CHAPTER ONE

Strategies for the Entrepreneurial Millennium[1]

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Introduction

The most striking features of business life at the turn of the millennium are volatility, turbulence, and unpredictability. New winners emerge quickly and unexpectedly; established leaders decline or disappear. Foster and Kaplan (2001), for example, found that turnover in the S&P 90 increased from about 1.5 percent per year during the 1920s and 1930s to nearly 10 percent in 1998. Economy-wide tsunamis occur like the six-year "New Economy:" from the IPO of Netscape through John Chamber's lament about the "hundred-year flood" that washed out Cisco's consistent earnings increases (Anders, 2001). Decisions by courts and regulators redirect the path of industry evolution such as repelling Napster's attack on the music industry, slowing the application of biotechnology to agriculture, blocking General Electric's dominance of the aerospace industry, and the two-year (unsuccessful) battle by the government to break up Microsoft. Other examples include disruptive technologies like the Internet that produce not only hype and uncertainty in the short term but also lasting changes like dominant new competitors (AOL–Time Warner) and new business models (e.g., auctions and exchanges) and new hybrid organizational structures designed to capture the benefits of integrating traditional off-line business operations with on-line operations while leveraging the deep interconnectivity (enabled by the Internet).

Stakeholders demand increasingly higher levels of performance. Shareholders expect all companies – not only high technology firms – to increase revenues more quickly than the overall economy and to increase earnings even faster than revenues. George David, CEO of United Technologies, calls it the "5/15 problem:" how can a company sustain annual growth in earnings of 15 percent when business units are in industries growing at only 5 percent? The reality of the 5/15 problem is demonstrated by table 1.1, which summarizes the performance during the 1990s of each quintile of the S&P 500 (sorted by total returns to shareholders, including stock price appreciation and dividends). Among the above-average performers, the median company gener-

Table 1.1 Performance of S&P 500, 1990–9

Quintile of performance for shareholders	Annual returns to shareholders (%)	Annual growth in earnings (%)	Annual growth in revenue (%)
Top	34.0	29.3	20.6
Above average	21.8	14.6	8.3
Average	14.7	9.8	5.2
Below average	10.0	4.7	4.9
Bottom	3.2	1.1	5.2

ated annual revenue increases of 12.9 percent and average annual earnings increases of 19.3 percent.

The "war for talent" in employees has not only increased compensation for the highest performers, but also increased the expectation that work will be interesting and personally fulfilling. When large companies are unable to meet these expectations, the free agent economy of part-time or self-employed workers is an increasingly available option, especially in the United States.

The expectations of citizens and governments are even higher than for others. For example, rising standards for safety (both legal standards and public expectations) are apparent in the mad cow disease and genetically-modified organism regulations and reaction in Europe, in the asbestos litigation-related bankruptcies at *Fortune* 500 companies like Owens-Corning, Johns Manville, Eagle Picher, Armstrong, and USG, in the tobacco industry reshaping settlements in the United States, and in the termination of the long-standing relationship between Ford and Bridgestone/Firestone over responsibility for accidents of Ford Explorers caused by tread separation. Of course, the public's expectations are high in many areas other than safety, including: environmental responsibility, accessibility for the economically or physically disadvantaged, privacy, and loss of control because of globalization.

While this new landscape is highly turbulent and uncertain (Hitt et al., 1998; Hitt, 2000), it also presents entrepreneurial opportunities (McGrath and MacMillan, 2000; Shane and Venkataraman, 2000). For example, there are opportunities to take market share from less innovative competitors by offering new and better goods and services to the market. Entrepreneurial firms may capture existing markets with innovative goods and services but also may create new markets (Hamel, 2000).

