ENTREPRENEURSHIP AND STRATEGIC MANAGEMENT: A CRITICAL REVIEW ON THE RELATIONSHIP BETWEEN THESE PARADIGMS

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ABSTRACT

The objective of this study is to have a better insight into the arguments surrounding the various opinions submitted by different scholars in the fields of entrepreneurship and strategic management and then come up with a stand on which side of the divides to be generally accepted for practice. The researcher examined the base-line theories of the two paradigms of entrepreneurship and strategic management and also, made a review of extant literatures put forward by scholars in the fields who made efforts to look at the point of intersection of the two paradigms. This article however attempts to emphasize on the need to see the two disciplines as been likened to a marriage between a man and a woman coming from different parental backgrounds to produce children (wealth creation). Literatures on each of the paradigms were reviewed to have a better understanding of them. The researcher was able to identify some intersecting elements including culture which has rarely been stressed on as a factor influencing the opportunity-seeking actions and competitive advantage–seeking actions of an entrepreneur to create wealth and ensure economic growth and sustainability of an organization.

Keywords: Entrepreneurship, opportunities, entrepreneur, strategic management, competitive advantage.

INTRODUCTION

The growing environmental dynamics and intensifying global competition among small and large scale enterprises have left many management scholars/researchers articulate several views on how best to handle these challenges and remain sustainable within the competitive landscape. Organizations regardless of their years of existence in the business domain are compelled to build more entrepreneurial strategies for survival (Hitt, Ireland, & Hoskisson, 2001; Meyer, Neck, and Meeks, 2002). These entrepreneurial strategies are seen to be closely related for firms’ performance in the sense that both aim at the identification of opportunities and develop them to have competitive advantage over other competitors in the business environment (Hitt, Ireland, Camp, and Sexton, 2002). It is on this premise that the fields of entrepreneurship and strategic management appear to have intersection, giving rise to the concept “Strategic Entrepreneurship”.

Hamel (2000) submitted that the essence of competitive landscape still remains a factor to reckon with as it plays an influencing role on firms’ success in this twenty first century. He believes the landscape’s characteristics combine and interact with each other to evolve a business environment that gives entrepreneurial actors the ability to; capture existing markets in some instance while creating new ones, take market shares from less aggressive and innovative competitors and take the customers, assets and even employees from such firms. Bettis and Hitt (1995), Hitt et al (2001), Ireland et al (2001) posited that the concept of
entrepreneurial strategy is so significant to both new ventures and established firms as it actually determines firm’s success in the competitive landscape. While the scholars aforementioned look at the intersection and success of the two paradigms of entrepreneurship and strategic management, the researcher is however keen in knowing the reality of the marriage between entrepreneurship and strategic management considering their theoretical foundations and divergence, and to further suggest which side of the divides to be widely or universally acclaimed.

Theoretical Foundation of Entrepreneurship

A lot of entrepreneurship theories have been postulated by different scholars to give a clear meaning to the paradigm of entrepreneurship. All the theories put forward appear to have their root from the fields of economics, psychology, sociology, anthropology, and management (Simpeh, 2011). He listed the following theories to have parented the birth of entrepreneurship as a field of study;

i. Economic Entrepreneurship Theory
ii. Psychological Entrepreneurship Theory
iii. Sociological Entrepreneurship Theory
iv. Anthropological Entrepreneurship Theory
v. Opportunity-Based Entrepreneurship Theory
vi. Resource-Based Entrepreneurship Theory
vii. Human Capital Entrepreneurship Theory

Economic Entrepreneurship Theory: The economic entrepreneurship theory explores the economic factors that enhance entrepreneurial behaviors. This theory is rooted in classical and neoclassical theories. The classical theory resulted in the industrial revolution which took place in Britain in the mid-1700 and lasted till 1830s. These theories failed to explain the dynamic upheaval generated by entrepreneurs of the industrial age (Murphy, Liao & Welsch, 2006). The neoclassical theory was born out of criticism of the classical theory and indicated that economic phenomena could be relegated to instances of pure exchange, reflect an optimal ratio and transpire in an economic system that was basically closed. The system comprises of exchange participants, exchange occurrences and its relevant impacts on other market actors (Murphy, Liao & Welsch, 2006).

