality process, Leadership through Quality, was announced in 1983, leading the organizational quest for business excellence and customer satisfaction. In 1986, Xerox anticipated the major growth and utility of the Internet and registered www.xerox.com, the seventh dot-com top-level domain name to be registered with the Department of Defense.

In 1988, fifty years after Chester Carlson produced the first xerographic image, the 50 Series copiers were launched to recognize his game-changing achievement. Also that year, Xerox produced its 2-millionth copier. This emphasized their worldwide market presence, history of innovation, and commitment to customer success. In 1989, Xerox formed a joint venture with a division of Soviet State Publishing; this was the first public copy center for the Soviet Union. In 1990, they announced the Total Satisfaction Guarantee, which emphasized their dedication to customer success through ultimate quality in design, manufacture, and service of all products sold. Xerox and Fuji Xerox formed Xerox International Partners in 1991. Xerox announced a partnership with Microsoft in 1993 to combine Microsoft at Work architecture with advanced Xerox document imaging technologies in a new family of fax machines, printers, and digital copiers.

In 1997, Xerox purchased the Rank Organization's remaining interest in Rank Xerox and renamed the unit Xerox Europe. Xerox partnered with IBM in 1998 to connect IBM's Lotus Notes and Domino electronic document management environment with the Xerox Document Centre family. Xerox purchased the remaining in-

terest in the partnership between Xerox Corporation (United States) and the Rank Organization (United Kingdom) in 1999, which was renamed Xerox Limited. In 2002, PARC was incorporated as a wholly owned Xerox research company, which still provides important technology to product offerings.

The iGen3 Digital Production Press, which was launched in 2002, developed a receptive global digital printing market in 2003 when Xerox delivered their 100th system. By 2004, it was installed worldwide. Xerox joined Microsoft and other companies as sponsors of the Information Work Productivity Center at MIT in 2003, forming an effort to study how organizations can use technology to increase productivity. The 10,000th installation of the DocuColor 2000 Series press occurred in 2004. This was a significant accomplishment in digital production color printing. Tapping a \$20 billion market opportunity, in 2005, Xerox signed consulting and document management contracts with global companies in a number of industries including chemical, automotive, entertainment, security, technology, and financial.

In addition to their business solutions portfolio, in 2006 Xerox acquired XMPie, a leading provider of variable information software. Their \$1.5 billion acquisition of Global Imaging Systems in 2007 pairs its small and medium enterprise (SME) market expertise and nationwide distribution network with rapidly expanding document product and service portfolio. Their purchase of Affiliated Computer Services (ACS), the world's largest diversified business process outsourcing (BPO) organization in 2010, led them to become a \$22 billion global leader in business process and document management. This purchase gave Xerox access to new business and government clients, and advanced technologies.

Xerox is a global leader in document technology and services. Acquisitions play a key role in their entrepreneurship and innovation model, giving Xerox access to new customers and markets. The Xerox Innovation Group has a balanced portfolio of research and technology projects that focus on today's business requirements as well as identifying and creating future opportunities. Their project focus is short, medium, and long term, and for each project, they undertake the role of partners, incubators, or explorers. Approximately 35% of their research investments support business partners. Researchers closely collaborate with development engineers to quickly take advantage of opportunities for new technologies and services. Another 35% of research investments are focused on the creation of next generation technologies and services or to incubate new offering concepts. The remaining 30% of research investment explore future opportunities and build and develop insight into the potential of new technologies.

Innovation at Xerox covers a wide spectrum of businesses and includes a number of disciplines and competencies. Their goal is to create value for customers, shareholders, and individuals by aligning investments and positively influencing the future in core designated areas. Xerox strongly focuses on creating the most conducive environment for creativity and innovation. Xerox research is where creativity and entrepreneurship are valued and leadership encourages and motivates people to achieve results. They have created an inclusive organizational environment where individuals from a wide range of disciplines and cultures flourish. Additionally, they leverage an ecosystem of the best ideas, technologies, and capabilities from Open Innovation partners.

Innovation continues to flourish at Xerox and the culture encourages creative thinking, where their people are challenged to consider how the idea fits into the overall value chain. There are 140,000 employees in 160 countries in 2012. The company allocated 3.2% of revenue to R & D. In 2010, they invested \$1.6 billion in R & D and engineering. Xerox has R & D centers in the United States, Canada, and Europe and an Innovation Hub in India. The company has 10,700 active patents indicating their dedication and commitment to innovation. They have developed strong open innovation partnerships. The most significant partnership is their joint-venture partner Fuji Xerox in Japan, which was established in 1962. They are clearly a highly creative and innovative organization that leads the way in R & D.

