Jimcts

Entrepreneurship And Venture Growth

—Revisiting The Sharp Model—

Milton Rajaratne Ethugal Parakramage

abstract

The venture growth problem is a common topic of entrepreneurship research. Findings and recommendations of such research are mostly stereotype. This drawback encouraged us to research for an approach that can systematically examine the root cause of the venture growth problem. Though there is no preset formula for gaining venture growth, perpetual innovation presumably brings about venture growth. The perpetual innovation, on the other hand, is a function of competency endowment of the venture. The objective of this study is to discover and elaborate formation, relevance, and role of the venture competencies that support perpetual innovation and hence growth. In this study, a distinct analytical model is developed based on the growth principles of Tokuji Hayakawa. The study examines the formation of growth competencies, their role in venture growth, why some small enterprises remain small while others grow, and recommends a growth formula.

Keywords: *entrepreneurship, perpetual innovation, venture growth, growth competencies, 5-C: credibility, capital, consideration, capacity, customer.*

1 Importance of Venture Growth

Business ventures are created with the intension to achieve its long term growth. The primary incentive for venture creation is profit (Carl Menger; 1950). Thus the fundamental entrepreneurial activities such as innovation, commercialization, and organization are directed towards reaping profit. The steadier the venture growth the higher will be its profit. Thus, profit has a functional relationship to venture growth. This relationship assumes that venture growth is an inherent aspiration of entrepreneurship. Schumpeter (1934) advocates that an entrepreneur not only desires to raise his consumption standard by earning handsome profit but aspires to find a private dynasty also. The term 'dynasty' in this context refers to the venture growth because venture dynasty is not feasible in absence of growth. Extending this argument, he further explained the relevance of venture growth in the context of economic development. Robert C. Ronstadt (1984) pointed out that entrepreneurship is a dynamic process that creates incremental wealth. The degree of creation of incremental wealth certainly depends on the degree of venture growth. Peter F. Drucker (1985) explained that entrepreneurship occurs when resources are directed to progressive opportunities which recognize continuous growth. Karl H. Vesper (1980) emphasized the growth perspective of enterprise mentioning that entrepreneurs are psychologically motivated achievers and adventurers. Referring to the persistent debate, David H. Holt (2000) differentiated entrepreneurship from merely doing business by emphasizing that 'vision for growth' is inherent in entrepreneurship. This discussion reveals the importance and relevance of the growth factor in entrepreneurship.

2 Issues of Venture Growth

The growth of venture is achieved through a process of successive responses to entrepreneurial opportunities. At the initial stage, venture is created in response to one such opportunity. If the venture remains irresponsive to opportunities that may appear in the entrepreneurial horizon, it will confine itself to a small firm. Therefore, growth is an entrepreneurial phenomenon that occurs as ventures exploit a corollary of opportunities that arise along the 'corridor' (David H. Holt; 2000)[1]. Such opportunities are open for almost any venture. The

►1 The corridor principle explains that opportunities evolve for entrepreneurs being positioned in similar work or having had experience with related ventures so that when an opportunity appears it is easy for them to move quickly into a venture (Holt, D. H; 2000: p. 50).

ability to foresee and to respond to them at the right time will bring about venture growth. An array of opportunities provides chances to innovate an array of products. And it is through these diverse innovations that venture growth is achieved. The ability to capitalize on chains of entrepreneurial opportunities elevates a small firm to a large one. However, this growth could only be achieved through perpetual innovation. An approach identified as intrapreneurship[2] is adopted by some large ventures to accomplish perpetual innovation (Kuratko and Hodgetts; 2004).