One of the contributors to economic entrepreneurship theory is Joseph Schumpeter. For Schumpeter, the economic system was regarded as a closed circular flow, being in a state of equilibrium through a continuous reiteration of the flows between buyers and sellers. However, this did not mean that changes could not occur, rather that all actors involved should adapt to the new situation as soon as the changes were detected. In other words, development was viewed as a disturbance of the circular flow and it was attributed to the entrepreneur, who played a fundamental role as innovators by introducing innovations in the form of new products, markets or methods of production. Schumpeter’s basic realization was that economic growth resulted not from capital accumulation, but from innovations and “new combinations” i.e. enterprise (Landstrom, 2005). Other scholars on this theory include but not limited to- Frank Knight, Israel Kirzner, and William Baumol.

Psychological Entrepreneurship Theory: Landstrom (1998) put it that the level of appraisal in psychological theories is at the individual level. The psychological entrepreneurship theories stress on personal characteristics that define entrepreneurs. These are innovativeness, risk-taking, and tolerance for ambiguity. Under this, we have – “Personal Traits and the Locus of Control. The traits theorists believe that there are inborn attributes of an individual
that naturally makes him an entrepreneur. The locus of control is a concept that was introduced by Juliana Rotter in 1950s. Rotter (1966) refers to locus of control as an individual’s perception about the underlying main causes of events in his or her life. It is about a belief on whether the outcomes of our actions are contingent on what we do or on events outside our personal control. Here, it is believed that the success of an entrepreneur comes from his/her own abilities and also support from outside.

Another sub-theory of psychological entrepreneurship theory is the “Need for Achievement theory”. McClelland (1961) believe that human beings have need to succeed, accomplish, excel or achieve. This is what drives entrepreneurs.

**Sociological Entrepreneurship Theory:** This theory focuses on the social context. That is to say the analytical domain is the society (Landstrom, 1998). Four (4) social context that connect to entrepreneurial opportunities were identified as; social network context, life course stage context, ethnic identification context population ecology context Reynolds (1991). The social network is all about building social union that promote confidence and trust as against opportunism ie entrepreneur is not to take undue advantage of people to succeed. The life course stage context is about taking close examination of the characteristics and life situations of individuals who wish to become entrepreneurs. Ethnic identification context looks at the social background of the would-be entrepreneur. And lastly, the population ecology which focuses on the environmental factors (external) that may have an impact on the survival of new ventures.

**Anthropological Entrepreneurship theory:** The anthropological theory asserts that for someone to initiate a business (venture) successfully, the social and cultural contexts have to be considered properly. The key point of emphasis here is on culture which leads to entrepreneurial attitude such as innovation that further results in venture creation (business establishment) Simpeh (2011). Anthropology itself as put forward by Simpeh is the study of origin, development, customs and beliefs of a community. Baskerville (2003) belief that cultural environment has the potential to create entrepreneurial attitudinal dissimilarities.

**Opportunity –Based Entrepreneurship Theory:** This theory is anchored by names such as Howard Stevenson and Peter Drucker. Drucker (1985) in his view posited that entrepreneurs do not cause change as postulated by the Schumpeterian school of thought but that entrepreneur exploit opportunities that change create. Drucker sees entrepreneurs as people who seek for change, respond to it and exploit it as an opportunity. It is apparent the whole submissions of Drucker points to the fact that entrepreneurs have an eye more for possibilities created by change than the problems. Stevenson (1990) went further in Drucker’s opportunity –based construct to conclude that the hallmark of entrepreneurial management is the pursuit of opportunity without recourse to resources currently controlled by the entrepreneur.

**Resource-Based Entrepreneurship Theory:** The resource-based theory asserts that access to resource is a vital predictor of opportunity-based entrepreneurship and new venture growth (Alvarez & Busenitz, 2001). This theory laid more emphasis on financial, human and social resources (Aldrich, 1999). They therefore represent three classes of theories under resource-based entrepreneurship.

