Entrepreneurial Characteristics and Strategic Choices of New Venture Firms

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This study tries to understand how entrepreneurial characteristics affect strategic choices of new venture firms at three areas; resource acquisition and allocation, broad or niche strategy and choice of strategic alliances. It also explains how these strategic choices affect the performance of new ventures in terms of survival and growth. Two case studies were done on two new ventures funded by Center of Innovation, Incubation and Entrepreneurship in IIMA, and after analysis it was found that, entrepreneurial characteristics influence the strategic choices related to resources, strategy formulation and strategic alliances and these choices affect the performance of the new ventures.

1. Introduction

Fast changes in the environment provide unique opportunities not only to existing business organizations, but also to entrepreneurs to set up new firms and grow. Business environment in India in the last two decades is characterized by fast changes in the environment and, thus, setting up of new venture firms. However, this field of management has not received desired level of attention of management scholars in India. Existing theories need to be extended to this context.

Roure and Keeley (1989) emphasize on the managerial skills with strategic choice, market and industry. According to Hudson, Schroeder, and Van de Van (1984) and Sandberg and Hofer (1987) new venture performance depends on entrepreneurship characteristics, industry structure and strategy. This paper examines new venture firm strategy and performance using two Indian New Venture firms Edu Health and Gridbots. The paper develops a framework that could guide future research in this area.

Hudson et. al (1984) claimed that earlier research on New Business startups examined either of entrepreneurial approach, organizational approach and ecological approach. The *entrepreneurial approach* looks at on the characteristics of the founder and promoter of a new organization. The *organizational approach* focuses on organizational planning and process condition. The *ecological approach* explains the structural, political, and economic conditions leading to the creation of new forms of organizations. Van de Van et.al (1984) further found that start up success and early development of companies on the basis of background characteristics and psychological attributes of their founding entrepreneurs, planning and organizational activities before and after starting the venture and resource support available. It is observed that, though entrepreneurial approach, organizational approach and ecological approach were examined earlier, it is found that, there is need to integrate these three approaches and understand strategic choices made by the new ventures and how these choices affect the performance of the new ventures.

2. Literature Review

Entrepreneurial Characteristics

Researchers (Van de Van, 1984) have focused on biographical characteristics of entrepreneurs in this field of research. The relationships of education, managerial experience, and prior entrepreneurial experience of the entrepreneur with strategic choices have drawn attention of management scholars. According to Van de Van (1984) some empirical progress is being made by focusing on *background*, especially education and experience (Miller, 1983); *risk orientation*, if risks are perceived as within the entrepreneur's control, and how risks are handled (Brockhaus, 1980; Hull, Bosley & Udell, 1980); *business idea*, that is, vision of a marketable idea (Marquis, 1969; Timmons, 1980); and *motivation*, or willingness to work hard (Miller, 1983; Pinchot, 1983). In other words, competence, confidence, imagination, and commitment are believed to be core characteristics of successful entrepreneurs.

Thus, while education appears to be very important for high-technology entrepreneurs (Roberts 1968), its relationship to new venture performance have not been established in more general settings (Hoad and Rosko 1964; Douglass 1976). Likewise, managerial experience has been found to be of little value unless in a business similar to the new venture (Hoad and Rosko 1964; Buchele 1967; Sandberg 1984). Most surprising is the lack of strong evidence for the value of start-up experience (Collins and Moore 1964; Lamont 1972; Vesper 1980), which runs contrary to both the strong belief of many venture capitalists (as well as that of conventional wisdom) that one should learn from experience. Researchers have found a positive relationship between entrepreneurs' prior experience in the industry with success of the new firm (Cooper and Bruno 1977; Van de Van, Hudson, and Schroeder 1984). Scholars in the field of organizational behaviour have primarily been focused on entrepreneurs' need for achievement, beliefs, locus of control, and risk preferences. However, researchers have

not been able to identify strong links between new venture performance and either the founding entrepreneurs' need for achievement (Hornaday and Aboud 1971; Brockhaus 1980b) or risk preferences (Brockhaus 1980b). Brockhaus (1980a) did report superior performance by new ventures started by entrepreneurs with an internal locus of control. According to Sandberg and Hofer (1987) entrepreneur's psychological characteristics (such as need for achievement, need for power, locus of control, and risk preferences) affect new venture success. They also found that the entrepreneur's behavioral traits (such as determination, resourcefulness, willingness to face facts, and sense of urgency) affect new venture success; and both types of factors affect new venture success. Previous studies aimed at using psychological variables to predict venture performance (Brockhaus 1980a, 1980b), have not been very conclusive. In this study we did not focus on this variable. By the process of elimination, it would seem that the most fruitful area for future inquiry would be an examination of the effect of the entrepreneur's behavioral traits on new venture performance.