Entrepreneurs who seize the opportunity in volatile environments to create successful new businesses or to revitalize existing businesses are the central figures in the new economic landscape. In fact, the number of new business start-ups reached record levels in the USA in 1998–9, especially in the high technology sector. Also, the number of companies funded and the amounts provided by venture capital firms reached unprecedented levels ($15.59 billion in 1997, $27.73 billion in 1998 and $46.1 billion in 1999). Those firms that accessed public markets for capital (growing from 119 companies in 1997 to 246 in 1999) represent only the tip of the entrepreneurial iceberg. A better indication of the pervasive impact of entrepreneurs is the study of

1,335 large companies publicly traded in the United States from 1965 to 1995 by Lucier et al. (1997). They found that more than 90 percent of the companies that provided long-term returns ranked in the top decile for shareholders had pioneered the successful application of a disruptive technology or a fundamentally new business model in an industry – the hallmarks of the most successful entrepreneurs.

The Entrepreneurial Millennium

The bursting of the Internet bubble and the decline of the IPO market in 2000 and 2001 do not mean that the importance of entrepreneurs is decreasing. In fact, we argue that the impact and ubiquity of entrepreneurs will increase, driven by the positive feedback cycle of today's entrepreneurial success, thereby creating even more opportunities for future entrepreneurs. In turn, this will attract more entrepreneurs and serve as a catalyst for a greater amount of entrepreneurial activity.

Successful entrepreneurs represent the new winners who change the economic landscape and cause much of the turbulence. They create new-to-the-world industries, shift the boundaries of existing industries, and cause industries to converge. They challenge legislators and regulators to address new questions (e.g., is cloning legal for humans, other animals, or plants?) and to redefine "intellectual property" in new settings. Their successful commercialization of disruptive technologies (e.g., microprocessors) accelerates the development of additional technologies (e.g., genomics) that, in turn, disrupt additional industries. The new business models they develop in one industry stimulate the development of analogous business models in other industries, such as the propagation of power retailing format created by Toys "Я" Us across 16 other retailing industries. Thus, opportunities for entrepreneurs continue to increase exponentially.

Past success and current opportunities are expanding the supply of potential entrepreneurs. Well-publicized extraordinary rewards for successful entrepreneurs like Bill Gates, Richard Branson, and Larry Ellison attract additional entrepreneurs. Increasingly effective support infrastructures – incubators, angel investors, venture capitalists, and networks of experienced entrepreneurs – are evolving not only in Silicon Valley but globally (Reynolds et al., 2000). Established companies are trying to enhance entrepreneurship as well, for example, through corporate venturing groups (sometimes in partnership with venture capitalists) or new business pilot ventures.

This spiral of entrepreneurial success, greater opportunities, and increasing numbers of entrepreneurs shapes the new millennium. Large companies are likely to become more entrepreneurial but with the turbulent landscape and increasing entrepreneurial activity, we can also expect greater turnover among *Fortune* 500 companies.

Strategy for the Millennium

Twenty years ago, strategists shared a paradigm: a consistent set of concepts, processes and tools grounded in Marshallian microeconomics and industrial organization economics. However, the traditional paradigm is not effective in explaining behavior in a volatile, discontinuous environment where increasing stakeholder expectations demand innovation more than optimization. Although an effective and widely accepted strategy paradigm for the entrepreneurial millennium has not yet emerged, some new concepts, processes, and tools are available.

One example is the concept of *strategic entrepreneurship* explained in a recent special issue of the *Strategic Management Journal* (Hitt et al., 2001) and a forthcoming book (Hitt et al., 2002). Essentially, this concept suggests entrepreneurial actions be taken using a strategic framework. In other words, entrepreneurial ventures develop and implement new business models within which entrepreneurial opportunities are identified and exploited through the application of strategic discipline to create wealth (Hitt et al., 2001). Thus, opportunity-seeking and advantage-seeking behaviors are integrated (Hitt et al., 2002).

In the emerging world of continuous structural change, competitive advantage may be defined by the extent and duration of abnormal profits during disequilbrium conditions as compared to a defensible position in equilibrium. Linear industry value chains are disappearing, replaced by webs of complex relationships where a firm can simultaneously serve as an alliance partner, competitor, customer, and supplier. A company's competitive cost position is determined less by structural factors like scale than by its business model. Furthermore, competition is based on knowledge and capabilities derived from a firm's resources.