The financial capital (liquidity) theory suggest that people with financial capital are more able to acquire resources to effectively exploit entrepreneurial opportunities and set up a firm to do so (Clausen, 2006) cited in Simpeh (2011). This assertion by Clausen has come under
attack by other scholars like (Aldrich, 1999; Kim, Aldrich, and Keister, 2003, Hurst and Lusardi, 2004; Davidson, & Honing, 2003) who believe that most founders start new business without much capital. The social capital or social network theory holds the view that the individual’s social connection is vital to transform the opportunity that is being recognized into a business startup (Shane & Eckhardt, 2003).

The Human Capital Entrepreneurship Theory: This theory considers two major factors; Education and Experience (Becker, 1975). The knowledge acquired and experienced gained over years are resources which are heterogeneously distributed across individuals and also central to understanding differences in opportunity identification and exploitation (Anderson & Miller, 2003; Chandler & Hanks, 1998; Gartner et al, 2005; Shane & Venkataraman, 2000).

Theoretical Paradigm of Strategic Management
Strategic management theories mainly emanate from systems approach, contingency approach and information technology approach. The profit maximizing and competition-based theory, the resource-based theory, the survival-based theory, the agency theory, the contingency theory and the human resource-based theory are the main strategic management theories observed in management literatures (Ologbo, Oluwatosin & Kwakye, 2012).

The Profit–maximizing and competition-based theory: This theory is anchored on the belief that a firm’s primary objective is to maximize long term profit and to also ensure sustainable competitive advantage over its rivals in the external market environment.

The Resource-based Theory: This theory stems from the premise that the source of a firm’s competitive advantage over its rivals is the unique resources and its capabilities it possess and not necessarily its positioning in the external environment or simply analyzing opportunities and threats in conducting business in the external environment.

The Survival–Based Theory: The survival-based theorists hold the view that organizations need to persistently adapt to its competitive environment in order to survive.

Contingency Theory: This theory holds the view that there is no specific and best approach/procedure to manage organizations. It suggest that since there can’t be sacrosanct approach, organizations should work out unique managerial strategies that fits the condition or situation currently faced by the organization.

Agency Theory: This theory emphasizes on the need for mutual and excellent shareholders and management relationship as a panacea for organization’s success.

Human Resource-Based Theory: The human resource-based theory lay emphasis on the relevance of human capital element in the formulation and development of strategy and overall success of the organization. This theory holds the view that the source of firm’s competitive advantage lies in its highly skilled and efficient workforce which cannot be easily copied by other competitors in the industry or market environment.

Comparisons of Theoretical Domains of Entrepreneurship and Strategic Management
A critical view at the base-line theories of entrepreneurship and strategic management as reflected above, show that both fields of study have different origins (root) but with some elements of similarities which make their union almost non-negotiable. While entrepreneurship takes its root from fields such as economics, psychology, sociology, anthropology and management (Simpeh, 2011), the strategic management theories originated from systems approach, contingency approach and information technology approach (Ologbo, Oluwatosin, & Kwakye, 2012). However, even with this, the two paradigms of entrepreneurship and strategic management apparently have some theories which connect
them. For instance, under entrepreneurship, we have the resource-based theory which lays emphasis on the importance of individual being able to have access to resource to be able to explore entrepreneurial opportunities and set up a firm to do so (Clasen, 2006). While the resource-based theory under strategic management holds the view that the source of a firm’s competitive advantage over its competitors within the industry lies in its unique resources and capabilities. Both theories stressed on the importance of resources to explore entrepreneurial opportunities and to gain competitive advantage in the competitive landscape. Furthermore, another intersecting theory of entrepreneurship and strategic management is the human resource-based theory. Under entrepreneurship, the theory looks at two major variables of; education and experience (Becker, 1975). It posits that the knowledge and experience gained over a period of time are cardinal to the identification of opportunities differences and exploitations (Anderson and Miller, 2003; Chandler and Hanks, 1998). While the strategic management perspective of this theory belief that the source of a firm’s competitive advantage is dependent on its highly skilled and efficient workforce. This underscores the fact that both seems to appreciate the fact that education and experience are key in exploitation of opportunities to create wealth and for the firm to gain competitive advantage in the business landscape. Furthermore, the economic perspective of entrepreneurship theory agrees with the profit maximizing theory of strategic management.