SOURCE: Adapted from www.xerox.com.

Introduction

SMEs and large corporations need to be innovative and entrepreneurial if they are to survive, develop, and grow today and in the future. The environment is now driven by a rapid pace of technological change, increased global competition, and the advancement and development of a knowledge-based economy. Market and product demands are continuously changing. Customers are now demanding more choices and options, product life cycles are shorter, market boundaries are vague, and there is increased global competitiveness. Due to the heightened impact of the fast-changing environment, organizations need to be flexible and adaptable to take advantage of and capitalize on any window of opportunity that emerges, introduce new products, develop new versions of existing products, and efficiently and effectively respond to market changes as well as envisage future market changes.

Innovation and entrepreneurship are a core part of organizations today and are an integral component of the organization's strategy. Strategy aims to capture where the organization wants to go and how it plans to get there. While every situation is different and there is no universal strategy that can be applied to companies, it is important that companies evaluate their own circumstances and market in order to find the best way to be competitive and have a sustainable competitive advantage. The core essence of strategy is being unique. Companies such as IKEA, Southwest Airlines, and Walmart have developed strategies that are unique, internally consistent, and difficult to copy, which has generated sustained competitive advantage.

Strategy is the relationship or fit between the organization and its environment. The integration of innovation and entrepreneurship with strategy enhances the organization's success and value.

To facilitate the integration of innovation and entrepreneurship with strategy, organizations need to implement a strategy that focuses on such key areas as top management support, longer time horizons, flexible organizational structures, and a culture that is conducive to innovation and entrepreneurship. The movement toward a more participative, less hostile culture will fail if it is not supported by appropriate strategy that incorporates innovation and entrepreneurship. The integration of innovation and entrepreneurship implies that value creation plays a key role in the strategic direction of an organization. In all innovative and entrepreneurial endeavors, organizations need to keep focused on customers and stakeholders. Xerox enhances market relevance of all their research on what they call "Customer Led Innovation" where researchers work directly with customers to fully understand their needs and respond to their concerns.

This chapter examines the integration of innovation and entrepreneurship with strategy. Factors within the changing environment that generate the need for this integration will be discussed. The roles of innovation, entrepreneurship, and strategy in achieving sustainable competitive advantage are reviewed along with their integration to enhance competitiveness and value creation for the organization. This chapter discusses the nature of top management support, structure, systems, and culture in building and sustaining innovation and entrepreneurship within the organization. The chapter concludes with a discussion on the need for the integration between innovation and entrepreneurship with strategy to be customer focused in that it meets and exceeds the unmet needs of customers and potential customers.

The Changing Environment

Organizations are now operating in a highly competitive environment that can be characterized in terms of increasing risk, limited ability to forecast, fluid organizational and industry boundaries, new structures and systems that permit and create change, and more diverse customer demands and expectations. No organization is isolated from the external environment, and there is continuous pressure to adapt and change if they are to survive and grow. The external environment includes everything outside the organization, including the political, economic, social, technological, regulatory, competitive, supplier, and customer environments. The level and pace of change is significantly greater than ever before, which has important implications for organizations and how they are managed. Collectively, changes in the environment create important conse-

quences for the development and management of products, markets, and organizational capabilities. As external environments become more complex, dynamic, and turbulent, it also means that there are alternative opportunities. The rapid pace of change is emerging from new markets, technologies, economic conditions, demographic patterns, globalization, and the knowledge economy. Organizations now need to be more innovative than ever. While these changes eliminate some innovations and entrepreneurial activities, they open up opportunities for others. New markets mean new opportunities, and new technologies create new competencies. Some organizations aim to protect themselves against external threats and changing conditions. Others embrace the potential opportunities that can be found as a result of the threat.

In today's environment, to sustain competitive advantage, organizations need to recognize that customer groupings are more differentiated and competition has intensified. Change in one area such as technological advancement and development has resulted in changes in other areas such as more intensified competition as customers have access to a much broader and diverse group of companies to buy goods. For example, originally Google was a search engine; currently it has the world's leading mobile platform in Android and provides a strong alternative to Facebook in Google+. Amazon originally sold books; now it sells services competing with Apple iOS devices and Android. Apple originally sold computers and MP3 players; now it sells phones and tablets, dominating the market with the iPhone and the launch of the iPhone 4S, which introduced a new approach to search technology with Siri, its voice-activated search and task-completion service built in. Apple's iPhone 4S Siri voice search has intensified competition for Google. More recently, Apple launched the iPhone 5 and iPad mini, which emphasizes the significant pace of innovation necessary in the technology industry to stay competitive. Facebook provided the most disruptive web platform since Google's search engine. With 1.06 billion active users and growing, Facebook is rapidly extending its tendrils into the web at large; this competes with Android, Apple, and Google. To be successful, organizations must continually reduce costs, improve quality, enhance customer service, exceed customer expectations, and offer products and services that are innovative and have what customers value. These improvements are the very basic requirement to retain some market share.