An integrated entrepreneurial and strategic process balances commitment to a strategic intent with the ability to sense and seize opportunities as they arise: neither an inflexible plan nor pure opportunism. Coherence and coordination across the enterprise are provided less by formal strategic plans than by sharing the vision, priorities, and assumptions about the competitive landscape and environment and information. Adaptation and innovation are stimulated by an organization's culture and the provision of *ba* (loosely translated as "space"). The result is a true learning organization involving scanning, adapting, learning, and launching new businesses.

Applied game theory and dynamic modeling tools such as complex adaptive systems are in transition from research tools to use in the strategic management and operations of a business. Options are a powerful metaphor for the future potential of current business positions and possible moves. Options may prove to be a more powerful tool than net present value in evaluating decisions.

A strategy paradigm for the new millennium (integrating these concepts, processes, and tools) should logically center on entrepreneurs. Such a paradigm should help new entrepreneurs emulate other successful entrepreneurs. However, it should also be for entrepreneurs, thereby enhancing their success. Entrepreneurs have made little use of the traditional strategy paradigm, utilizing neither the concepts, the strategic planning process, nor the strategic management analytical tools. A powerful paradigm that increases the success of entrepreneurs can accelerate the dynamic environment and economic development by creating more opportunities, expanding the supply of entrepreneurs, intensifying volatility, and increasing the performance of the businesses for shareholders, employees, and society.

Wealth-Creating Business Models and Identifying Opportunities

Several scholars, including Hitt and Ireland (2000) and McGrath and MacMillan (2000), have argued that e-commerce presents an opportunity to integrate entrepreneurship and strategic management research streams. However, academic research on e-commerce is sparse, with little articulation regarding the central issues related to this new phenomenon or with insufficiently developed theory that captures the unique features of virtual markets. In particular, there has been little research on the new business models needed to create wealth in the new economic landscape. Chapter 2 by Amit and Zott begins to address this need. First, they derive a relatively new business-model construct by building on the value chain framework (Porter, 1985), strategic network theory (Dyer and Singh, 1998), and the transaction cost perspective (Williamson, 1975). A business model refers to the structure, content, and governance of transactions that are enabled by a network of firms, suppliers, complementors, and customers. Amit and Zott argue that this new construct, the business model, provides a deeper understanding of value creation than is possible with other units of analysis (e.g., firm or industry) and is especially useful in analyzing interactive, rapid growth electronic markets. Second, the authors develop a model to describe the value drivers (i.e., factors that enhance the total value created by a business model) of e-commerce business models. They argue that the total value created is the sum of all the values that can be appropriated by the participants in a business model – the firm, its partners, and its customers (Brandenburger and Stuart, 1996). Amit and Zott examined the business models of 59 European and American e-firms and found the major value drivers of novelty, lock-in, complementarities, and efficiency to be critical for value creation in an e-commerce environment.

Chapter 3 by Peng and Wang introduces an intermediation-based view of entrepreneurship to explain why entrepreneurs act to take advantage of market opportunities, and why some entrepreneurs outperform others. Integrating transaction cost theory and resource-based theory, they argue that many entrepreneurial activities can be appropriately conceptualized as intermediations which are, in essence, *market makers* by connecting complicated sets of suppliers and customers. The authors present examples of entrepreneurial activities in financial, labor, distribution, and technology markets showing that the information asymmetries (and thus high transaction costs) between transaction parties create opportunities for entrepreneurial intermediation. Those entrepreneurs who can reduce transaction costs for both sides can carve out new market niches. Thus, the large amounts of intermediation needs in the new economy create entrepreneurial opportunities. From a resource-based perspective, Peng and Wang suggest that entrepreneurs who possess and bundle resources to help buyers/sellers reduce search, negotiation, and monitoring costs provide an important service to the markets and have a high probability of creating wealth.