The preceding discussion reveals that entrepreneurship revolves around four axes: opportunity, innovation, commercialization, and growth. Except growth, the rest of the factors have been adequately explained in the literature of entrepreneurship. Though venture growth has been raised as an important issue, it has been customary to deal with opportunities and challenges that are relevant at the 'pre-start-up' and 'start-up' stages of a venture. These stages are related to venture inception only. The very purpose of entrepreneurship cannot be realized only through the inception of the venture. The degree of opportunity exploitation at the later stages, which are known as 'growth stages,' determines growth. Even in the reputable 'Four-Stage Growth Model' (Arnold C. Cooper; 1983)[3], the relevance of growth competencies at the 'growth stages' is not sufficiently discussed. Thus, this study attempts to discover the entrepreneurial competencies required in the process of transforming a small business into a corporate venture. A vast set of competencies, in contrast to those required at inception stage, is essential when a small venture prepares to enter into the growth trajectory. In this connection, the growth principles introduced by Tokuji Hayakawa (2005), the founder of Sharp Corporation[4] of Japan, provide a theoretical framework.

3 Hayakawa Growth Principles

Venture growth is obviously attuned to the degree of entrepreneurial opportunity exploitation. Through the 'window principle' David H. Holt (2000)[5] explained that opportunities last only for a short period of time and thus the entrepreneurs must always be prepared to exploit them while they last. According to Hayakawa, opportunities are open for any entrepreneur but very few capitalize on them and realize venture growth. Opportunities elude while entrepreneurs remain unprepared. To be prepared to exploit venture opportunities, certain competencies must be gradually accumulated throughout the process of entrepreneurship. The accumulation of competencies itself is an essential task of entrepreneurship as the ability to further innovations entirely depends on such

►2 Intrapreneurship, which is known as corporate entrepreneurship also, is a method that is adopted by large ventures to develop entrepreneurial spirit within organizational boundaries to let innovations prosper (Kuratko D. F. and Hodgetts R. M; 2004; p. 51).

►3 This model describes four stages of the venture evolves. They are Pre-start up stage, Start up stage, Early growth stage, and Later growth stage (Cooper, A .C.; 1983: pp. 193-205).

►4 Sharp Corporation was found by Tokuji Hayakawa in 1912 and now it employed 47,000 people and earned US$ 25 billion in 2006. This is equivalent to the value of the GDP of Sri Lanka in the same year .

►5 Window opportunity arises in a time horizon during which opportunities exist before something else happens to eliminate them. A unique opportunity, once shown to produce wealth, will attract competitors, and if the business is easy to enter, the industry will become rapidly saturated (Holt D. H; 2000: p. 49).

accumulations. In line with this argument, Hayakawa pointed out the need for accumulation of five types of competencies. The Hayakawa principles, which explain entrepreneurial competencies and the need for their accumulation, originally appeared in 1970 and then in 2005 in his book titled *Watashino Kangaekata (My Way of Thinking)*. Hayakawa explained the accumulation of these competencies in his words as follows;

1. Shinyo no chikuseki
2. Shihon no chikuseki,
3. Hoshi no chikuseki
4. Jinzai no chikuseki and
5. Torihikisaki no chikuseki.

In this study, we coin the following terms to match what Hayakawa conceptualized by his original Japanese terminology and identify them as 5-C Model of venture growth.

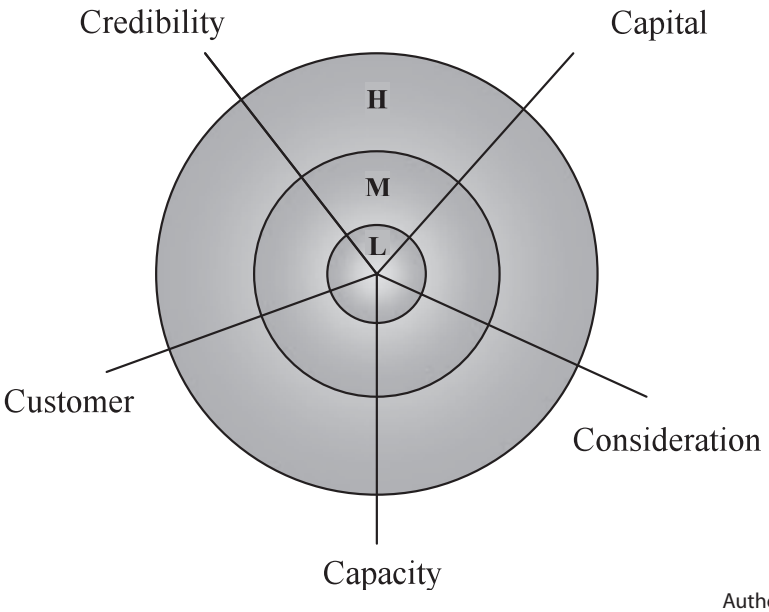
1. Accumulation of Credibility
2. Accumulation of Capital
3. Accumulation of Consideration
4. Accumulation of Capacity and
5. Accumulation of Customer.

