The Evaluation of the Entrepreneurial Formula

How can we discover whether a firm has a valid entrepreneurial formula? And how can we recognize when the entrepreneurial formula calls for renewal?

To answer these questions, we need to conduct an analysis at both a strategic business unit (SBU) level and a corporate level.

To identify the management traits of a firm for each of its SBUs, two critical dimensions must be considered: competitive success and economic success. Only if both are strong is the entrepreneurial formula internally coherent or stable at an SBU level, assuming that the entrepreneurial formula is not invalidated by threats which can be dealt with only through a radical renovation. If competitive and economic success is not strong, the ensuing instability can lead, even immediately, to corporate economic crisis. To complete our diagnosis of the entrepreneurial formula at a firm level, we then need to correlate economic success with social accomplishments. This pertains to the firm’s ability to satisfy the expectations of different members of the organization. Striking a balance between the performance/contributions of different stakeholders and the remuneration that the firm can and will provide is essential to its enduring economic success.

1. Introduction

In the strategic governance of firms, evaluating the entrepreneurial formula is key. Strategic management differs from operations: instead of taking the business approach as a given and making it work as efficiently as possible, strategic management challenges this
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approach and changes it when required. The problem in initiating any strategic action is understanding what the business approach is, assessing its validity, and determining whether at least its baseline aspects should be renewed.

After clarifying what we mean by entrepreneurial formula and what constitutes a successful one, in this chapter we address the assessment problem, differentiating between the two basic levels of analysis: the SBU and the firm.

The approach proposed here uses only a small subset of the wealth of analytical tools offered in the literature on strategy analysis, evaluation, and formulation. The distinguishing feature of our approach is that we explicitly base it on a fairly simple conceptual network, one which nonetheless elicits a theory (albeit a germinal one) of corporate success or failure. In addition, we posit a small number of guiding hypotheses which serve to focus analysis on the key issues that management must address.

2. What is an entrepreneurial formula?

A firm's entrepreneurial formula is the outcome of basic choices regarding

1. the markets to target, and more generally the competitive system (or systems) in which the firm operates
2. the products and/or services offered, with all of the constituent elements of the offering or product system of the firm – in other words, the product’s features, both material (quality, range, technological level, reliability, etc.) and intangible (prestige, elegance, health, safety); related services (rapid and on-time delivery, pre- and post-sales assistance, application engineering, etc.); and strictly economic terms of trade (price, terms and methods of payment, transportation conditions, guarantees, insurance, etc.)
3. the project that is to be proposed (more or less explicitly) to the economic and social forces with which the firm can (potentially) get involved or partner for its realization (workers, managers, shareholders, lenders, union representatives, financial/credit institutions, members of the local community, etc.), offering specific prospects and asking for specific contributions or consensus
4. the system of stakeholders – the target of the proposal – with their expectations of the firm and their power to influence it