As noted earlier, a strategic options approach can be useful to entrepreneurs when assessing future opportunities and the value of potential entrepreneurial actions. Chapter 4 by Reuer presents a real options-based perspective that allows entrepreneurs to gain access to upside opportunities in the future while at the same time limiting downside risk in entrepreneurial activities such as investing in a new technology or exploring new markets. Reuer examines the application of real options in international joint ventures. He suggests that through discretionary investments, corporate entrepreneurs can enhance value by embracing, rather than avoiding, uncertainties; that multinational networks are distinctive in enabling shifts in multinational firms' value-chain activities across borders in response to changes in product, factor, and currency markets; and that using a real options logic allows entrepreneurship to overcome an anti-failure bias. In addition, Reuer argues that joint ventures can be helpful in entrepreneurial undertakings intended to test new products, technologies, or foreign markets as part of a sequential investment approach. While firms also use joint ventures to leverage existing assets, from a corporate entrepreneurship perspective, joint ventures can be useful in implementing exploratory initiatives by taking on partners with different and needed resources. With data from 121 international joint ventures, Reuer explores the likelihood that a call opportunity (to buy out a partner) is present and how cultural differences, relevance to the firm's core business, and the host environment affect that likelihood. Therefore, Reuer's chapter provides a useful introduction to the application of real options thinking to entrepreneurial opportunities.

Along with the creation of new ventures and the emergence of new industries, new organizational forms (intentional and unintentional) have appeared. One of these is the strategic network that involves the development of strategic alliances. Chapter 5 by Rothaermel and Deeds focuses on three types of strategic alliances in the biotechnology industry: (1) *vertical-upstream* alliances with universities, research institutions, government labs, hospitals, and industry associations; (2) *horizontal* alliances with other biotechnology firms; and (3) *vertical-downstream* alliances with pharmaceutical and chemical firms. The authors argue that previously hybrid forms of organization such as alliances were generally limited to non-critical projects with relatively low levels of complexity and uncertainty. Projects that were critically important or had high levels of uncertainty and complexity were internalized because of fear that partner firms would be opportunistic. However, while many new high technology ventures have the knowledge resources and creativity to create valuable new products, they often lack other important resources to fully develop and commercialize them. As such, the young technology ventures have turned to strategic alliances for access to the complementary resources necessary for complex, uncertain, and costly research and development projects. However, this argument is not unique to the literature. Other research has suggested and found a relationship between strategic alliances and innovative activity (e.g., Stuart, 2000). Alternatively, all firms have limited managerial and financial resources and, eventually, the costs of simultaneously managing a large number of alliances exceed the gains obtained from the alliances. Rothaermel and Deeds hypothesize that the number of strategic alliances into which a firm enters and its new product development will be related in a curvilinear (inverted-U) manner; that the type of alliance will affect the inflection point of the relationship, and that the firm's experience will influence the number of alliances it can manage. Rothaermel and Deeds use data from 2,226 strategic alliances entered between 1975 and 1997 by 325 new biotechnology firms. Finding general support for their hypotheses, they conclude that there are limits to a firm's ability to manage alliances. Past a certain point, one more vertical-upstream, horizontal or vertical-downstream alliance may reduce new product development. In addition, they argue that different types of alliances pose different types and amounts of challenges to managers and, for different types of alliances, declining returns occur at different levels of alliance intensity. Rothaermel and Deeds also conclude that there exists an experience curve in alliance management; more experienced firms can successfully manage a larger number of alliances than less experienced firms.

In their chapter on knowledge creation and utilization, Nonaka and Reinmoeller suggest that creative renewal in industries, organizations, and teams is critical for effective strategic actions in the entrepreneurial millennium. Routines of creative renewal involve the processes that create and exploit knowledge within large organizations. When new ventures and start-ups threaten incumbents, the management of knowledge, its creation and use, increase in importance. They argue, however, that explicit knowledge and best practices often diffuse quickly and personal knowledge of employees can be lost with unplanned turnover, if this is not embedded in patterns of interaction. To embed such knowledge, Nonaka and Reinmoeller develop the concept of creative routines that emphasize dialogue and improvising. Creative routines make complex idiosyncratic relationships in dynamic business systems visible, trigger pragmatic action and contribute to competitive advantage because they drive knowledge conversions, even of authentic, hidden and difficult-to-imitate tacit knowledge. Using three case studies, the authors illustrate how dynamic business systems and creative routines affect information technology, organizational systems, and procedural systems through dialogue, improvising, and distributed leadership. They conclude that the concept of creative routines is a pragmatic way to introduce entrepreneurial processes to organizations, to leverage deep tacit knowledge, and to harness the creative forces in dynamic contexts.