Being competitive is very different than achieving sustainable competitive advantage. Achieving competitive advantage needs to be a core part of strategy and instilled within the management philosophy so that the organization will continually be innovative and entrepreneurial and this strategy is the foundation of the organizational culture. Competitive advantage requires organizations to do the following:

- Adapt to external environmental changes
- Be customer driven and focused
- Have flexible strategies and processes that can meet the needs and diverse requirements of customers, suppliers, distributors, regulators, and stakeholders
- Be able to quickly respond to the fast pace of change in the environment by recognizing and taking advantage of opportunities that emerge
- Proactively meet and exceed the needs of customers in light of existing competition
- Actively engage in R & D to continuously prioritize the development of new products, services, processes, markets, and technologies

Organizations that are more adaptable, focused, flexible, responsive, proactive, and engaged in R & D are in a more favorable position not only to adapt to the complex, dynamic external environment but to generate change within that environment and sustain competitiveness. Innovation and entrepreneurship are the key sources of sustainable competitive advantage as evident from leading entrepreneurs such as Richard Branson (Virgin Group), Bill Gates (Microsoft), Pierre Omidyar (eBay), and Mark Zuckerberg (Facebook). Continuous innovation, entrepreneurial activity, and an ability to bring about positive changes are the key success factors (KSFs) that define corporate performance in the dynamic, complex, knowledge economy of the 21st century.

The Role of Innovation, Entrepreneurship, and Strategy in Achieving Sustainable Competitive Advantage

Innovative and entrepreneurial organizations develop a strategy that can effectively lead to the commercialization of the new and novel products or services in the marketplace with a sustainable competitive advantage. Strategic management and entrepreneurship are dynamic processes that are intended to enhance organizational performance (Kuratko & Audretsch, 2009).

Strategic management focuses on how competitive positioning can create advantages for organizations that, in turn, enhance performance (Porter, 1980, 1996) and achieve sustained competitive advantage. Strategic planning requires top management to focus beyond the current external environment and envisage the organization's market position in the short, medium, and long term. It necessitates the ability to evaluate the resources and core competencies in terms of how they can be utilized to create new sources of value.

Innovation and entrepreneurship are the key to successfully developing competitive advantages. The challenge is to develop innovation and entrepreneurship as a core competence of the organization. In a global competitive economy, the most successful strategies are those that are integrated with innovative and entrepreneurial activities that offer superior value and create wealth. Strategy and strategic management define the direction of the organization and how well it is achieved. Management needs to develop a strategy that focuses on the best ways for the organization to create and sustain a competitive advantage while simultaneously identifying and developing new opportunities. Innovation and entrepreneurship are focused on searching for new opportunities that will create value for the organization, customers, and stakeholders. Strategy is focused on sustaining competitive advantage and achieving above-average returns. Simultaneously embracing entrepreneurial philosophies, an entrepreneurial climate, and entrepreneurial strategic behaviors increases the likelihood an organization will identify and use its unique capabilities as a pathway to increasing its performance (Ireland, Covin, & Kuratko, 2009). Therefore, the integration of innovation and entrepreneurship for opportunity identification and development and a strategy for sustaining competitive advantage are necessary for value and wealth creation. Organizations that can develop competitive advantages today, while using innovation and entrepreneurship to cultivate tomorrow's advantages, increase the chance of survival and growth in the long term.

