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Secular stagnation, faltering innovation, and high uncertainty: New-era entrepreneurship appraisal using knowledge-based thinking☆

Panagiotis E. Petrakis ^{*}, Pantelis C. Kostis ¹, Kyriaki I. Kafka ¹

University of Athens, Department of Economics, 5 Stadiou Street, PC 10562 Athens, Greece

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ABSTRACT

In the new era—mainly after the recent global financial crisis—conditions skyrocket uncertainty episodes, while innovation falters and low average nominal returns on entrepreneurial investments occur. Under those circumstances, the traditional instruments of entrepreneurial appraisal and entrepreneurial decisions, limit the utility and endanger the development of entrepreneurship. A need exists for new approaches—such as the creative strategic scenario thinking analysis—that take into account the personal characteristics of the managers and the entrepreneurs, and the new-era conditions, through a combination of strategic thinking and scenario planning, and taking into account the essential role of creativity. This analytical approach can serve as an entrepreneurship appraisal and as a tool to manage future challenges and develop a future competitive advantage. This framework could serve as a mainstream guideline for managers and entrepreneurs who scope to gain and sustain a competitive advantage under the conditions prevailing in the future.

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1. Introduction

Uncertainty episodes and their management highly influence the way entrepreneurs use available resources. The future is inherently uncertain (Stickel, 2001), affecting present and future entrepreneurial action. Furthermore, the world is entering a long period of low average nominal returns on entrepreneurial investments.

Traditional methods cannot incorporate the changing environment of low rates of return and high uncertainty. Consequently, the traditional instruments of entrepreneurial appraisal have low utility and endanger future entrepreneurship. A need exists for new instruments to be used.

The study addresses the importance and centrality of strategic planning in decision-making processes, aiming to present a new framework of entrepreneurship appraisal that could be more efficient under conditions of high uncertainty and low rates of return than traditional evaluation methods, and could serve as tool to manage future challenges and develop a future competitive advantage. Furthermore, the aim is to present the need for such a strategy as well as the basic framework of that new appraisal tool. Due to the fact that trends that increase uncertainty characterize new-era conditions, this framework is interesting for

both researchers and practitioners and could serve as a mainstream guideline for managers and entrepreneurs who scope to gain and sustain a competitive advantage under the conditions that are going to prevail.

The study has the following structure: Section 2 presents a theoretical investigation of the basic notions. Section 3 presents the new-era conditions that are going to shape the future, and Section 4 describes how personal characteristics relate with uncertainty. Section 5 presents the different levels of uncertainty and how entrepreneurs and managers deal with those levels. Section 6 presents the reasons why traditional appraisal methods fail. Lastly, Section 7 presents a new entrepreneurship appraisal using knowledge-based thinking. Section 8 comes with the conclusions.

2. Theoretical background

The future underlies great uncertainty (Grunwald, 2013). However, the concept of uncertainty differs from that of risk. Knight (1921) clarifies this differentiation; risk refers to recurring events with a relative frequency and therefore predicted with some reasonable accuracy, whereas uncertainty refers to non-recurring events, which cannot provide precursor signs for the development of the future.

The notion of entrepreneurship refers to the right combination of resources to create innovations, and to the recognition of entrepreneurial opportunities (Shane & Venkataraman, 2000). In the literature, some general positions exist on the types and sources of entrepreneurial opportunities (Kirzner, 1973; Schumpeter, 1934) however, Shane and

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* Corresponding author. Tel.: +30 2103689353; fax: +30 2103689352.

E-mail addresses: ppetrak@econ.uoa.gr (P.E. Petrakis), pkostis@econ.uoa.gr (P.C. Kostis), kkafka@econ.uoa.gr (K.I. Kafka).

¹ Tel.: +30 2103689368.

Venkataaraman (2000) essentially associate opportunities with entrepreneurship.

Entrepreneurial opportunity recognition and exploitation aim to generate sufficient returns to offset the existence of high uncertainty (Drucker, 1985). Two basic schools of thought deal with the connection between uncertainty and entrepreneurial activity. The first school focuses on differentiations in the quality and the level of knowledge and information that determine the level of uncertainty (Gaglio & Katz, 2001; Kaish & Gilad, 1991). The second school focuses on factors that differentiate entrepreneurs from other entrepreneurs (Douglas & Shepherd, 2000; Schumpeter, 1934).

Measuring uncertainty and the strategic planning process of the enterprises are directly related (Kennedy & Avila, 2013; Teal, 2011). Strategic planning assumes that future is not accurately predictable because some uncertainty levels are more quantifiable than others. However, measurement is a difficult process because measurement includes elements from many disciplines.

Uncertainty hinders strategic decisions' ability to predict future developments. Under these conditions, differentiating the level of risk is difficult but essential for enterprises. Those enterprises that follow the adoption-driven strategic decisions—under conditions of uncertainty—follow conventional instruments to improve their strategy. Conversely, enterprises that decide to innovate strategically focus on restructuring and reorganizing the problem.