Resources

Resource deployment is reflection of strategy, as implemented by organizations. Entrepreneur's social and financial capitals are major resources. Entrepreneurs are known to be defficient in certain capabilities but affluent in other capabilities. This raises the question how entrepreneurs compensate for other capability deficiencies. Research shows that business model aligned human capital enhances likelihood of success. The number of employees and whether there are start-up partners also have been seen as critical resources (Sandberg and Hofer 1987; Romanelli 1989; Keeley and Roure 1990; McDougall and Robinson 1990; Stearns et al. 1995). Birley (1984) found that the employment size at start-up influences the extent to which businesses will survive and grow. Carter et.al (1997) found that men-owned startups have lesser odds of discontinuing due to better arrangement/ access of human and financial resources compared to their female counter parts.

Strategy

Some of the researchers argue that new businesses should seek a niche in the marketplace where they can avoid direct competition with larger, more established firms. According to this specialist perspective, new firms lack resources to compete on the basis of price (Deeks 1976; Stegall, Steinmetz, and Kline 1976). Hence, new ventures by targeting narrow market segments that have been overlooked by larger firms could survive and grow (Broom and Longenecker 1971; Cohen and Lindberg, 1974; Hosmer 1957). Narrow strategies that reflect a service orientation emphasize a particular area of expertise or specialty, or target a narrow segment of the market would seem more judicious. The extant literature generally advises small firms not to meet larger competitors head on. They concentrate on specialized products, localize business operations, and provide products which require a high degree of craftsmanship (Hosmer 1957; Gross 1967).

The generalists approach puts emphasis on pricing. Firms require adequate resources and knowledge to achieve cost efficiencies in order to sustain adequate profits. More general recommendations pertaining to effective competition by both large and small competitors include targeting the weakness in the organization processes of competitors (MacMillan and Jones 1984), and the adoption of proven generic competitive strategies such as cost leadership or differentiation (Porter 1980). If it is possible to compete on a small scale or with little experience and not incur a substantial cost disadvantage, then small firms (with little volume) or new firms (with little experience) may be able to compete directly with success (Cooper, Willard & Woo, 1986).

Led by creative, dynamic leaders, these low share businesses were found by Hamermesh, Anderson, and Harris (1978) to select market segments carefully, approach growth cautiously, and to use R&D efficiently. Porter (1985) suggested three strategies: reconfiguration or doing things differently, redefinition of the product, market, channels, or geographic scope, and outspending the leader. Similarly, Kotler and Singh (1981) viewed such challenges as possible and suggested such alternatives as flanking attacks that focus on shifts in market segments, or guerilla attacks which consist of small, intermittent raids on random comers of a larger opponent's market.

Strategic Alliance

An important ongoing interest in the strategy and organizational literature is the establishment of strategic alliances or hybrid organizations as a way of managing complex and unstable environments (Contractor & Lorange, 1988; Harrigan, 1985; Peters, 1989). Along these lines Golden and Dollinger (1991) have positively related the frequencies of collective strategies to munificent environments. Cooperative relationships as a part of strategic alliances can help firms to conserve resources, share risks, gain new competencies and market power and move into new markets and technologies quickly, create options for future investments faster (Hamel et.al, 1989; Ohmae, 1989,;Hagedoorn, 1993; Hennart, 1991; Kogut, 1991 in Eisenhardt and Schoonhoven, 1996). Eisenhardt and Schoonhoven (1996) argued that, with transaction cost perspective of strategic alliances for minimization of transaction cost and bring efficiency, resource based view perspective explains the cooperation relationship in alliances are based on a logic of strategic resource needs and social resource opportunities. New firms do get benefitted by strategic alliances. However, they find it tough to develop such alliances owing to lack of resources to contribute to the alliance to succeed. Alliance Options as they relate to entrepreneurship performance have been less explored. One noteworthy exception is Larson's (1992) ethno methodological study of partnering arrangements involving entrepreneurial firms. Her conclusions were that successful alliances rarely depended on formal contracts for compliance, trust was a necessary ingredient.

