Innovative Turning Points in the Path to Entrepreneurial Success

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ABSTRACT

In a study of highly successful privately owned firms, a very large percentage of CEOs reported a specific strategic turning point in their companies' histories that was instrumental toward their success. This paper proves this phenomenon and relates it to existing theories of organizational innovation and organizational life cycles.

INTRODUCTION

A recent research project conducted by the Business Research Institute and the Small Business Institute at Hofstra University, in conjunction with Peat Marwick Main & Co. and the Long Island Business News, identified the fifty largest privately owned companies headquartered on Long Island, New York (5). (Ranking was by 1986 sales revenues, ranging from $532 million to $14 million.) While this research generated a variety of data and findings, a particularly interesting result was that 72% of the respondents (21 of the 29 who answered the relevant questions in the survey instrument) were able to describe a specific strategic decision or turning point in their companies' histories that was critical to their success. Thus, rather than a smooth and fairly even path to success, there was instead some critical incident that accelerated the firm in that direction.

Two areas of organizational theory can be related to this research finding. One is the theory of "organizational innovation." This research focuses on the idea that some firms tend to be more innovative than others, and research in this area usually aims to identify factors that can be correlated with such innovation, and perhaps be identified as causal to innovation.

A second area of research relating to the study reported on in this paper involves the concept of an "organizational life cycle." This research area focuses on whether firms tend to follow a cycle of stages in their histories, and whether these stages are universally consistent in type and sequence.

STRATEGIC TURNING POINTS

The companies identified in this research study provided a good cross-section of highly successful firms. As the top fifty privately owned companies in a region of 2.7 million people, having a "gross regional product" of over $40 billion, these are indeed very successful firms. Furthermore, they represent a wide variety of industries and vary considerably in number of employees (4200 to 16) and in age (72 to 2 years).

These firms, and their CEOs, were initially identified through a publicity campaign using direct mail and the media. The resulting listing was audited and verified, and judged by experts to be at least 90% complete. A personal interview was conducted with a 20% stratified sample of the CEOs, and a followup mail survey was then conducted with the entire set of fifty firms. Thirty-five of the fifty firms responded to this mail survey with no unusual patterns of non-response. Not all respondents answered all survey questions.

While most of the responses and findings were consistent with the existing literature, the data on "turning points" stands out. As previously stated, 72% of the mail survey respondents answered "yes" to the question: "Can you identify a specific strategic decision or turning point in your company's history that was critical to its current success?"

For example, one CEO related that the unexpected loss of his firm's major customer forced him to become more aggressive and innovative and this led to sales and profits much greater than before. Another CEO told how the decision to computerize his firm's entire operations enabled him to serve his customers with a level of quality and speed that could not be matched by his competitors. Other critical turning points included a move from consumer to commercial target markets, and being the first firm in an industry to satisfy a new market demand created by a change in a state commercial code.

While it is not feasible in this paper to list or summarize each and all of the critical incidents reported, some summary analyses can be made. We can categorize the CEOs' responses by type of strategic decision (some CEOs reported more than one):

Specific change of marketing focus, operations, services, products, etc.	14
Diversification, acquisition, growth strategy	4
New general level of effort, aggressiveness	4
Other (specific person hired)	1

Thus, most of the turning points involved a specific strategic move—a new target market, product line, type of service offered, operational method, etc. Broader strategic moves in the form of growth or expansion, or more general and less specific increases in corporate energy were less common.

We can further categorize these turning points into those that were internally generated versus those that were the result of an external impetus:

External impetus	3
Crisis situation	1
Internally initiated	17

Most of these strategic moves were not implemented because some external factor forced the company's management to reactively respond, but rather were the results of unforced innovative and proactive thinking by management. Only three of the reported critical incidents were the result of a specific and fully-developed external opportunity presenting itself to management (example: the opportunity to become the American distributor of a new foreign-made product, which subsequently became a huge seller), and only one strategic move was forced upon management in response to a crisis (the loss of the primary customer mentioned above).

ORGANIZATIONAL INNOVATION THEORY

Much has been written in the area of innovation in organization. This research and writing is part of the broader discipline of strategic management. Most researchers conclude that innovation is basic to all organizations, but to varying degrees. Miller and Friesen conclude that *momentum* is a pervasive force in all organizations, and innovative actions by management are part of this momentum (2). Quinn refers to this process as "logical incrementalism" and discusses "precipitating events" that lead to organizational innovation (6). These events might be external or internal, over which management may have little or no control, and they have significant impact on the strategic decisions of the organization. Examples given by Quinn include decisions forced upon General Motors by the 1973-74 oil crisis, and the opportunity presented to Haloid Corp. (later Xerox) by the invention of xerography.