Hayakawa considers venture growth as an absolute outcome of the accumulation of these five competencies. According to him, though these competencies may effortlessly accumulate to a certain extent, cleverly formulated efforts are essential to systematically accumulate them from the initial stages of ventures. A gradual accumulation of these competencies will later build into an enormous power which is essential to capitalize on the entrepreneurial opportunities perpetually avail along the venture 'corridor'. As Philip A. Wickham (1998) pointed out, an entrepreneur who is already in manufacturing, for instance, may foresee opportunities to innovation in many new and unrelated areas such as services, production processes, technologies, delivery, organization structures, and corporate relations etc. A venture can add innovations vertically and horizontally to the existing operations, when it is equipped with these five types of competencies.

4 The 5-C Model: Its Traits and Relevance

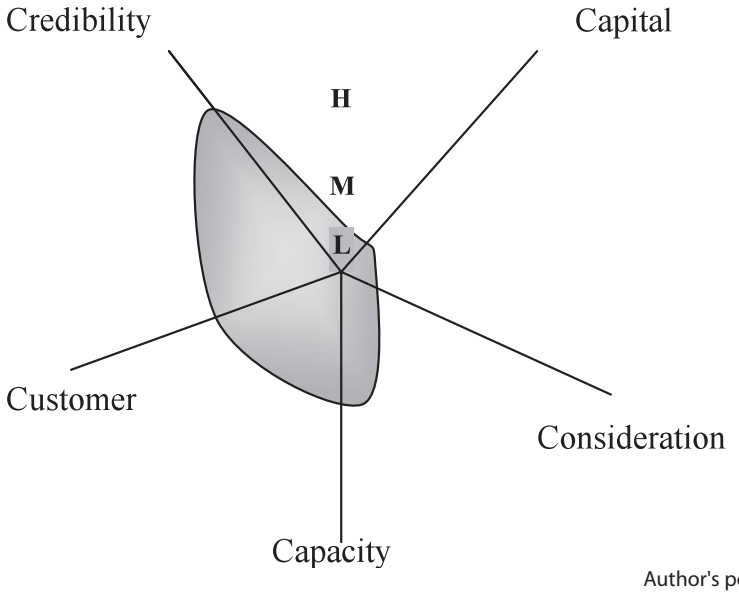
Successful accumulation of Credibility, Capital, Consideration, Capacity, and Customer (5-C) is completely a deliberate exercise. Accumulation of 5-C