The dominance of planning-based decision-making processes in both research and practice is a major issue in the literature. Previous research analyzes the value of prediction-based planning under conditions of uncertainty (Mintzberg, 1994; Sarasvathy, 2001). Mintzberg (1994) suggests that strategic planning is not like strategic thinking because strategic planning often spoils strategic thinking, causing managers to confuse real vision with the manipulation of numbers. Mintzberg argues that the most successful strategies are visions, not plans. Sarasvathy (2001) clarifies that, under conditions of uncertainty, entrepreneurs are virtually unable to discover future opportunities by using scenario techniques or other prediction tools. Nevertheless, entrepreneurs must shape their own future by creating new business opportunities themselves.

However, some works state that strategic planning continues to play a dominant role in management and entrepreneurship theories and in practice (Spee & Jarzabkowski, 2011). Scenario planning does not intend to predict the future (Amer, Daim, & Jetter, 2013), but to explore possible future situations to broaden the minds of participants in the scenario development process (Godet, 2000). The purpose of forecasts is to estimate uncertainty in a way (Pillkahn, 2008). Scenario planning creates a set of plausible futures, usually for longer-term decision-making actions that take place in the present but whose effects are realized in the long run (Kennedy & Avila, 2013).

Scenarios supply a sense of the opportunities and threats of the future (Goodwin & Wright, 2010). Thus, scenario planning investigates possible future situations and helps in transforming uncertainty into a source of competitive advantage (Phelps, Chan, & Kapsalis, 2001). However, this process cannot eliminate uncertainty.

Scenario planning offers the necessary flexibility to enterprises, adding a competitive advantage because scenario planning offers a greater ability to adapt to the changing conditions of the environment and to exploit the opportunities arising (Dreyer & Grønhaug, 2004). Strategic flexibility is the ability to act in a way different than that initially intended (Roberts & Stockport, 2014) and is necessary in order to encounter future challenges (Golden & Powel, 2000) and enhance firm performance (Nadkarni & Narayanan, 2007).

Lastly, scenario planning offers a dynamic picture of the future incorporating the changes of a not easily predictable world. Scenario planning is a spiritual procedure, being creativity the core of scenario planning. Furthermore, there is a need for using creativity in scenario development (van Duijne, 2013). Creative entrepreneurs' cognitive style affects entrepreneurial success (Chen, Chang, & Lo, 2015).

Creativity helps confronting high uncertainty and managing complex situations. The outcome of the unexpected daily situations that enterprises confront requires creative thinking.

3. The new era conditions

The literature identifies certain unavoidable economic and social changes affecting all participants in the world economy, increasing uncertainty. Such changes are (Petrakis & Konstantakopoulou, 2015): (1) the new multipolar and globalized world; (2) the full competition and market liberalization conditions; (3) the hyper-competition; (4) the transformation from industry to the economy of services; (5) the empowerment of individuals against the changing conditions of globalization; (6) the aging of population; (7) the migration problem; (8) climate change; and (9) the disrupting technologies. Although seemingly inevitable, those conditions are going to increase uncertainty levels because their influences are inevitably unpredictable regarding the economies and the societies.

Since the 1950s, the broad adoption of monetary policy leads to a significant increase in the global money supply, which in turn decreases interest rates and thus investment incentives are diminished creating dilemmas for investors regarding whether accepting low returns to protect capital, or assuming some risk in order to achieve higher returns.

Secular stagnation conditions, which seem to be present in the aftermath of the global crisis, feed low interest rates and hence low returns and increased uncertainty (Hansen, 1938; Summers, 2014). This is the condition when negative real interest rates are necessary to equate saving and investment for the restoration of full employment. If confirmation of secular stagnation conditions occurs, the classic monetary and fiscal tools will not be sufficient (Wolff, 2014). Thus, economists and policymakers should begin considering how to deal with these problems should they arise (Summers, 2014; Teulings & Baldwin, 2014). In such periods, deflation and negative interest rates create disincentives for new investment while the lack of investment leads to lower income and to the outflow of savings.

Secular stagnation conditions occur mainly because of innovation faltering (Gordon, 2012). The key premise is that innovation, technological progress, and economic growth do not evolve constantly (Cowen, 2011). Technological progress will decelerate in the near future (Rodrik, 2013), because many fundamental one-time-only inventions already exist, and thus the potential for a continuing stream of basic inventions decreases (Gordon, 2012). Meanwhile, technological developments will probably increase knowledge accumulation significantly, leading future generations to innovate and address educational and knowledge burdens (Jones, 2009). Even though some optimists criticize those hypotheses (Brynjolfsson & McAfee, 2014), those scholars partly agree with Gordon (2012) on the considerable challenges that high-income economies face.

4. Personal characteristics dealing with uncertainty

Cultural background and personality traits determine the behavior of individuals and societies under high uncertainty levels. An important feature of cultural dimensions (Hofstede, 1980) is that those dimensions can rapidly change, but require gradual and long-term adjustments (Petrakis & Kostis, 2013). This slow transition of cultural background helps companies mitigate the level of uncertainty by making strategic decisions because those decisions can efficiently predict future conditions. Thus, culture is very important in entrepreneurship (Petrakis & Kostis, 2014) and hence in decision making under uncertainty. In addition, business decisions should consider the influence of cultural background. The role of culture is also essential in innovation and competitiveness performance (Petrakis, Kostis, & Valsamis, 2015).

Furthermore, human personality traits play a significant role in the development of business plans and scenarios. Often, managers' incorrect estimates do not result from confusion due to uncertainty or

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