From the foregoing, it is evident and worthy of note that entrepreneurship and strategic management, despite their different parental backgrounds, have close association and some common identifiable variables that define firm’s value creation and and organizational business success.

**Entrepreneurship Paradigm**

The concept of entrepreneurship has a wide range of meaning. It is a complicated term and gives various meanings depending on the situation and the perspective which a researcher looks at it. The concept was first established in the 1700s and the meaning has evolved ever since. Besides, various economists and philosophers termed the concept of entrepreneurship differently based on their own unique way, The Institute of Company Secretaries of India (2012). Definitions of entrepreneurship emanates from several fields of studies such as classical and neoclassical economics, psychology, sociology and management. As a result of the multidisciplinary nature of the concept, it would be difficult to come up with a universally acclaimed definition. For instance, the likes of Shane (1995), McGrath, MacMillan and Scheinberg (1992) linked entrepreneurship with a national culture, other scholars such as Zimmerer and Scarborugh (2005) looked at it from the perspective of entrepreneurial environment.

However, whatever definition that is presented by a researcher should capture both the individual elements and the environmental opportunities present. Entrepreneurship could therefore be defined as all efforts put in place to make money, earn profit, and create wealth while posing characteristics such as risk-taking, leadership management and innovation (Institute of Company Secretaries of India, 2012). Several scholars have viewed entrepreneurship as one of the driving forces of today’s modern economy (brock & Evans, 1989; Carree & Thurik, 2000). The emphasis here is that for the economy of any nation to move forward, it needs entrepreneurial creativity, innovativeness and all other efforts entrepreneurs put to add value to lives of people. This underscores the reason why an entrepreneur is busy thinking of product to release into the society to meet the people’s need in the competitive landscape. Entrepreneur create and exploit changes, are
innovative and have the potential to gather resources and create value (wealth) by either inventing new products/services or improving existing ones. Hitt & Reed (2000) see entrepreneurship as the instrument to cope with the new competitive landscape with its associated changes. Entrepreneurship goes beyond establishing new venture but can also take place in already existing or established organizations where renewal and innovation are major goals (Stevenson & Jarillo, 1990; Sharma and Chrisman, 1999). The conscious exploitation and identification of opportunities through product development or search for new market or both, are some of the areas entrepreneurs focus on its value creation effort Lumpkin, Shrader, & Hills, 1998; Shane & Venkataraman, 2000). Hitt et al (2002) submitted that entrepreneurial firms identify and exploit opportunities which are either under exploited by their competitors (rivals) or are yet to be observed by them. The whole essence is to have an edge over and above rivals in the competitive landscape so as to gain competitive advantage.

Besides the positions of other scholars on the concept of entrepreneurship, Schumpeter (1934) associated innovation with entrepreneurship. He also came up with the the idea of creative destruction by entrepreneurs. Barth (1969) and Menger (1982) see entrepreneurship in the perspective of social and economic change. The Concise Oxford Dictionary (Allen, 1990) defines an entrepreneur as ‘a person who undertakes an enterprise or business with the chance of profit or loss; a contractor acting as an intermediary; the person taking effective control of a commercial undertaking.

**Strategic Management Paradigm**

Strategic management as a field of study can be traced to the 1960s according to Furrer, Thomas and Goussev-Skaic (2007), Ansoff’s Corporate Strategy (1965) and Strategy and Structure by Chandler (1962). The underlying basis of the concept of strategic management is premised on the view that strategy creates an alignment between the firm’s internal strengths and Weakness (SWOT) on the one hand and its Opportunities and Threats on the other hand in its external environment (Andrews , 1987). According to French (2009), strategic management was first proposed in the early 80s at the Pittsburgh Conference specifically to define a new paradigm for business policy. The concept of business policy was then rephrased as ‘strategic management’. It was basically to see strategic management as a discipline that engages in both development and implementation of strategies.