3. Research Methodology

Study of strategic choices in entrepreneurial firms is complex where multiple subjective realities coexist. Such ontological context suggests the adoption of qualitative research. Epistemologically, researchers need to observe the phenomena to understand the dynamics of choices, suggesting adopting qualitative research route through case method. Hence, the researcher chose to adopt case study route for this study. The organizations presented in this paper present rich insight into strategic choices and how they are influenced by characteristics of the entrepreneur, resources and environment. Among the two organizations, examined in this study, one is associated with development and production of high technology robotic products. The other firm is associated in the field of health education. In the study, 5 unstructured interviews were conducted with owners of both the ventures. Ten structured interviews were conducted with other doctors, laboratory assistants, engineers, office staff and other employees in both the ventures. Five interviews with external stakeholders and alliance partners of both ventures were conducted. The author spent 5 days at the office and manufacturing set up of the ventures as an observer. In the process he could talk to workers and employees informally. The statements of all the interviewees were cross validated. For this purpose, some respondents were interviewed twice. Data was also collected from both internal and external published sources. Internal sources consisted of internal financial and non-financial reports, process documents, and operation manuals of the firms. Two case studies were prepared based on the details and information available from various primary and secondary sources. The case analysis is attached as Appendix 1.

4. Discussion

Entrepreneurs of Edu Health and Gridbots Technologies were highly qualified, mostly had technical background which gave them base for their New Venture. Edu Health entrepreneurs had Engineering and Technology background, worked internationally for more than 10 years and seen similar business models based on which they developed their New Venture. Higher qualification and foreign exposure have given them necessary technical capabilities for their new venture. Similarly 2 out of 3 partners of Gridbots showed similar engineering and technology background, worked for couple of years, the one without engineering and technology background got technical capabilities over the period of time. One of the partners of Gridbots was in Robotics and highly exposed to Robotics technology. Robers (1968) and Cooper (1971) stated, for high technology entrepreneurs education is very important.

Risk orientation was observed high among almost all the entrepreneurs of the both the firms. Two out of three partners of Edu Health had willingness to face facts. One partner of Edu Health left the firm and joined a corporate after initial struggle to get the business. Risk preference of one of the partners of Gridbots was observed very high while partners of Edu Health were very high in sense of urgency as they had to change their business model. They had showed limited resourcefulness. Need for achievement and Resourcefulness was very high among the partners of Gridbots.

Resources like domain expertise were very critical for the ventures. The entrepreneurs had either acquired or developed internally; like the partners of Edu Health spend many hours to acquire knowledge on medical tests and medical diagnostic. They also took help of a dentist doctor to increase their domain and field knowledge. Similarly they realized that they failed to understand customer expectation and market which were opposite to the results of pilot studies conducted before they started the venture. The critical resource for Gridbots was long term relationship with their varied clientele. Finance again was very critical resource, though they got some funding from CIIE for their developed Intellectual Properties, but they were not enough for them. Team of doctors and technicians, equipment are other very important resources for Edu Health while team of engineers and technicians were important for Gridbots for their innovation and commercial robots. Research has focused on two sets of resources, those intangible assets individuals bring with them to the entrepreneurial process in the form of human capital, and the entrepreneur's ability to secure tangible resources from the environment (e.g., capital, partners, employees, suppliers). The more specific the human capital is to the nature of the new firm start-up, the higher the likelihood of success. The number of employees and whether there are start-up partners also have been seen as critical resources. (Sandberg and Hofer 1987; Romanelli 1989; Keeley and Roure 1990; McDougall and Robinson 1990; Stearns et al. 1995).