While developing effective business models, identifying, and creating entrepreneurial opportunities are important, the next section examines means of exploiting opportunities for creating wealth.

Exploiting Opportunities for Wealth Creation

After entrepreneurs identify new business opportunities, they must successfully exploit them to obtain entrepreneurial rents. Successful entrepreneurs shift from exploration (a focus on activities and/or investments to reduce technological and market uncertainties surrounding the potential opportunity) to exploitation (activities and/or investments committed to building efficient business operational systems to generate profits). Moving an innovation to market quickly can realize benefits earlier while delaying its introduction may allow further development and cost reductions in production. Likewise, Choi, Levesque, and Shepherd, in chapter 7, argue that a similar trade-off exists for an entrepreneur in deciding when to shift from exploring a new opportunity to its exploitation. They suggest that, on the one hand, entrepreneurs can increase profit potential by exploiting the opportunity earlier and capitalizing on first mover advantages, but, on the other hand, entrepreneurs can reduce a new venture's mortality risk by delaying exploitation, further exploring the opportunity, and thereby reducing its liabilities of newness. The authors construct an analytical optimization model to identify the optimal time for an entrepreneur to shift from exploration to exploitation and thus maximize performance (i.e., optimize the trade-off between profit potential and mortality risk). Their optimization model results in several important propositions. First, the optimal time to exploit a new opportunity occurs when the entrepreneur's uncertainty level reaches a specific threshold that corresponds to the net expected performance of additional exploration activity, adjusted by the marginal performance of mortality risk reduction. Second, entrepreneurs should exploit new opportunities sooner when there is an increase in the unit exploration cost or the uncertainty gap (lead time). Third, entrepreneurs should exploit new opportunities later when there is an increase in mortality risk or in irreducible uncertainty. In summary, the dynamic decision rules presented by Choi et al. should assist entrepreneurs in deciding when to end exploration or when to begin to exploit opportunities.

During the last decade, information technologies have reshaped most aspects of business operations, increasing the importance of information-intensive activities. This transformation is exemplified by the proliferation of electronic entrepreneurial endeavors (both corporate and individual) and the effect these entrepreneurial ventures have had on their more traditional competitors. For example, these ventures have forced industry incumbents to modify their operations and structures, many of them creating electronic counterparts of their own. Electronic diversification through the creation of Internet-based businesses is the focus of chapter 8 by Garbi, Golden, and Richey. They examine whether traditional diversification concepts in strategic management are adequate to understand the world of e-commerce. They argue that the core competence for firms involved in electronic commerce is often the ability to share information, rather than a functional expertise in manufacturing or new product technology. As a consequence, the ability to classify these businesses into different industries, to define the reach of multiple markets, and to establish the interrelationships among the Internet-based businesses is increasingly difficult. Garbi et al. argue that in an Internet environment, differences in firm diversification are not adequately explained by product or geographic diversification or strategic groups theory. They propose that e-commerce, especially for traditional companies venturing into the electronic world, represents a different type of diversification, the logic of which is not based on products or markets but on the channel of communication and distribution. Therefore, the authors argue that channel diversification should supplement traditional product diversification concepts in the field of strategic management.