The following major tasks are identified with strategic management; 1. Goal formulation, 2 environmental analysis, 3 formulation, 4 evaluation, 5 implementation and 6 control of strategies (Schendel and Hofer, 1979). Another scholar Sandberg (1992) identified the following as the primary variables of strategic management; 1 enterprise resources, 2 processes, 3 strategy and the field of industry. Rama Chandran et al (2006) posits that development of competitive advantage with the aim of wealth creation is the focus of strategic management. Ireland et al (2001) beliefs that strategic management deals with the exploitation of opportunities i.e. setting up the context for entrepreneurial behaviors. Ireland et al (2003) hold the view that strategic management is concerned with the identification of the differences among firms’ performance by looking at their individual efforts to develop sustainable competitive advantage which serve s as determinants of their capacity to produce value. Duncan, Ginter & Swayne (1998) put it that competitive advantage is a result of long-lasting value differences in the product or service compared to those of its competitors as perceived by the customers. The acquisition of valuable, rare and non-imitable and non-substitutable resources cum favourable market position are seen to be major sources of sustainable competitive advantage (Prahalad & Hamel, 1990); and Porter, 1985). This is the basis upon which the resource-based strategic management theory was anchored.
Reconciling the Paradigms of Entrepreneurship and Strategic Management

Looking at the positions taken by researchers on the individual paradigms of entrepreneurship and strategic management, there is undoubtful linkage between the two concepts. Though they tend to emanate from different theoretical but interrelated domains, there are vital elements identifiable in both entrepreneurship and strategic management fields which connect them. No wonder scholars like Stevenson and Jarillo (1990) remarked that there is need for the establishment of links between the fields of entrepreneurship and strategic management. The reason for the reconciliation of the two paradigms stem from among others, the fact that the new competitive landscape makes entrepreneurial strategy more vital. Also, most scholars in both fields see performance as a major dependent variable (Meyer et al, 2002). Enterprise create value by identifying opportunities in the business landscape and further develop competitive advantage to exploit the identified opportunities (Hitt et al, 2001; Ireland et al, 2001). This is a clear indication that identification and exploitation of opportunities to create wealth is at the heart of both entrepreneurship and Strength and Weakness, Opportunities and Threats (SWOT) analysis of strategic management. Venkataraman and Sarasvathy (2001) as cited by Kraus & Kauranen (2009) used a figurative term taking cognizance of Shakespeare’s Romeo and Juliet saying that “strategic management research without an entrepreneurial perspective is like the balcony without Romeo, and entrepreneurial research without a strategic perspective like Romeo without a balcony”.

However, (Covin & Miles, 1999; Hitt & Ireland, 2000; Ireland et al, 2001) identified six domains where entrepreneurship and strategic management intersect; innovation, network, internationalization, organizational learning, top management teams and governance and growth. Venkataraman and Sarasvathy (2001) referred to the entrepreneurial action that is taken with a strategic perspective as Romeo (entrepreneurship) on the balcony (strategy).

A very significant variable connecting the paradigms of entrepreneurship and strategic management in which scholars in these fields have paid less attention to in its consideration as indisputable is “culture”. The cultural consideration in this context is not limited to organizational culture but also the prevailing culture in the external environment it operates. An entrepreneurial culture seeks to change an organization’s relationship with its environment while learning culture which is associated with strategic management seeks to understand this relationship (Hakala, 2010). Learning culture is a set of organizational values, conventions, processes and practices that encourage individuals and the organization as a whole to increase knowledge, competence and performance. Underlying the growing interest in cultural entrepreneurship is the understanding that sustainable change can only be developed when innovations are crafted from endemic cultural knowledge and traditions (Lindsay, 2005). Entrepreneurs who are culturally minded are resourceful, visionaries, generating revenue from culturally embedded knowledge system. Their innovative applications of traditions to market gives birth to economic sustainability of the enterprise (Kavousy, Shahhocseini, Kiasi and Ardahaey, 2010). Much of the study of the study of ethnic entrepreneurship is premised on issues surrounding culture, with an increasing scholarly work supporting the paradigm that national culture influences a variety of economic/ managemengt behavior (Hofstede, 1980, 2001) and entrepreneurship (McGrath, MacMilan & Scheinberg, 1992). It is also believed that entrepreneurial activity is uncertain and highly influenced by cultural traits.