■ Figure 1 Balanced Accumulation of 5-C



Author's portrayal

■ Figure 2 Unbalanced Accumulation of 5-C



Author's portrayal

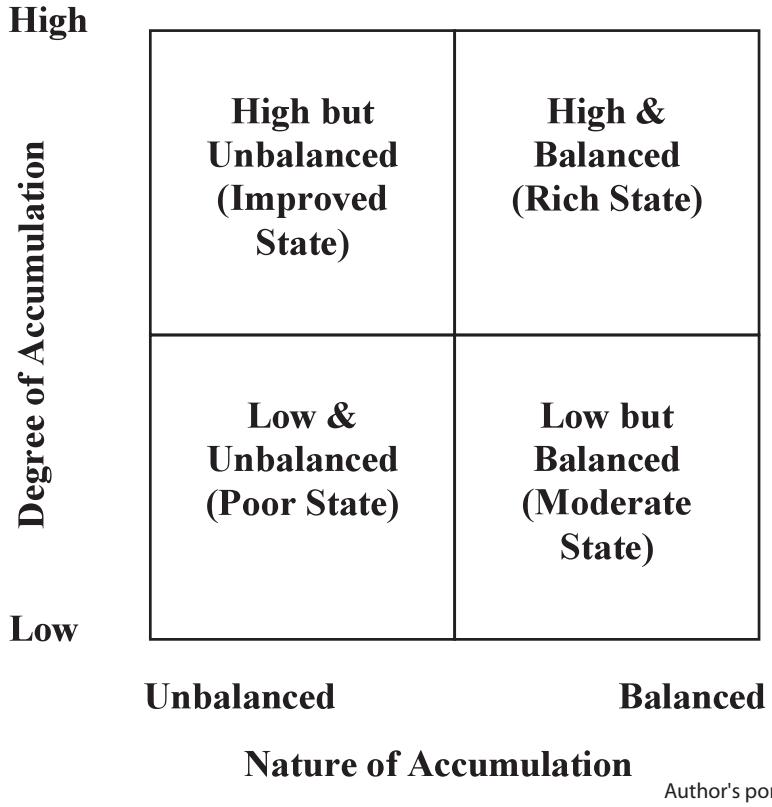
costs additional funds to the venture and requires incessant efforts of the entrepreneur. Further, maintaining proper balance among these competencies is imperative to efficiently exploit prospective venture opportunities. Any imbalance among these competencies would obviously lead to weakness in exploitation of venture opportunities and in consequence disruption of future growth. For instance, a situation with high accumulation of competencies such as credibility, consideration, capacity, and customer but low accumulation of capital will undoubtedly hinder exploitation of venture opportunities due to financing

bottlenecks caused by low supply of capital. As any of these competencies cannot be substituted for another and they are complementary in nature, a parallel and corresponding strengthening of all the five competencies is essential input for venture growth. Therefore, highly accumulated set of competencies is always preferred to that of moderately or lowly accumulated competencies. Similarly, uniform accumulation of these competencies is preferred to that of lopsided accumulation.

The two figures furnished above illustrate three main characters of accumulation of venture competencies: types, strengths and combinations. Each character has its own role in exploitation of venture opportunities and hence growth of the venture. In this model, five types of interdependent venture competencies are considered. Figure 1 depicts the strength of the formation of each of the venture competencies. The strength is identified in varying degrees such as low (L), medium (M), or high (H). Further the formation of competencies can take place either symmetrically or asymmetrically causing balanced or unbalanced combination of the strength respectively. Figure 1 depicts a balanced combination while Figure 2 reveals an instance of unbalanced combination of strength. The balanced combination of strength is always advantageous for growth. Yet, an unbalanced combination of strength illustrates a situation that lacks certain venture competencies. With an unbalanced combination of strength, a firm may find it difficult to exploit venture opportunities effectively due to deficiency in some of the competencies. Moreover, it would be risky even trying exploitation of venture opportunities when an unbalanced combination of strengths prevails. Attempts to capitalize on one competency adequately accumulated at a time could erode some other competencies of the venture. For instance, a venture that tries innovations with no adequately accumulated credibility, which is acutely required at the marketing stage of such innovations, may end up with loss of its capital －another competency. Therefore, entrepreneurs need to build up and maintain these competencies in balanced combinations at each level of strength indicated as L, M &. H in the above portrayals. Even when there is a low but balanced accumulation of competencies, a firm still can exploit venture opportunities at that respective low scale. Therefore, the higher the level and more balanced the accumulation, the greater would be the capacity to opportunity exploitation and growth.