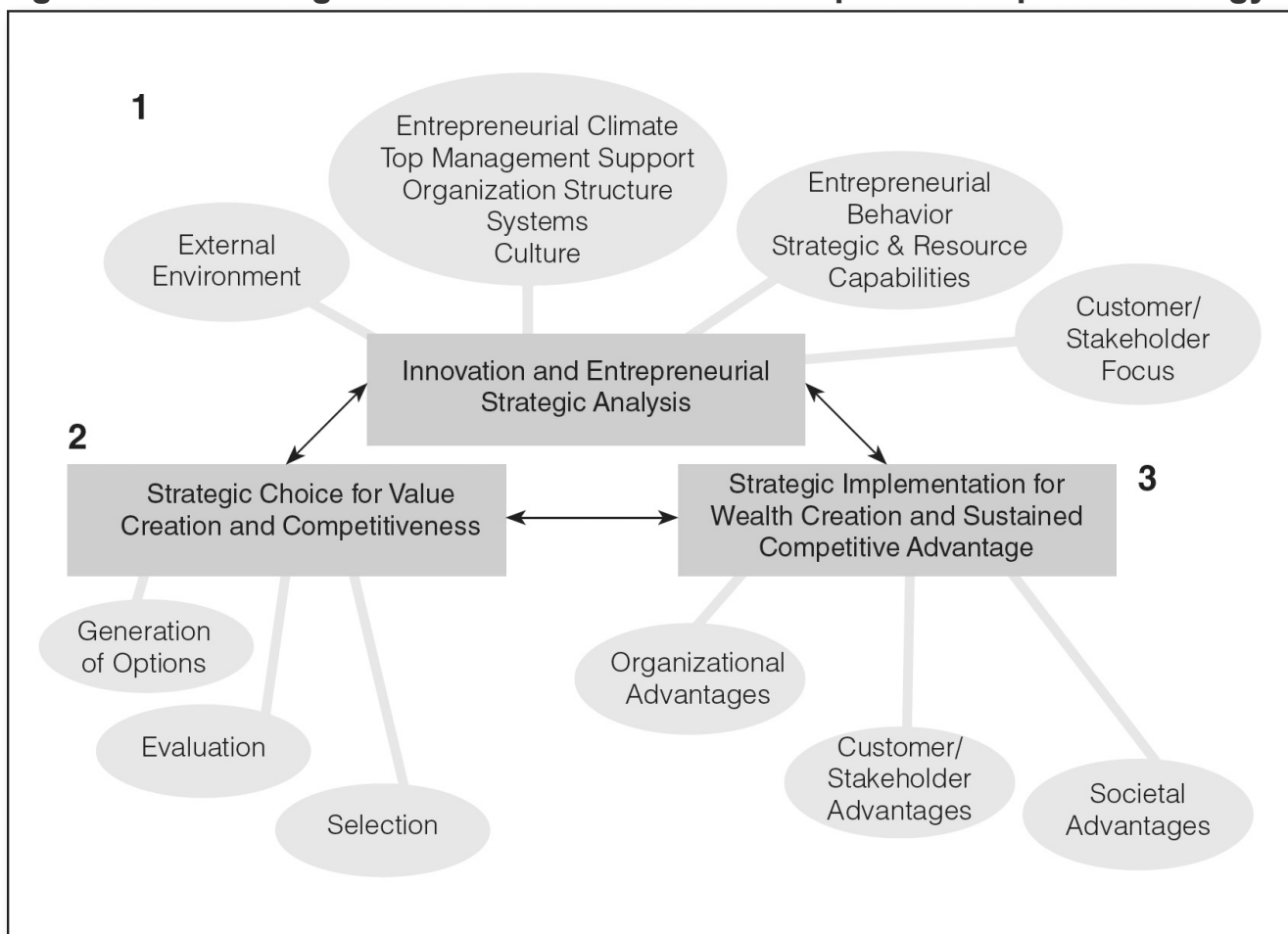
Integration of Innovation and Entrepreneurship with Strategy

The integration of innovation and entrepreneurship with strategy can be defined as a vision directed strategic analysis with a core focus on innovative and entrepreneurial behaviors that continuously develop the organization through the identification and development of innovative and entrepreneurial opportunities that result in value creation and sustained competitive advantage. For innovation and entrepreneurship to be ingrained into the very existence of the organization, it must be integrated into the organizational strategy. Organizations like Apple, Dell, and Southwest Airlines capture the essence of a strategy that is unique, innovative, and entrepreneurial in defining and creating market value.

The integration of innovation and entrepreneurship with strategy allows top management to develop strategies that concentrate on (1) competitive advantages that are a core part of strategic management and (2) the identification and development of opportunities for which future competitive advantages can be developed and sustained. It is the simultaneous use of existing advantages and the identification of future opportunities that sustains competitive advantage and the ability to continuously create value and wealth. The integration is beneficial to SMEs and large corporations as it helps SMEs develop their strategies toward competitive advantage and large corporations to become more innovative and entrepreneurial.

The model presented in [Figure 4.1](#) identifies three core dimensions: (1) innovation and entrepreneurial strategic analysis, (2) strategic choice for value creation and competitiveness, and (3) strategic implementation for wealth creation and sustained competitive advantage. The first dimension specifies the key factors influencing the process at different levels, including environmental factors, organizational factors (behavior and climate), and customers and stakeholders. The second dimension focuses on options and choices available from the analysis, specifically focusing on the utilization of resources and the entrepreneurial actions from the first dimension that are used to develop current opportunities while simultaneously exploring new opportunities that will create value. These actions occur primarily at the organizational level. Finally, the implementation of selected opportunities will create advantages for the organization, customers and stakeholders and society through value creation, knowledge, opportunity, competitiveness, and societal developments.