Further to this argument is the view that substantial variation exists in entrepreneurial activities between countries, with cultural and social norms emphasized as the major strength and weakness of entrepreneurial support structures (Reynolds, Bygrave et al, 2002).
On strategic views, the ability of a firm to produce performance is dependent on the strategy it adopts. Strategy of an enterprise in turn depend largely on the environment and culture of the organization (Zaheer & Saleem). Baird, Harrison and Reeve (2007) posit that there is a connection between culture and strategy, confirmed by Gupta (2011) with further submission that in different types of industries, different cultures give rise to unique strategies. Naranjo-Valencia et al (2011) argued that the culture of a firm determines the strategy of the organization as they confirmed in their study that the culture of an organization defines the strategy to adopt. Yabrough, Morgan and Vorhies (2011) are of the opinion that; link existing between culture and strategy influences the outcome and performance of an enterprise i.e. the strategic thinker is influenced by the organizational culture and strategy formulated affects the performance of an organization. Organizational culture has strong impact on performance and strong culture influences performance more than weak ones (Shahzad et al, 2012).

Indeed, entrepreneurship and strategic management concepts as academic fields of study all operate in the external environment whether local or international with cultural variations, thereby defining the degree at which these cultures influence the exploitation and exploration of opportunities in the business landscape and competitive advantage seeking measures by the strategic thinker.

**Conclusion/Theoretical Implications**

The objective of this study was to critically examine the divergent positions of scholars concerning the paradigms of entrepreneurship and strategic management to see whether they should be distinctly considered or viewed as inseparable entities that could be treated as one irrespective of differences in theoretical foundations and then originate a stand that could be widely accepted for practice.

From the studies so far conducted, and having carried out a critical review of the paradigms of entrepreneurship and strategic management, it is evidently clear going by their originalities and theoretical foundations that both paradigms have some things in common and these common elements make it difficult for the two concepts to be absolutely treated independently from each other. Any attempt to consider them distinctly in its entirety could mean calling for the discontinuity of the existence of the enterprise because the survival of any organization in the business environment is largely premised on the capability of the organization to be creative and innovative. i.e. identification and exploration of opportunities to create wealth is cardinal. Similarly, the external environment is beclouded with enterprises who compete to gain market shares above other competitors. This means it must engage in processes of formulating and developing strategies that can make an organization perform better and have competitive advantage over other rivals in the business landscape. These fact gave birth to the concept “strategic Entrepreneurship” aas viewed by some notable management scholars (Bettis and Hitt, 1995; Hitt et al, 2001; Ireland et el, 2001).

It is further deduced from this study that entrepreneur who is engaged in the business of creating new ventures or coming up with new product (s) most often is consciously or unconsciously strategizing on what best to do, decisions to be taken that can position the organization to have competitive advantage. If a writing pen cannot perform its duties without a writing paper and vice versa, so also is it with entrepreneurship and strategic management. This agrees with the figurative usage by Venkataraman and Sarasvathy (2001) cited in Kraus & Kauranen, 2009), that “strategic management research without entrepreneurial perspective is like the balcony without Romeo, and entrepreneurial research without strategic perspective is like Romeo without a balcony”.

This study further brought to limelight the fact that culture has a significant influence in entrepreneurial and strategic behaviors. The creation of a new venture or exploitation of opportunities to add value to organization’s success by an entrepreneur is to a large extent dictated by the organization’s culture and the prevailing existing culture in the external business environment. This is in line with the anthropological theories (Simpeh, 2011; Baskerville, 2003).

This study has also brought to fore the undeniable truth that both entrepreneur and strategic manager are all engaged in the business of thinking on how to identify and explore available opportunities in the market environment, occasioned by change with the aim of gaining competitive advantage. Besides, the resourced-based theory and human resource-based theory are all domiciled in the two fields of study which points to the fact that there is strong correlation between the two paradigms.

The study therefore holds the perspective that entrepreneurship and strategic management are two inseparable entities that are driven by the strong desire to achieve economic growth and sustainability of an organization, be it new ventures or existing ones. No business venture can attain the height it desires without an interplay of the two concepts been seen and treated like couples coming together to give birth (economic growth and wealth creation).

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