The competency accumulation can vary from an unfavorable position to a favorable position. The favorable position of competency accumulation is a state in which competency level is both high and balanced whereas the unfavorable position represents a low and unbalanced state. The competency accumulation, further, can take either a low and balanced state or a high and unbalanced state. Hence, four basic states of competency accumulations can be described as poor accumulation, moderate accumulation, rich accumulation and improved accumulation as illustrated in Figure 3.

■ Figure 3 The Competency Accumulation Matrix



Author's portrayal

The low & unbalanced or the poor state is not favorable for venture growth and thus the entrepreneur should initially move to the moderate state. This is the path to enter the rich state. On the other hand, the ventures that are in the poor state should endeavor to regain their former improved state. As the conditions prevail for fully pledged venture growth at the rich state, entrepreneurs must not be restful at the moderate or improved states. Though these two states demonstrate certain competencies that help exploit opportunities, they are not sufficient to uphold perpetual innovation. Therefore, the venture must aim at reaching the rich state to exploit all potential opportunities, which process brings about constant venture growth.

5 Analysis of the 5-C

5.1. Credibility

Credibility is defined as 'sincere connections' that develop reliance between the venture and the 'direct action environment' or the stakeholders.

Hayakawa insists that credibility should be solely based on sincerity and trust. This intangible competency does not accumulate instantly but gradually throughout the lifetime of the venture. Credibility is considered as an invaluable asset because it cannot be purchased. Further, credibility is not something that the entrepreneur can impose over others but a consequence of his sincere behavior in the past. As so strong as credibility is, it can even serve as a turning point of the entrepreneurial life[6]. Due to the fact that credibility is so significant in Japanese business[7], Hayakawa gives priority to it in his principles also.

There are five types of credibility: employee credibility, customer credibility, dealer credibility, supplier credibility, institutional credibility, and social source. They in turn relate to individual venture, business network, and society. Primarily a venture needs to gain credibility from its employees. Employee credibility guarantees improved labor pooling, labor productivity and industrial peace within the organization. Customer credibility guarantees sales of good/service, market share, and sales cash flows which are essential for commercial operations of the venture. Credibility of the business network, i.e. suppliers, dealers, service providers etc, is crucial for smooth management of business functions[8]. Finally, it is the society that determines the need for and size of a venture. Thus, the social credibility is very much needed not only for a venture to operate but also to grow perpetually.

5. 2. Capital

For almost all operations capital is required. Particularly, innovations − the medium of exploitation of venture opportunities- require capital as a vital input. Venture opportunities disappear without being exploited while entrepreneurs are not ready with adequate amount of capital to exploit them. Accordingly, a venture requires sound capital base to acquire future growth. Capital accumulates through savings, retained earnings, stock offering, borrowings etc. Hayakawa recommends it is always better to save money (in reputed banks) than choosing other options of capital at the early stages of a venture. Continuous savings lead to build up credibility between the entrepreneur and the bank, which would guarantee the entrepreneur borrowing in excess of his outstanding savings at the bank.

Capital comprises money and many other physical assets. Capital accumulates primarily through cash deposits. The secondary forms of capital include investments in stocks, machineries, premises, patents, and research. The primary form of capital carries highest level of liquidity. Ventures need this type of capital for quick purchases and acquisitions. Failure to quick acquisitions disturbs smooth functioning of the venture. Thus money capital is a means of guaranteeing smooth operations. Then systematic accumulation of secondary forms of capital is essential not only to smooth functioning but also to help develop corporate social image, which is useful when venture is being financed

►6 Example includes how Matsushita built up credibility for his 'National' brand.

►7 Credibility development is a main principle of Japanese business of all types.

►8 Business functions involve production management, human resource management, financial management and marketing management.

through issuance of shares and debentures. Sound accumulation of capital enhances venture credibility and capacity too. And in accumulation of consideration also, capital plays an important role. Therefore, competency in capital is a prime need for growth of the venture as it helps accumulate the four other competencies also.

