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How innovative entrepreneurs face the unknown

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Why do some innovative entrepreneurial firms obtain private financing and grow successfully? We often point to charismatic founders, revolutionary technologies, and sound strategic thinking as the key drivers of successful growth. The reality, however, is much more complex and interesting.

Anecdotal success stories about leadership and innovation are useful. But many entrepreneurs become good leaders as a result of the venturing process. Disruptive innovations aren't easily predicted in advance. And, perhaps most surprising, innovative entrepreneurs don't rely on traditional tools of strategy for decision-making.

Should this be surprising? The strategic tools of competitive positioning and advantage, which dominate books on entrepreneurship and the courses we teach on new venture creation, were developed to maximize profitability in established competitive environments. But innovative entrepreneurs operate in no-mans-lands, often competing in new and uncharted territories, revealing or even creating entirely new markets. How, then, do these entrepreneurs navigate, when the compass of corporate strategy no longer points true?

After 4 years of research on innovative entrepreneurs and business model innovation, we have learned a few key lessons. We used in-depth study of more than a dozen innovative entrepreneurial organisations across geographies and industries, including companies like Return Path, Cellular Dynamics, and Metalysis. Return Path (New York) is the world leader in email deliverability; Cellular Dynamics (Madison, Wisconsin, USA) is the world leader in stem cell technology products, and Metalysis (Sheffield) is commercializing the first significant innovation in high-value metals ore processing in more than 50 years. We also used survey information from nearly 1000 other companies around the world to better understand business model innovation and organizational change.

Facing the unknown, innovative entrepreneurs both rely on, and actively manage, organisational narrative. They think about strategy, but they consider what makes sense within the firm as well as how the company competes. Metalysis, for example, chose to defer focusing on a single commercial business model, despite traditional strategic theories of core competence. Dramatic differences in target market scale for the firm's initial metals would have required devoting its full resource base without leveraging the platform technology. In a competitive strategy context that would have been a necessary risk, but there is no competitive context for Metalysis' core technology. Instead, the firm raised venture capital to support continued internal development of commercial applications targeting both metals markets, increasing the probability of establishing a high value joint venture in both.

Similarly, Cellular Dynamics is arguably two companies, operating with dramatically different business models, linked by a common technology platform. Strategic theory recommends separating and optimising distinct value chains, but Cellular Dynamics is creating both a market

and a competitive context as it grows. The story of the world's most advanced stem cell company is more compelling than two well-positioned but smaller firms in diagnostics and therapeutics.

In contrast, Return Path has been through at least three business model incarnations since inception in 1999. The firm faced a significant challenge when its implicit support of third-party marketing email campaigns was at odds with the values espoused by executives and employees. To maintain the narrative of “the good guys in the email space,” the executive team decertified that product, risking nearly 5% of the firm's revenues. It would be easy to question the decision from a competitive strategy perspective, but it made sense given the company's commitment to its employees. In the end, its customers agreed with the need to maintain high standards for what constitutes “good” email. Partly as a result of this decision, Return Path continues to dominate the whitelisting market globally, with more than 65% share covering 2 billion email inboxes.

Does it really make sense to create a coherent organizational story? Combined these three firms have raised more than \$150 million in venture capital, and each is a leader in its industry segment in both technology innovation and market development.

Do entrepreneurs need to know strategy? Almost certainly. Research has yet to reveal more powerful tools for how firms compete and succeed, especially in dynamic and rapidly changing industries. But we shouldn't confuse strategic theory with certainty. The lessons of innovative entrepreneurs show us that new business models and new narratives change the very nature of markets and competitive environments. When entrepreneurs change the rules, making sense of opportunities may be more important than making strategy.

Dr. Adam J. Bock is Lecturer of Entrepreneurship at The University of Edinburgh Business School. He is also the co-founder of three medical device start-ups spun out of university research projects, and the former manager of angel networks that invested more than \$10 million into tech ventures in the U.S. He is the co-author, with Professor Gerry George of Imperial College, of *Models Of Opportunity: How entrepreneurs design firms to achieve the unexpected*, which will publish in February 2012 (Cambridge Press).