

**TYPE OF ENTREPRENEUR, NEW VENTURE STRATEGY AND
THE PERFORMANCE OF SOFTWARE STARTUPS**

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Abstract

Entrepreneurship and the study of new ventures is an emerging research area. The phenomenon of “liability of newness”, or the greater propensity to fail of new ventures, combined with the fact that some new ventures are outstanding successes, generates both academic as well as practitioners interest in the correlates of new venture performance. While both anecdotal and intuitive knowledge suggests that the entrepreneur would influence the performance of the new venture, a review of the literature in the area reveals that associations between entrepreneurial characteristics and new venture performance have not been found to be significant. Moreover, entrepreneurs are not a homogeneous set who can be distinguished from non-entrepreneurs on the basis of personality characteristics. Researchers now consider it more meaningful to study differences within entrepreneurs, based on certain commonalities. This leads to a trend towards “typology” research. However, literature also reveals inconsistencies in operationalizing the entrepreneur as an empirical construct. The lack of theoretical grounding in the choice of variables used in categorization, as well as definitional and sample selection issues have hampered the process of theory building in the area.

It was proposed in this study that the measurement of entrepreneurial skills would capture the effect of the knowledge and abilities acquired by founders through their education, training and work experience. Entrepreneurial skills, in combination with the motivations of the entrepreneur, i.e., their reasons for starting a business, would define different “types” of entrepreneurs. This typology was expected to have significant association with the strategic direction the business would take, as well as its

performance. Moreover, this research design would test an integrated model of New Venture Performance by considering independent as well as interactional effects of the type of entrepreneur as well as the new venture strategy.

In this context, it was decided to carry out an exploratory study that would address the gaps and inconsistencies detailed above with the following research questions: 1) Are combinations of skills and motivations associated with certain entrepreneurial "types"? 2) Are these skill-motivation sets associated with competitive strategy decisions taken by entrepreneurs?, and 3) Does the entrepreneur-strategy alignment lead to higher performance?

The research adopted a survey method to collect data on the background characteristics, skills, motivations, competitive strategy, and performance of the new venture to test an interactional model of New Venture Performance. The sample for the research consisted of 107 new ventures located in Delhi and Bangalore. The sample was defined as independent start-ups (not part of a business house), that were between 1 and 7 years old, in the software development sector.

The skills and motivations of the entrepreneur were factor analysed into a smaller number of components. A cluster analysis of the skill and motivation factors yielded a typology of entrepreneurs. Some of the significant findings of the study are given below:

1. The operationalization of the entrepreneur as a combination of his skills and motivations yielded a stable and robust typology of entrepreneurs. The 5-cluster solution was demonstrated to have high internal and external validity.

2. The five types of entrepreneurs identified were: 1) the Opportunistic type, who was driven by expectations of financial gain, 2) the “Push” type, driven by negative “push” reasons for starting a business, 3) the Managerial type, who have high leadership, administration and environmental skills, as well as a desire for financial returns, 4) the New Craftsman type, with a high need for autonomy at work and desire to pursue a product/service idea, and 5) the Idea driven Opportunist type, which emerged as a “mixed” type.
3. The entrepreneurial types identified as above were found to differ significantly in age, background, education and work experience. Idea Driven Opportunists were found to be the youngest to start a business, while “Push” entrepreneurs were the oldest. The New Craftsman entrepreneur was found to be the most highly educated, coming from a professional background, and with highest prior experience with large private firms.
4. The entrepreneurial types were significantly associated with the size and founding capital of the business. Managerial and New Craftsman entrepreneurs were associated with higher number of employees, and higher founding capital than other types of entrepreneurs, while “push” entrepreneurs had the lowest employment size and founding capital.
5. The type of entrepreneur was also found to be differentially associated with competitive strategy orientations. Managerial entrepreneurs were found to have greater marketing orientation and focus than other types. New Craftsman entrepreneurs were associated with the highest focus on large customers, while “Push” entrepreneurs were associated with least differentiation in terms of product and market scope definition, and maximum emphasis on cost control.

6. The sample of new ventures was found to exhibit 4 strategy types: 1) Customer Partnership type, focusing on a few, large customers, 2) Niche strategy, with highly focused product and market scope, 3) Cost leaders, with high emphasis on cost control and capacity utilization, and low focus in terms of product-market scope, and 4) Investment/Promotion strategy, which invest heavily in promotion and brand building, as well as product development.
7. The type of entrepreneur was significantly related to the type of strategy. Managerial entrepreneurs tended to choose Niche strategies, New Craftsmen were associated with Customer Partnership strategies, and “Push” entrepreneurs with Cost Leadership.
8. Moreover, the type of entrepreneur was also found to be significantly associated with employment creation and growth in employment size. Managerial and New Craftsman entrepreneurs were found to generate significantly more jobs than other types, and “Push” entrepreneurs were found to grow at a significantly lower rate in terms of employment growth.
9. The type of strategy was not significantly associated with New Venture Performance.
10. The proposition relating to entrepreneur-strategy alignment was only partially supported. It was found that managerial entrepreneurs outperformed other types within the Cost Leadership. However, the small sample sizes being tested may be in part responsible for the lack of significant results at this stage.

Some of the implications of the research are:

1. A combination of the entrepreneur’s skills and motivations may be a more robust way of operationalizing the entrepreneur as an empirical construct for entrepreneurship research.

2. The findings of this study strongly suggest that for a young venture, the performance is so closely linked to the entrepreneur that little else matters. Hence researchers need to test further the hypothesis that the entrepreneurial skill-motivation set is a more important determinant of the new venture's success than strategy and other contextual variables.
3. The absence of significant association between new venture strategy and performance also reinforces the fact that there may be more than one route to success, and all successful firms may not grow in the same way.
4. The proposition that the entrepreneur-strategy alignment will be positively associated with performance had limited support, but as the sample size for this study was small, replication with larger sample sizes may produce some support for the proposition.
5. Venture capitalists and policy makers have been forced to use subjective evaluations of the entrepreneur's ability to succeed in evaluating venture proposals. The identification of a typology of entrepreneurs that is strongly correlated to performance of the new venture can form a basis for the evaluation of the entrepreneurial human capital of the venture.
6. Entrepreneurs can assess their own strengths and weaknesses, and use training or supplement the core team with individuals with complementary skills and motivations.