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HOW RISK, COMPLEXITY AND UNCERTAINTY OVERSHADOWED BY INNOVATION: STRATEGIC PLANNING REVIEW

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ABSTRACT

When starting a business, entrepreneurs take a substantial amount of risk and uncertainty. In recent times, how we can find a clue to deal with a world that is a complex which is still unanswered. Thus dealing with uncertainty and complexity are becoming increasingly important. Risk refers to situations in which the outcome of an event is unknown but the decision maker knows the range of possible outcomes and the probabilities of each such that anyone with the same information and beliefs would make the same prediction. Uncertainty, by contrast, characterizes situations in which the range of possible outcomes is unknown. Strategic management theory helps provide knowledge into the empire of uncertainty i.e. strategic planning. One of the key to make the future manageable despite its complexity might be due to future developments based on past and present experiences.

Keywords: risk, complexity; uncertainty; strategic entrepreneurship; strategic planning; small business;

1 INTRODUCTION

The question as to how to deal with a world that is complex which is still difficult to answer. According to Marx (1852) – we can learn from the past but we need to be aware of the changes from our models of the past at the same time. Change opens opportunities for exploitation through entrepreneurship and innovation. It also correlates with a decrease in certainty about the direction of change and the right choices to make, which is usually reduced through negation of uncertainty and counterarguments by specific schools of thought or practices (Lefebvre and Letiche, 1999) thus leading to ‘competing’ alternative options and perspectives. This is

usually perceived as uncertainty and risk from the outside – particularly so for young and not-yet-established players(Ball, S., Eckel, C., & Heracleous, M. (2010). The entrepreneurial ‘change agents’ in the process of ‘creative destruction’ (Schumpeter, 1934) contribute themselves to increasing change and complexity: ‘(t)he entrepreneur always searches for change, responds to it and exploits it as an opportunity’(Drucker, 1986). Drucker (1986) argues that entrepreneurship and innovation should not be based in intuition but in the organised and systematic search for opportunities. ‘Entrepreneurship is ‘risky’ mainly because so few of the so-called entrepreneurs know what they are doing (Daruvala, D., 2007). They lack the methodology’ (Drucker, 1986). However, as entrepreneurs shift resources from areas of low

productivity and yield to areas of higher productivity and yield it should actually be less risky than optimizing existing products, services and processes (Neilson, W. S. (2010). To be less risky in practice, entrepreneurship needs to be 'systematic,... managed (and) above all it needs to be based on *purposefull innovation*' (Drucker, 1986). Drucker (1986) further argues that innovation stems from the unexpected, where assumptions about developments and their causes deviate from reality – which entails the major risk for management of established and entrepreneurial ventures (Wakker, P. P, 2008).

At first we discuss certainty and uncertainty based on Knight and Blau followed by complexity based on Schumpeter, then research into strategic planning in entrepreneurial ventures, followed by implications to be drawn.

2 Certainty and uncertainty

Uncertainty characterizes situations in which the range of possible outcomes is unknown. Thompson (1967) regards uncertainty appears as the fundamental problem for complex organizations and coping with uncertainty as the essence of the administrative process. Knight discussed strategies of business organizations in relation to issues of planning certainties. Knight (1921) argues that modern dynamic economic societies do not meet this premise. 'With uncertainty absent, man's energies are devoted altogether to doing things; it is doubtful whether intelligence itself would exist in such a situation. With uncertainty present, doing things, the actual execution of activity, becomes in a real sense a secondary part of life; the primary problem or function is deciding what to do and how to do it' (p.268). Knight's (1921) premise is that we are in a world of dynamics and related uncertainties. If we want to understand the economic system adequately, we have to arrive at a better understanding of uncertainties and corresponding zones of complexities. Expectations and certainties are separated by the issue of uncertainty.

Langlois and Everett (1992) are convinced: 'by contrast, genuine uncertainty may be best dealt with by a large number of small organisations who can try out different paths. This genuine uncertainty calls for system-wide trial-and-error learning. To put it another way, genuine uncertainty is best dealt with by entrepreneurs capable of imaginative leaps when the structure of the problem is unknown.

3 Uncertainty and the Entrepreneur

Entrepreneurs are treated as agents to introduce new inputs into the economy. Schumpeter defined an entrepreneur as a person who comes up with 'new combinations' (new goods, new methods of production, new markets, new sources of supply, new organizations of any industry or combinations between these items), which are commonly called innovation. The activity of entrepreneurs is fundamental for economic development.