Figure 4.1 The Integration of Innovation and Entrepreneurship with Strategy



Innovation and Entrepreneurial Strategic Analysis

This analysis involves four main areas: (1) the external environment, (2) the entrepreneurial climate, (3) entrepreneurial behavior, and (4) customer and stakeholder focus.

External Environment

The external environment has been recognized as having a strong influence on the existence and effectiveness of innovation and entrepreneurial activity. Monitoring, assessing, and evaluating the external environment to ensure the right decisions are made and actions implemented is not part of a one-time implementation but needs to be continuous in order to ensure organizational success and competitiveness. Different environmental conditions result in different organizational approaches to innovation and entrepreneurship. In times of economic growth and prosperity, innovation and entrepreneurship emerge as a result of key opportunities. During economic recession, innovation and entrepreneurship occur out of necessity as market conditions significantly change and competition is intensified; only the innovative organization will survive.

The external environment affects an organization's ability to identify or create opportunities and subsequently their ability to develop those opportunities in a competitive advantage. *Munificence*, *dynamism*, *hostility*, and *interconnectedness* are important environmental factors for the integration of innovation and entrepreneurship with strategy. Environmental munificence facilitates acquiring resources and the identification of opportunities in addition to the ability to develop the resources and opportunities to create competitive advantage. Organizations seek out environmental munificence, which refers to the level of resources in a particular environment that can support sustained growth, stability, and survival (Dess & Beard, 1984). The environment many organizations face is inherently dynamic and uncertain. Dynamism refers to the extent to which an organization's operating environment is rapidly changing and subject to high levels of uncertainty. This uncertainty results in an inability to adequately access external environmental conditions, creating ambiguity during the strategic decision-making process. This results in decision makers lacking adequate knowledge for identifying and developing new opportunities. Research has shown that organizations frequently respond to challenging environmental conditions such as those present in dynamic environments by innovating and engaging in entrepreneurial behaviors. Hostile environments incentivize organizations to pursue innovation as a source of competitive advantage. Hostility tends to create threats for the organization and stimulates the pursuit of innovation and entrepreneurship. Theories of interconnectedness, including networks and social capital, explain the paths organizations pursue to build capabilities. Open innovation, discussed in [Chapter 3](#), in which large corporations and SMEs share ideas, knowledge, skills, and opportunities, supports the integration of innovation and entrepreneurship with strategy. Ford engages customers in "what's next," taking the organization's open innovation model to the next level; Philips has established partnerships all over the innovation stages from basic innovation to commercialization; Telefónica has established a network that involves over 1,000 partners, and they have seven research centers mostly in Spain and close to technology parks. By applying ideas from its collaborative network, an organization can fill the innovation gap and maintain the balance between their search to achieve competitive advantage as well as identify and develop opportunities and therefore maintain the entrepreneurial mind-set needed for effective integration. SMEs are able to use creativity to create unique innovation while reducing any inhibiting factors associated with their size and limited resources. As a result of slack resources, large corporations are able to explore opportunities outside their traditional domain and in the process can leverage existing business practices.

Entrepreneurial Climate

An entrepreneurial climate reinforces the development of expected behaviors among individuals throughout the organization. To integrate innovation and entrepreneurship with strategy requires an entrepreneurial climate that (1) is supported and facilitated by top management with an entrepreneurial vision; (2) promotes entrepreneurial actions by pursuing and encouraging the pursuit of innovative and entrepreneurial opportunities that can create new business for the organization or increase competitiveness in the existing business domains; and (3) implements the innovative and entrepreneurial actions through the organization's core competencies, which can be used to develop opportunities for competitive advantage. Top management is re-

sponsible for developing an entrepreneurial climate that is supported with the appropriate structure, systems and culture.

Entrepreneurial Behavior

Entrepreneurial behavior is seen as an important path to improved performance in all types of organizations. Entrepreneurial behavior and strategic and resource capabilities are important for an organization to develop opportunities and achieve competitive advantage as the sources of its long-term success. The entrepreneurial mind-set is manifested through many specific actions. Entrepreneurial alertness, entrepreneurial self-efficacy, and entrepreneurial effectuation are individual level indicators of entrepreneurial behavior. Their measures are grounded in individual level psychological and cognitive theories. Entrepreneurial alertness entails the ability to notice opportunities that have been overlooked. Entrepreneurial leaders with high self-efficacy frequently contribute to enhanced revenue and employment growth in the organization. Drive, passion, and entrepreneurial self-efficacy motivate managers to pursue and realize strategic and entrepreneurial goals that are fundamental to the integration of innovation and entrepreneurship with strategy. Effectuation argues that experts use logic to transform means into new outcomes that they themselves may not have initially anticipated. Cognitive ability to effectuate is used to create opportunities in the environment and to achieve short-term competitive advantages. The motivation and encouragement for innovation and entrepreneurship, combined with the utilization of resources and capabilities, foster an innovative and entrepreneurial culture in the organization and the development of market niches in the environment over time that contributes to value and wealth creation.