5.3. Consideration

The concept of consideration is derived from the nature of 'lifelong borrowings and responsibility to payback.' Literally, the meaning of this concept is that every venture obtains resources from the society and environment, and thus it is obliged to 'payback' for the same, in return, to the society and environment. This relationship explains the nature of the dependence on and the obligation to the society. For the so called 'borrowings' the venture must be considerate of the needs of the 'lending' parties. Hayakawa specifies the principle of consideration as 'service to others' in compensation of their sacrifice. The service to others should neither relate to nor expect accumulations other than that of consideration in return. The beneficiaries of venture consideration include customers, employees, shareholders, suppliers, dealers, pressure groups, society and the natural environment in general.

Consideration is pursued through producing quality products and making them available at affordable prices to customers, providing after services such as repairs, guarantees, online instructions etc., inventing technology that improves the quality of life, providing improved work life to employees, generating work opportunities, paying dividends properly, giving ample discounts for dealers, offering attractive prices for suppliers, and contributing to the social welfare and natural environment by caring for corporate social responsibility[9]. Consideration can be effected by means of money, labor, consultation, and other suitable forms of benevolence. Hayakawa points out that consideration helps develop lasting relationship between the beneficiary and benefactor. This relationship in turn helps consequential accumulation of other competencies required for growth. However, manipulation of consideration in order to gain from beneficiaries violates the very meaning of this principle.

►9 Though corporate social responsibility is dealt with in the context of large corporate entities, every venture is held responsible for caring social issues at its capacity.

5.4. Capacity

Every venture requires a large array of capacities to achieve growth. Capacity, in this context, is defined as talents and skills of the venture. Ventures find it difficult to always recruit personnel with the right skills and talents that match the venture needs. Nevertheless, the venture can choose to build capacity through training and development of human resources. Development of personnel is routinely task of the venture. The relentless environmental and technological changes require continuous improvement of worker skills. The concept of the

capacity development insists that the workers should be hired and developed to carry out not only mere routine work but to cooperate in the work environment. The capacity base of a venture is comprised of conceptual, technical, design, and human skills[10]. Hayakawa insists that the entrepreneur himself must accumulate these capacities initially before accumulating them for his venture . The 'sixth sense' of an entrepreneur is assigned an important role in identifying the potential capacities of employees and avenues to develop capacity in them.

These skills finally appear as patent rights, copy rights, trademark, management competence in all business functions, research and development, technical and technological competence, trade and distribution networks, art of lobbying, influence, motivation, adjustment etc. The capacity accumulation begins from the start-up stage of venture. The capacity then endows the venture with competency to competition and growth. Capacity is an important input for current business operations and integral component for the future growth. Especially, it is capacity with the support of capital, that facilitates corporate mergers and acquisitions, which mark clear venture growth.

5. 5. Customers

This principle refers to the accumulation of both customers and customer relations. It is a wrong practice to hunt customers and customer hunting never helps develop customer relationship. On the contrary, the co-existence with customers builds better relationships. The customer base of a venture comprises suppliers, dealers, and consumers. The practice of changing suppliers often, seriously considering even small price differences between suppliers and the severe bargain with suppliers obviously lead to poor supplier relations. And the dealer relationship is essential for establishing an effective distribution network through which means products are dispatched to the final customers. For the service they render, chances must be created for the dealers to earn satisfactory profits. Through dealer satisfaction, sound relationship is accumulated. The delays in payment for inventory has high probability but such situations must be handled carefully so as not to damage the dealer relationship but to keep the dealers still active in the network. A poor dealer at one time could become effective at other times. Frequent change of suppliers and dealers weakens relations and it is bad for the entrepreneurial health. With the final customers (consumers), the entrepreneur should always maintain a thankful relationship. Appreciation to customers can be expressed in a few unique manners. They include giving due value for the price, providing comfort or friendly service, improving customer tastes, and ensuring all time satisfaction through after-sale service. These relationships build healthy co-existence with suppliers, dealers, and consumers. Thus, healthy customer relations determine future growth of the venture.

