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## THE ECONOMIC RECESSION: A TIME FOR RISK-TAKING?

When historians and economists study the recession unleashed last August, they will find that hard times sent many chief executive officers scurrying down a belt-tightening, budget-cutting road of managerial conservatism.

But they may also see evidence of one of Georgia Tech professor Jeff Covin's beliefs -- that conservative reaction, while common during difficult economic circumstances, may not always be a firm's best option.

"In the face of uncertainty, organizations clam up and weather the storm," says Covin, associate professor of strategic management. "What's interesting is that in that (recessional) type of setting an entrepreneurial style often works best."

Entrepreneurial



*Georgia Tech researcher Jeff Covin says that some industries may benefit from entrepreneurial management during recessions -- a time when most firms become more conservative.*

organizational behavior is characterized by innovation and competitive pro-activeness. Firms adopting this management style boldly pursue high-risk projects with potentially big returns and take actions that leave competitors scrambling to respond. They invest in research, development, new product offerings and technological advancement, all actions typically postponed during recession.

A recession can be a good time to try

entrepreneurial management because the slow economy often creates a hostile business climate characterized by few opportunities, intense competition and an overall harsh environment.

"Entrepreneurship is often associated with success in this type of environment," Covin says. "Firms are struggling to find some sort of competitive advantage. They need to offer something new and different to attract business to themselves."

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Covin bases his idea on research he has conducted with Professor Dennis Slevin of the University of Pittsburgh. Their findings and conclusions, based on examinations of more than 200 manufacturing firms facing various levels of environmental hostility, are summarized in an article published in the Winter 1990 edition of Sloan Management Review.

A firm's entrepreneurial behavior may

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range from offering a standard item in a few additional colors to launching a whole new product or service.

“There are different ways to pull it off,” Covin says. “Companies need to be sure they are being entrepreneurial in the right directions.”

Such objectives are often accomplished by working closely with final customers in the development of new products, thereby insuring that the firm's innovations address a real market need.

But Covin cautions that entrepreneurial management may require some firms to make additional changes -- in organization, for example. Firms with rigid, restricted structures do not tend to execute entrepreneurial endeavors as smoothly as those with open communication and loosely controlled organization.

“Leaders may decide the company needs to become more entrepreneurial, but maintain their centralized, formal type of structure,” Covin explains. “Because of the rigidity of organization, they can't respond to competitive moves generated by their entrepreneurship.”

And entrepreneurial style is not right for everyone, he notes. Covin's studies of mature industries, such as those producing paper or textiles, show very little correlation between entrepreneurial behavior and a firm's financial performance. Improving operating efficiency and refining products are often relatively more important to firm success.

In contrast, Covin's studies of technologically intense, intense, emerging industries such as robotics and biotechnology reveal a strong, positive link between entrepreneurial firm behavior and financial performance.

“Recession can create market opportunities,” Covin says. “Nonetheless, firms tend to shy away from entrepreneurial behavior during harsh economic times. The irony is that entrepreneurial management can have its greatest positive impact on a company's financial health during such times.”

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