Customer and Stakeholder Focus

To benefit from the integration of innovation and entrepreneurship with strategy, the focus must be on achieving an array of objectives that are important to customers and stakeholders. An organization must know what customers value and identify the needs of their customers and then create the differentiated products and services to match those needs. When an organization not only satisfies but exceeds the demands of their customers, they are differentiating themselves from average performers and giving themselves greater opportunity for long-term growth and sustained competitive advantage. If SMEs and large corporations do not engage in opportunity identification and development, an innovative, entrepreneurial organization will introduce a better product that provides more value to customers and take their market away. The unique approach to video rental introduced by Netflix drove Blockbuster into bankruptcy. Similarly, iTunes has taken the market of major music stores, creating closures worldwide.

Strategic Choice for Value Creation and Competitiveness

Based on the innovation and entrepreneurial strategic analysis, top management must make strategic choices that will create value and achieve competitive advantages with the objective of being sustained over time. Top management actions must be comprehensive in synchronizing the various resources while simultaneously addressing both strengths and weaknesses to realize competitive advantages that help them pursue future opportunities leading to sustained competitive advantage and value creation.

Strategic Implementation for Value Creation and Sustained Competitive Ad-

vantage

The closer the organization's strategy is linked to their core competencies and integrated with the internal activities, the easier it will be to implement. The implementation of a strategy that is integrated with innovation and entrepreneurship requires flexibility and adaptability. A truly innovative and entrepreneurial organization that is focused on creating value and sustained competitive advantage recognizes that implementation involves an iterative process; this organization makes all the necessary adjustments to make their strategy successful. A successful strategy creates advantages for the organization, customers and stakeholders, and society.

Organizational Advantages

New technology and innovation is critical for most all organizations. Many organizations are building relationships with university technology development programs as an external source for new technologies and products. Simultaneously, an increasing number of universities have built technology transfer programs in which they develop new technologies and transfer them to the private sector for commercialization. As such, the university becomes a source of R & D for these organizations. Some organizations use acquisitions to gain access to new technologies and highly valuable innovations. These acquisitions are common in the pharmaceutical industry and in other high-technology industries such as software development. Acquisitions are frequently practiced by technology-oriented organizations such as Microsoft and Cisco, with the objective of gaining access to new software ideas and technologies. Another advantage of developing new technologies and innovation is the creation of new knowledge, which usually leads to new market opportunities and contributes to competitive advantage.

Customer/Stakeholder Advantages

Sound implementation is one that focuses on providing value for customers, building value for stockholders, and generating benefits for other stakeholders and wider community. Successful innovations generate new value for customers and stakeholders. Competitors identify the opportunity created by some innovations and aim to develop a modified version that provides customers with goods or services that have greater reliability, customization, accessibility, higher quality, excellent customer service, and a lower cost than other competing organizations.

Societal Advantages

Innovation and entrepreneurial activities are a major contributor to bringing about economic growth and development, creating new jobs, and enhancing market value. Novel innovations can be used to address a number of environmental issues. Innovation and entrepreneurial activity can help build new economic, social, institutional, and cultural environments and thereby provide significant benefits to society at large.

Top Management Support

Top management support as well as the appropriate organizational structure, systems, and culture are necessary ingredients for the integration of innovation and entrepreneurship with strategy. In an innovative and entrepreneurial organization, top management influences and motivates individuals to identify and develop

opportunities in search of competitive advantage.

While structures and systems are necessary for the management and control of an organization, they need to have some flexibility for innovation and entrepreneurship to develop. Strategic flexibility involves a willingness to continuously rethink and make appropriate adjustments to the organization's strategies, structure, systems, and culture. Research has found that an innovative and entrepreneurial organization is more adaptable and flexible to change with decentralized decision making; fewer organizational layers; open channels of communication; and closely integrated R & D, manufacturing, and marketing functions. This flexibility allows an organization to quickly respond to the fast-changing dynamic and complex external environment, thereby creating a position where opportunities can be more readily identified and developed with greater potential to develop competitiveness compared to more bureaucratic organizations.