Researchers have explained two strategies for new ventures. The specialist perspective and the generalist perspective are often called as Niche and Broad strategies. According to the specialist perspective, new businesses should seek a niche in the marketplace where they can avoid direct competition with larger, more established firms because they lack adequate resources for effective organizational learning, and this "liability of newness" (Stinchcombe 1965) limits the firms' ability to compete on the basis of price (Deeks 1976; Stegall, Steinmetz, and Kline 1976). Both the firms; Edu Health and Gridbots started their venture with Niche strategy focusing on niche segment of the customers (School Children in Edu Health and Defense Robotics in Gridbots). The strategy was more or less emergent with some planning; for example in Edu Health when they realized that the schools are not very positive for getting the diagnostic tests done for INR 300 per student. They quickly worked on their rates and reduced the rates. Similarly they realized that the revenue from Diagnostic Tests of School children would not be sufficient for their survival, so they planned another source of revenue through Dental Clinics. In Gridbots, initially they faced problems selling their robots commercially; they started conducting trainings and workshops on robotics in different engineering institutes and colleges. Gridbots from the beginning focused on low price, high quality defense and industrial robots to beat the competition of foreign robotics companies. It was advised that the new ventures should become specialists by targeting narrow market segments and customers which have been overlooked by larger firms through specially designed, high quality products or services (Broom and Longenecker 1971; Cohen and Lindberg 1974; Hosmer 1957). The generalist perspective focuses on to have adequate resources to market effectively and knowledge of how to achieve cost

efficiencies in order to sustain adequate profits. The generalist (Broad) strategies have emphasis on pricing. Narrow strategies have emphasis on a service orientation. The extant literature generally advises small firms not to meet larger competitors head on. They should concentrate on specialized products, localize business operations, and provide products which require a high degree of craftsmanship (Hosmer 1957; Gross 1967). Contrary to what was advised by researchers, both the firms started with Niche and slowly were moving towards Broad Strategies in short span of their Edu Health didn't have any competition for their business model for the schools. The database they planned to create from these diagnostic tests of school children that they planned to sell different medical and pharmaceutical firms and organizations for new sources of revenue later. For dental clinics they had planned to have strategy based on premium price with high service quality treatment which would be pain free and experience of visiting clinic would be pleasant. Gridbots slowly started finding avenues from Defense robotics which was high quality, high price, highly innovative to Industrial robotics with low price, high quality, high application oriented to Consumer robotics with low price and high quality.

Strategic Alliances helped both the firms to reduce cost of manufacturing and operation cost, to use slack resources, to generate another source of revenue and to get the benefit of synergy and concentrate on the core business. Edu Health had established relationship with Medical Colleges, Dental Doctors, Technicians, Laboratories and Schools for their business. Most of the relationships were without any formal contracts aligned with the study of Larson (1992). Similarly Gridbots had developed formal contracts with manufacturing units but had informal relationships it had built with educational institutes for their source of revenue and offering training and internship to their students. Edu Health used the slack time and resources of doctors, and laboratories to reduce operation cost and Gridbots outsourced manufacturing activities so it could minimize its manufacturing cost and concentrate on core activities of designing innovative robots. Eisenhardt and Schoonhoven (1996) also discussed that firms in vulnerable strategic positions and strong social position were more open for strategic alliances and have cooperative relationships with other firms. Gidbots also tried to use franchising models to grow using retail outlets across the country but the values, expertise and background of franchising partners were not matching with Gridbots which resulted into an unsuccessful alliance. The performance of both the ventures was varied across the years. Edu Health started with low response and disappointment but slowly it started good response from Schools and could develop a database of 20,000 students. It started 4 Dental Clinics with the state of facilities and technology. It could create awareness among the schools and parents. It has survived in the last 3 years. Gridbots never had problem of survival, from the beginning it had received lots of awards for its business model. It established itself as one of the first robotics companies of the country. It created its market of low priced innovative and customized robots not only in Defense robotics but Industrial and Commercial robotics.

It is evident from these cases that, entrepreneurial characteristics affect the resource acquisition and acquisition, choice of strategy and strategic alliances of new venture firms. The decision on resource acquisition, strategy choice and strategic alliances affect the performance of these firms in terms of survival and growth.