Entrepreneurship is regarded as an institution, which has to carry out the function to provide innovations. According to Schumpeter, the economic function of entrepreneurship is to initiate and to continue the process of creative destruction as the 'permanent storm of capitalist development'. In this view, entrepreneurs act as personifications of economically necessary functions of economic change. Schumpeter's definition is remarkable since he considers only those economic actors as who create 'new combinations' and this almost risk taking with credited capital. In this sense, entrepreneurial being is 'not a profession and as a rule not a lasting condition' (Schumpeter, 1963).

4 Entrepreneurial change and managerial challenge

Change opens opportunities for exploitation through entrepreneurship and innovation. It also correlates with a decrease in certainty about the direction of change and the right choices to make, which is usually reduced through negation of uncertainty and counterarguments by specific schools of thought or practice (Lefebvre and

Letiche, 1999), thus leading to a proliferation of ‘competing’ alternative options and perspectives. This is usually perceived as uncertainty and risk from the outside – particularly so for young and not-yet-established players. The entrepreneurial ‘change agents’ in the process of ‘creative destruction’ (Schumpeter, 1934) contribute themselves to increasing change and complexity: “(t)he entrepreneur always searches for change, responds to it and exploits it as an opportunity” (Drucker, 1986).

In the following we argue that the creation of a business plan is a learning process that requires a planner/strategist to systematically think through the elements of his business concept and alternative developments. In the process he becomes aware of the assumptions on which scenarios rest. However, the actual record of planning seems mixed at best as argued by Mintzberg (1994) for large organizations. The record for more agile and flexible organizations might be better, but a deeper analysis reveals that it is not.

5 Strategic planning as learning tool

Strategic planning can be used as a systematic approach to conquer uncertainty and complexity. Large parts of the academic literature understand planning as a key to business success (Crawford-Lucas, 1992). However, several scientific studies stress the fact that planning is rarely prevalent in SMEs. Smaller businesses often prepare formal plans only on an irregular basis, and behaviour and decisions often are based rather on intuition than thorough planning. Even though the relationship between planning and performance has been in the centre of interest of numerous scientific studies, it has been widely dealt with in a black-box way and no consistent results have been presented up to now: Researching the relationship between planning and business success, some studies present a positive relation [e.g., Schwenk and Shrader (1993), and others find mixed results Shrader et

al. (1989)] or even fail to identify any relationship (e.g., Robinson and Pearce, 1983). Thus, the planning-performance relationship in small businesses has stayed inconclusive.

Even though a number of studies failed to identify a positive effect of planning for small and young ventures, we highlight the indirect contribution to management, as formal strategic planning enhances management skills through the process of business planning. With an increase in size, strategic planning gets more formal and elaborate in keeping with Blau’s (1974) arguments and Chandler’s observations. A business plan provides information on key questions about the vision a young enterprise strives to realise, and the operational details about how it plans to get there (Honig and Karlsson, 2004). We understand written business plans as a systematic ‘summary’ of all strategic activities and assumption-based plans in a company. In that respect they follow Drucker’s (1986) call for a systematic approach to innovative, entrepreneurial activities. In this vein, we assess business plans as a systematic learning device for dealing with uncertainty and complexity and their catalytic effect on success. Drawing up a business plan promotes critical thinking, group decisions (Baker et al., 1993) and forces the management to actively deal with and explicitly formulate goals, strategies and plans of the enterprise. Thus, the management learns more about possible alternatives, its environment and discovers logic flaws in planning based solely on thinking from step to step.

6 DISCUSSIONS

If complexity and speed of planning do not match the dynamics and the complexity of the environment, then planning might not have the desired results or even do harm – transferring the requisite variety lesson from systems science (Ashby, 1956). Planning marks successful companies as it aids the enterprise to better

understand the circumstances of its business and prepare for the future. Accordingly, planning can be helpful for coping with the insecurities of business, and thus brings a beneficial value for the future for young companies above pure capital acquisition. Strategic planning especially helps saving time and enhances management professionalism after a company's start-up. Producing a business plan may facilitate entrepreneurs' recognition of the breadth and complexity of their business.

Therefore, a business plan should not be limited to the start-up of an enterprise, but instead also used as a continuous working document for planning (Hormozi et al., 2002).

7 CONCLUSION

Since the situation of SMEs, and here particularly young enterprises, is often less 'proven' and their 'strategies' are less explored over time, tools useful to them will have to enable young and small organisations to deal with external uncertainty and complexity. Such tools need to enable them to build their vision, find and expand their niche (while larger organisations need strategic tools often to deal with their internal complexity).

To conclude: SMEs are challenged particularly by the uncertainty of future developments. Planning can help to make uncertain developments more 'controllable'. The tool to do so is a business plan, as it requires entrepreneurs/managers to start thinking and learning about potential future conditions and developments. Despite practical shortcomings of this tool, and some gaps in the literature, business plans can serve as a particularly relevant element in entrepreneurial success.

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