The role of large corporations as financiers of technology-based new ventures has increased dramatically in recent years to $18 billion in 2000. Despite this investment and publicized success stories, the true benefits and limitations for entrepreneurs in accepting corporate investors as co-owners of their businesses are less clear. In chapter 9, Maula and Murray report the results of an empirical investigation on the influence of corporate investors on the performance of technology-based start-up companies. Using a sample of 325 initial public offerings in information and communications industries during 1998–9, they found that start-up enterprises co-financed by highly capitalized corporations received higher valuations than comparable firms supported by venture capitalists alone. They also found that corporate-financed start-ups outperformed firms co-financed by venture capitalists. The authors argue the superior performance of co-financed new ventures is explained by three conditions: complementary certification (i.e., increased legitimacy), the realization of operational synergies, and better investment selection. They also argue that the superior performance of start-up enterprises with multiple corporate investors is the result of incremental certification, validation of emerging dominant designs, and the reduced incidence of potential conflicts of interest between the new venture and its investors. Maula and Murray suggest several implications for corporate investors, portfolio companies, and the traditional venture capitalist investors. First, corporations are not "second best" investors; they make successful equity investments into new technology-based firms. Second, traditional venture capitalists and corporate venture capitalists may be viewed as *complementary*, rather than *alternative*, sources of financial capital. Potential complementary benefits are derived from the corporate investor's depth of commercialization experience and/or technological abilities and the traditional venture capitalist's wealth of tacit experience in nurturing and development of the managerial capabilities of nascent, and often highly vulnerable, young firms. They conclude that teaming industry-leading firms with new ventures can produce superior results, and that corporate investors are attractive partners for independent venture capitalists as well as new start-up ventures.

The focus of McNamara and Vaaler's chapter is on strategic decision-making by expert organizations in a setting characterized by increasing entrepreneurial competitiveness and environmental turbulence. Decision-making in the economic landscape in the new millennium assumes inherent instability, frequent change, and constant scanning for threats from rivals. The authors integrate several perspectives to appraise how decision-making is affected by this environment. These perspectives include upper echelon theory (assessing decision-making tendencies based on the demographic background of top managers), a decision-aids perspective (decision-making heuristics used by strategic actors and the consequent behavior to which they lead), and the dynamic capabilities viewpoint (the speed of internal decision-making processes linked to the inherent volatility of the business environment in which a firm operates). While all three perspectives are of increasing relevance in the new economic landscape, McNamara and Vaaler argue that these perspectives and others suffer from a common shortcoming. They all generally assume that the decision-making individuals and processes are *internal* to the firm. Many of the key decision-making individuals and decision-making processes may be external (e.g., outside experts in law, accounting, finance, business, and various technical fields) and firms seek disinterested, objective advice regarding major strategic decisions such as acquisitions, new product and business expansions, and foreign ventures. McNamara and Vaaler investigate how the effects of crisis and competition inherent in an increasingly diverse and volatile environment might skew external expert decision-making. Using data from credit agency risk assessments of emerging-market sovereign borrowers, McNamara and Vaaler compare the turbulent 1997–8 period (beginning with the financial crisis in Thailand in mid-1997) to the more growth/stability-oriented 1987–96 period. Testing six hypotheses, they found that crisis conditions were linked to negative (and thus costly) deviations from objective risk assessment models used by the agencies. In addition, they found that the negative deviations were related to competitive factors (e.g., incumbent versus insurgent, and global versus regional specialization). The authors conclude that their study provides insights and managerial prescriptions regarding the use of external expert organizations in an entrepreneurial environment where the stresses of crisis and competition interact.

The strategic decision-making processes of top executives are important in identifying and exploiting entrepreneurial opportunities for gaining competitive advantage in a turbulent and uncertain environment. Top management teams capable of making rapid decisions can enable their firms to be the entrepreneurial first movers in their markets. Eisenhardt (1989) proposed a model of strategic decision-making speed for firms operating in high-velocity environments. This model has become highly relevant to firms in the entrepreneurial millennium. In chapter 11, Clark and Collins test this model in a sample of 66 high technology public and private firms competing in the information technology, telecommunications, and engineering services industries. Five "tactics' can be used to speed up the decision-making process. First, fast decision-makers use real-time information to continuously update their understanding of the company's competitive position. Second, they examine multiple alternatives simultaneously rather than in a serial fashion. Third, fast decision-makers screen their decisions and integrate them into an overall pattern or plan. The fourth tactic is a two-tiered advice process that uses an experienced executive "counselor" to apply speedy heuristics to the decision. The final tactic, termed "consensus with qualification", allows the CEO to use fiat if the group does not reach consensus within a specified time. Clark and Collins' results indicate that three of the tactics (real-time information, simultaneous alternatives, and decision integration) affect decision speed, providing some support for the validity of the model. They also found that two intervening processes affect the decision-making speed of top executives in volatile environments, namely, confidence to act on decisions and an ability to accelerate cognitive processing. They conclude that top executives who are able to quickly assess the competitive landscape and make good quality decisions in a timely fashion will provide their organizations with the best chance of success in the entrepreneurial millennium.