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Appendix 1: Analysis

Edu Health

• Entrepreneur Characteristics	• Resource	• Strategy	• Strategic Alliances	• Key Actions	• Outcome
•	•	•	•	•	•
• **Engineering and Technology Background** • **Work abroad for many years and seen similar successful models** • **Two out of three partners had willingness to face facts and sense of urgency, one of them left after first 6 months, and after their unsuccessful attempt to develop Eduhealth a successful model** • **Risk Orientation was high in 2 partners but lacked in the third partners** • **Resourcefulness was limited initially**	• Knowledge about Medical Field and different types of medical tests • Partners who can share the burden • Doctors and Laboratory assistance • Funding for not only their data base IP they created under CIIE but for the day to day operations of Edu health • Understanding the market and customer real needs and expectations (Rs.300 vs. Rs. 150, and after test can they suggest a good treatment center, help for the treatment) • People: Full time	• Started with Edu Health Program and then realized it will be not working according to expectations and to continue their dream project they need stable source of revenue. • Started with Fine Feathers, got into partnership with Dentists and Started 4 dental clinics in Ahmedabad to leverage the relationship built during Edu health program (students and	• Dentist Doctors • Laboratories • Doctors for testing • Medical Colleges for people • CIIE for funding • Schools for testing • Benefits • Using the slack resources, and time of the partners • Reduced the operation cost • Synergies of strengths of the partners and can focus	• Learnt from the mistakes and failure • Better Planned inputs after the first 6 months • Strategic Alliances and Partners were used for unused resources and time of doctors, and laboratories so can manage the cost effectively through outsourcing and partnership. • Sharing the responsibilities to design, develop and run Dental Clinics with partner dentists	• Slowly many schools accepted the EduHealth model (20,000 students) • Created awareness among schools, parents and students • Started 4 Dental Clinics with state of art facilities and technology which were not present in Gujarat • Getting their clients and Patients from

	and Part time • Investment in technology and equipment for their dental clinics which will give them edge over the others	their parents) • Focus on Dental Clinics with School students medical tests program and create database of around 1,00,000 students and later generate revenue from the database too • Starting with Niche strategy it will have broad strategy later	on the core business	• Worked towards achieving synergies with partners and alliances • Invested heavily on Equipments and Technology for Pain free Dental treatment. • Invested heavily on giving a good experiences to their clients and patients	their school health programs

Gridbots Technologies

Entrepreneur Characteristics	Resource	Strategy	Strategic Alliances	Key Actions	Outcome
• **Engineering and Technology Background (2 out of 3 partners, the third partner was not having technology orientation but learnt very well and now managing the design and manufacturing efficiently)** • **One of them in robotics and highly exposed to robotics technology** • **Risk taking ability was high** • **Resourcefulness was decent throughout these 3 years** • **Highly motivated** • **Willingness to face facts and sense of urgency was also high**	• Long term relationship with clients • R&D capabilities and IPs • Innovation and technologies on application based robotics • Funding • People (dedicated teams of engineers, small team but with high motivation	• Filling the Gap of existing demand with customer orientation, low price, high quality, application based robotics • Defense Robotics(High price, high quality, long term association with high innovation and research & development) • Industrial Robotics (Low Price high application orientation) • Consumer (Low price, High quality) • Initially consulting and trainings on robotics in different educational institute given it a stable source of revenue • All these years, Demand was higher than supplies so they didn't	• With manufacturers • With Educational Institutions • Franchising partner (unsuccessful decision) • Funding CIIE Benefits • Reduced cost of manufacturing • Synergies with partner, so can focus on core business • Another source of revenue could be generated	• Learnt from the past mistakes • Created a stable source of revenue for continuation of their core business (trainings of robotics in educational institutions • Focus on application based robotics (identify the customer needs and usage and creating robots to cater specific needs and applications of customers quickly around 30 days) • Developed core competencies around different customer segments. • Through outsourcing of manufacturing and focus on R&D and design in-house, they could leverage their core competencies of R&D, Customization and Innovation • Tried Franchising to start retail	• Established themselves as one of the first successful robotics companies of India. • Got Many awards for their business model and success • Established and created market and known as highly innovative, low priced, customized robotics company • Franchising model didn't work for retail outlets as the values of franchising owners were not matching with the Gridbots technologies

		have long term planning, strategy was more like emergent • Starting retail stores across the country for creating awareness, more visibility and selling robotics across India (used franchising) • Alliances for manufacturing, and funding • Started with Niche (defense), it is moving towards broad strategies		outlets	