Culture influences a number of aspects of organizational activity including how people behave and interact. Truly entrepreneurial organizations need to have innovation and entrepreneurship as the core element of their culture. Positive cultures are in line with the organization's vision, mission, and strategies and help promote desired behavior. Top management must manage a culture that applauds successes, learns from failures, and provides screening mechanisms to facilitate innovation and entrepreneurship. Failure is a necessary part of the innovation process because from failure comes the greatest learning and the development of new models. This is recognized by many companies such as Amazon, Facebook, and Google. Innovative organizations build and develop the right culture and systems that encourages innovative behaviors as well as being willing to accept failures and learn from them. Innovative companies never make the same mistake twice; they make different ones, and most importantly, they learn from them all.

For organizations to successfully balance identifying and developing opportunities, searching for competitive advantage is necessary but challenging in today's economic environment. Achieving this balance requires a positive culture that is in line with the organization's vision and strategies, top management support, and an organizational structure that is capable of supporting the dual needs of identification and development. The most effective balance between identifying and developing is influenced by competitive environment in which the organization operates. Top management's abilities to strategically structure the resources to develop capabilities that can be effectively leveraged within the existing competitive environment support the organization's efforts to gain competitive advantage and create value and wealth.

Integrating innovation and entrepreneurship with strategy requires a positive culture and an organization to have a supportive top management team and be able to develop the structures and systems that support such a strategy. If, for example, an organization chooses to pursue open innovation as a strategy, there must be a fit between the culture and the strategy, and they must have top management support and be able to develop the capabilities, structures, and systems to support this open/collaborative approach like Xerox. Frequently researchers at Xerox work directly with customers and deploy ethnographic methods to learn about what the customer really wants. The customer is considered a partner in innovation and they encourage what they call "dreaming with customers" about future aspirations.

Building a Customer-Focused Innovative and Entrepreneurial Strategy

Effective innovations create new value for customers and help the organization overcome the challenges that the business may face. Organizations must be creative to develop innovation, and the core of their innovation must be focused on what customers want. Many organizations handle innovation well; this is what gives companies like Amazon, Apple, Facebook, Google, and Procter & Gamble (P&G) a strong competitive advantage. The innovative and entrepreneurial strategy must deliver increasing satisfaction to customers. Organizations must have an innovative and entrepreneurial strategy that provides customers with goods or services that have greater reliability, customization, accessibility, higher quality, and at a lower cost than the leading competitors. This requires analyzing and assessing products and services that the organization offers to its

customers and through R & D determine how their value can be maintained and enhanced in the future to an achieve sustained competitive advantage.

The most effective way to think about innovation is to evaluate the customer and their needs, wants, and expectations now and in the next 5 years. Without customers, there is no business. The customer is whom the organization is expected to deliver added value and as someone who expects to receive added value. The focus must be on meeting and exceeding the customers' needs by the innovation. Apple's iPhone, iPod, and iPad are all spectacular innovations. They respond to the desire of consumers, taking the creative technology and applying it with further creativity into new consumer electronic devices. The iPhone, iPod, and iPad are great examples of the power of customer focus. By being connected with its customers and identifying a gap and customer need, Apple could apply its creativity to add value. The innovation did not just happen. It was customer-focused strategy and R & D that was the result of Apple's innovation.

A truly customer-focused organization drives innovation, because innovation is the means by which it satisfies the unmet demands of its customers. Creating structures and systems to empower people to be innovative and entrepreneurial is one of the most effective ways for organizations to activate the creative energies of their people. Combined with top management support and commitment, empowerment gives people the freedom and flexibility to take responsibility for innovation and entrepreneurship. Empowerment in the presence of a strong innovative culture produces energy and enthusiasm to consistently work toward producing innovative outcomes that are aligned with external factors and customer demands.

Summary

The increasingly dynamic, complex, and competitive external environment generates significant challenges for organizations today. Organizations that are adaptable, flexible, responsive to opportunities, innovative, and entrepreneurial are in a stronger position not only to adjust to this environment but to embrace it and seek and develop the opportunities that achieve their goal to create value and sustainable competitive advantage. No organization is isolated from its external environment, and each must be able to adapt with appropriate strategies.

The integration of innovation and entrepreneurship with strategy gives the organization greater potential to identify and develop opportunities that enhance their competitiveness and create more value. The core objective of strategic management is to successfully develop a strong competitive advantage. Innovation and entrepreneurship are concerned with identifying opportunities that can be effectively developed through the organization's competitive advantages resulting in enhanced value. Competitors are anyone your customer has access to that can fulfill the same need.