Although the issue of how to manage growth is important to all firms, it is particularly important in entrepreneurial ventures. With growth come challenges as well as opportunities. Although past research has focused on the internal problems created by a firm's growth (e.g., rapid sales growth resulting in the need for capital and trained employees), chapter 12 by Beekman and Robinson concentrates on the effects of growth on relationships external to the firm, specifically, supplier relationships. They argue that high-growth firms increasingly engage in long-term collaborative strategies with suppliers (ranging from value-chain partnerships to equity joint ventures) to improve their competitive position. Furthermore, they often retain and expand these long-term relationships with key suppliers in periods of growth. Beekman and Robinson present two contrasting theoretical perspectives on why new, high-growth firms remain with their suppliers. The first is an economic exchange perspective that draws on transaction cost and resource-based theory. This perspective is based primarily on the effectiveness of the supplier relationship. Performance factors, such as reducing costs, improving product quality, and increasing efficiency, are critical, along with the extent to which the relationship allows the focal firm to concentrate more on its core business. The second perspective is based on social exchange where strong interpersonal ties create stability and facilitate cooperation between organizations. Additionally, trust and open communication are emphasized and detailed and timely information is shared. To test these two perspectives, the authors gathered survey data from high-growth firms in the pharmaceutical industry between 1994 and 1997. The results suggest that rapid-growth companies' partnerships follow a contingency model. A strong relationship between a focal firm and a supply partner is important, but it is likely to explain the continuation or expansion of business between firms only when the firm's top purchasing criteria like price, quality or availability are satisfied. After a supplier meets the competitive criteria critical to a focal firm, a strong relationship can lead the focal firm to expand its business with the supplier.

Conclusion

Businesses now operate in a new economic landscape in the entrepreneurial millennium. New ventures and large corporations must be entrepreneurial to survive, much less produce positive abnormal returns for shareholders. The economic landscape in the latter half of the 1990s showed the potential but the new millennium was ushered in with a vision of the challenges faced by firms to survive and succeed in the new competitive landscape (Hitt, 2000).

Firms must identify and exploit valuable opportunities in existing markets or create new ones. However, in the entrepreneurial millennium, they must do more. They must also be strategic. Thus, firms must integrate opportunity-seeking and advantage-seeking behaviors, what others have referred to as strategic entrepreneurship (Hitt et al., 2001, 2002). As explained in the chapters in this book, firms must develop and use new and effective business models. They can employ tools from other business disciplines such as real options to evaluate future opportunities. Because of a need for greater and complementary resources, firms are likely to engage in alliances and strategic networks. Alliances may thus enhance firms' entrepreneurial capabilities. These networks even present opportunities for entrepreneurial intermediation. The most successful firms in the entrepreneurial millennium will effectively manage knowledge creation, diffusion and application.

To exploit entrepreneurial opportunities, managers/entrepreneurs must balance the need for exploration and the need for exploitation of opportunities. They must seek and obtain the most effective forms of venture capital and balance risk and expert knowledge in making critical strategic decisions. Additionally, decisions must be made quickly because of the rapidity of change in the dynamic economic landscape. Finally, because of the importance of alliances for access to resources, firms must effectively manage external relationships (e.g., relationships with suppliers) (Ireland et al., 2002).

The twenty-first century is an exciting economic time, full of entrepreneurial opportunities. However, it will face complex and difficult challenges as well. Only the fittest will survive. This book provides information on how to prepare for and meet these challenges with effective strategies that will create value in the new millennium.

Note

1 Parts of this chapter draw on the work of Bertrand Shelton of Booz, Allen & Hamilton.

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