►10 These are basic and essential skills required for a manager.

6 Conclusions

The inception of venture alone does not grasp the full meaning of entrepreneurship because entrepreneurship is better explained by growth than inception. Though a single innovation can create a venture, a corollary of innovations is essential for its growth. Therefore, venture growth is the outcome of perpetual innovation. The greater the innovation the more extensive would be the venture growth. Opportunities for innovations generally avail for every venture regardless of its size and age. Yet it is obvious that different ventures respond to opportunities distinctively and in consequence they experience dissimilar growth.

This study identifies that venture growth is an outcome of perpetual innovation. Thus, investigation was carried out to determine what competencies are required for a venture to engage in perpetual innovation. As a theoretical base for this examination, the entrepreneurship principles of Tokuji Hayakawa were adopted. The study identified five competencies fundamentally essential to exploit venture opportunities that appear in the entrepreneurial horizon. These competencies were labeled as credibility, capital, consideration, capacity, and customers and formulated the 5-C model based on them. This model found that these competencies accumulate evenly or unevenly, build low, medium or high, and venture growth is powered by appropriately accumulated set of competencies. These findings recommend that a venture must identify the components of each competency and cultivate a balanced composition of competencies throughout the venture life. It was also found that different constitutions of these competencies determine how effectively a venture can engage in perpetual innovation. The study estimates that uneven growth among ventures is caused by uneven competencies and concludes that ventures remain small as long as their competency base lacks power to adequately exploit entrepreneurial opportunities. In summary, it is proposed that a substantial and balanced accumulation of the five competencies elaborated in the 5-C model is required to achieve a significant venture growth. This model provides theoretical foundation to empirically investigate the growth problem of small and medium enterprises and to ascertain what factors cause stagnation and what measures inspire growth. This model helps categorize business ventures into four basic groups in terms of the level and strength of competency accumulation and thereby guides venture decisions towards attainment of perpetual innovation.

Acknowledgement:

Author especially acknowledges Dr. Kusaka Taiki of Kusaka Research Institute, Amagasaki, Osaka, Japan for providing useful Japanese publications.

References:

Arora, R. (1996) *Entrepreneurship and Small Business*, New Delhi: Dampath Rai.

Cooper, A. C. (1983) 'The Entrepreneurship − Small Business Interface,' in C. A. Kent, D. L. Sexton, and K. S. Vesper, (eds.) *Encyclopedia of Entrepreneurship*, Englewood Cliffs, NJ: Prentice-Hall.

Drucker, P. F. (1985) *Innovation and Entrepreneurship*, New York: Harper and Row.

Hayakawa, T. (2005) *Watashino Kangaekata* (2nd Ed.), Osaka: Tosho Shuppan Namiwa Sha.

Hirano, T. (2004) *Shaapu wo Tsukutta Otoko − Hayakawa Tokuji Den*, Tokyo: Nikkei BP Sha.

Holt, D. H. (2000) *Entrepreneurship − New Venture Creation*, New Delhi: Prentice-Hall of India.

Kao, J. J. (1989) *Entrepreneurship − Creativity and Organization*, NJ: Prentice Hall.

Kuratko, D. and Richard M. H. (2004) *Entrepreneurship −Theory, Process and Practice (6th ed.)*, Mason, Ohio: Thomson −Southwestern.

Menger, C. (1950) *Principles of Economics*, translated by J. Dingwall and D.F. Hoselitz, Glencoe, IL: Free Press.

Ronstadt, R. C. (1984) *Entrepreneurship: Text, Cases and Notes*, Dover, MA: Lord.

Schumpeter, J. A. (1934) *The Theory of Economic Development*, translated by R. Opie, Cambridge, MA: Harvard University Press.

Vesper, K. H. (1980) *New Venture Strategies*, Englewood, Cliffs, NJ: Prentice-Hall.

Wickham, P. A. (1998) *Strategic Entrepreneurship*, London: Pitman Publishing Co.

(Received; April 11, 2011)