Sustaining innovative and entrepreneurial behavior is the result of top management support and encouragement throughout the organization regarding the value of entrepreneurial actions in creating value and gaining competitive advantage. Supportive organizational structure and systems that are flexible and adaptive are fundamental for innovative and entrepreneurial organizations to achieve the balance between opportunity identification and development. Innovation and entrepreneurship must be embedded into the culture of the organization. Top management needs to recognize the importance of developing and supporting a culture through which innovative and entrepreneurial activities are necessary to create value. The culture must (1) eliminate obstacles that inhibit opportunities, (2) promote teamwork, (3) ensure availability of resources, (4) learn from failure, (5) be flexible, and (6) be totally committed to opportunity identification and development.

The organization should have identified the needs of the customers and have created innovative products and services to match those needs. When an organization satisfies and is capable of exceeding customer needs, they are differentiating themselves from average performers and giving themselves greater opportunity for long-term growth and survival. By doing this, they are putting themselves in a stronger position to attract

customers, stakeholders, and suppliers. It is the role and responsibility of strategic management to integrate innovation and entrepreneurship with a strategy that motivates and inspires individuals and teams at all levels to be creative and innovative.

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Suggested Readings

Hitt M. A., Ireland, D. R., Sirmon, D. G., & Trahms, C. A. (2011). Strategic entrepreneurship: Creating value for individuals, organizations and society. *Academy of Management Perspectives*, 25(2), 57–75.

The authors examine the contributions of strategic management and entrepreneurship to strategic entrepreneurship. The authors extend the understanding of the strategic entrepreneurship construct by building on a previous model of strategic entrepreneurship—to develop an input-process-output model. They examine the resource inputs into strategic entrepreneurship and explore the resource orchestration processes that are important for strategic entrepreneurship and the outcomes. Overall in their model of strategic entrepreneurship they incorporate multilevel outcomes that motivate entrepreneurs.

Hornsby, J. S., Kuratko, D. F., Shepherd, D. A., & Bott, J. P. (2009). Managers' corporate entrepreneurial actions: Examining perception and position. *Journal of Business Venturing*, 24(3), 236–247.

In this article, the authors use corporate entrepreneurship (CE) and managerial levels literature to propose that managers differ in structural ability to make the most of their organizational environment. Their analysis found that the relationship between managers' perceptions of the organizational environment and the number of entrepreneurial ideas implemented varied across managers of different structural levels. Overall, their findings suggest that managerial levels provide a structural ability to “make more of” organizational factors that facilitate entrepreneurial action.

Ireland, R. D., Covin, J. G., & Kuratko, D. F. (2009). Conceptualizing corporate entrepreneurship strategy. *Entrepreneurship Theory and Practice*, 31(1), 19–46.

In this article, the authors conceptualize the components of CE strategy as fundamental for integrating key elements within CE's domain. Their CE strategy model has three main components that include (1) the antecedents of CE strategy, (2) the elements of CE, and (3) the outcomes of CE strategy. They discuss the contribution of this model to the CE literature and how it differentiates from previous models.

Kelley, J. D. & Lee, H. (2010). Managing innovation champions: The impact of project characteristics on the direct manager role. *Journal of Product Innovation Management*, 27(7), 1007–1019.

The authors investigate when to lend direct managerial support—and how much support—to those championing such projects. Their research provides insights into the connection between project characteristics and the level of direct manager involvement. Overall, the article suggests that both empowerment and the role of

a manager are important to the management of innovation.

Somaya, D., Teece, D., & Wakeman, S. (2012). Innovation in multi-invention contexts: Mapping solutions to technological and intellectual property complexity. *California Management Review*, 53(4), 47–79.

This article suggests that business firms need to develop a patent strategy that is aligned with their overall organizational objectives and that helps proactively direct their innovative activity. The authors develop a framework to help innovative firms and technology users frame the relevant issues and achieve viable strategies, appropriate structures, and workable solutions.

Terziovski, M. (2010). Research notes and commentaries innovation practice and its performance implications in small and medium enterprises (SMEs) in the manufacturing sector: A resource-based view. *Strategic Management Journal*, 31(8), 892–902.

The author in this article identifies innovation drivers and their performance implications in manufacturing SMEs. The research found that SMEs are similar to large firms with respect to the way that innovation strategy and formal structure are the key drivers of their performance but do not appear to utilize innovation culture in a strategic and structured manner. Overall, the author concludes that SMEs' performance is likely to improve as there is an increase in the degree to which they mirror large manufacturing firms with respect to formal strategy and structure and to which they recognize that innovation culture and strategy are closely aligned throughout the innovation process.

- entrepreneurship
- strategic entrepreneurship
- competitive advantage
- top management
- innovation
- organizations
- customers

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