The writings in this area present a wide variety of findings and conclusions, with many different resulting listings of factors that may correlate with or precipitate innovation. After analyzing the various innovation theories, Miller and Friesen conclude that this variation in findings is due to the fact that there are two basically different types of firms, and that innovation theories and precipitating events appropriate to one type are inappropriate to the other (3). One type of firm is "Conservative" and these firms innovate only in response to challenges, which are usually external. The other type of firm is "Entrepreneurial" and innovation here is a natural and internally-generated process, and will continue as long as resources are not being squandered in the process. As will be discussed further on in this paper, this model works well in the analysis of this current study.

ORGANIZATIONAL LIFE CYCLE THEORY

This area has also seen much research and resultant writings. Greiner, an early writer in this field, concluded that organizations tend to move through five stages of growth in a life cycle: "Creativity," "Direction," "Delegation," "Coordination," and "Collaboration (1)." These stages tend to follow this particular sequence, and thus Greiner postulates that managers should identify the stage they are currently in so that they can anticipate the following stages and the appropriate strategic actions. Subsequent writers developed similar models of life cycle stages, but often with a different number of stages and/or different descriptive designations. As in innovation theory, such models often included events or factors that correlated with or precipitated these stages.

Miller and Friesen have here, too, attempted to analyze and consolidate these various writings (4). Their research concluded that five separate stages do exist: "Birth," "Growth," "Maturity," "Revival," and "Decline," and that for each stage there are correlations with certain factors of environment, strategy, structure, and decision making methods. However, they also conclude that the sequence of stages is not set, but can vary among different organizations.

ANALYSIS AND CONCLUSIONS

We can relate the findings of this current research study to the previous findings in organizational innovation theory. The innovation reported by this current sample of firms seems to be both natural and internally generated, as in Miller and Friesen's "Entrepreneurial Model" and in opposition to the externally-generated innovation in their "Conservative" model. However, while "Entrepreneurial" firms are supposed to generate frequent innovation, the majority of firms in this current sample reported only one clear strategic turning point in their histories. Furthermore, few of the reporting firms' CEOs were able to identify a precipitating factor leading to the innovation.

These differences between the current sample and the "Entrepreneurial" model may be due to the fact that these current firms are privately owned, while most previous research studied publicly traded companies. These latter firms may have a greater pressure from, and obligation to, their stockholders to constantly innovate and grow, while privately owned firms are usually not under such pressure. Also, the absence of *reported* precipitating factors does not mean that such events did not occur; and it is quite possible that these reporting CEOs, being unaccustomed to frequent innovation, simply did not recognize such events.

We can also relate these current findings to organizational life cycle theory. Most of the firms in this study can be characterized as having passed through Miller and Friesen's synthesis life cycle "Birth" stage, with simple and informal structures, domination by their owners, and much struggling. Most also then moved on to a subsequent "Growth" stage, with the firm establishing distinctive competencies, some product-market success, rapid sales growth, larger economies of scale, functionally-based organizational structure, more formal procedures, and some authority delegated to non-owner middle managers. A number of the higher-ranking firms in the sample have now entered the "Maturity" stage of the life cycle, with sales volume stabilizing, innovation in the past, a more bureaucratic structure, and goals more conservative than in the "Growth" stage. Finally, only a very few firms at the top of the listing seem to have reached the "Revival" stage, with diversification and expansion of product-market scope, generally accomplished through acquisitions and/or mergers. None of these firms appear to be in a "Decline" stage of the life cycle. Thus, this current sample seems to fit the Miller and Friesen model, both in life cycle stage type and sequence.

Of course, a further and deeper probing of this sample would be desirable. Ideally, in-depth personal interviews with *all* of the firms' CEOs would provide better data than the mail survey instrument did, and would thus strengthen these conclusions. Still, this research is of value in that it provides data from a type of business firm rarely studied—the *successful yet still privately owned firm.* This data indicates that these firms, while not identical to publicly traded firms, with their pressures to grow, do seem to fit many aspects of current theories of organizational innovation and life cycles. The authors are currently engaged in further research and analysis in this area.

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