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Do new ventures benefit from strategic change or persistence? A behavioral perspective

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Do new ventures benefit from strategic change or persistence? A behavioral perspective

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Abstract

Purpose – Is change always the best alternative? While large and established firms are believed to benefit from strategic flexibility and change, the purpose of this paper is to argue and empirically prove that firms in emerging economies need to persist with their strategies during their formative years in order to acquire sustainable competitive advantage. The author explores these relationships from a behavioral perspective.

Design/methodology/approach – Data were collected from 103 Indian new ventures. Multiple linear regression analysis was applied to test the hypotheses.

Findings – The findings reveal that persisting with the existing strategies is the most optimal way of surviving and growing in the initial years of a venture operating in the turbulent business environments of emerging economies. Radical shifts in strategic postures can, indeed, be fatal for new firms.

Research limitations/implications – The findings are based on data from one emerging economy. Further exploration of these relationships in other setups can help in better understanding of the execution of strategic persistence and change.

Practical implications – Given the frequent changes in the business environment and resource-scarcity of new ventures in emerging economies, firms that persist with their strategies during the formative years are more likely to succeed.

Originality/value – Limited attempt has been made to integrate strategic and behavioral perspectives in the change literature. In this study, the author brings in the contingent role of founder's personality to better understand the possible contingencies in the strategic change literature.

Keywords Proactive personality, New ventures, Emerging economies, Strategic persistence

Paper type Research paper

Introduction

New ventures are crucial for economic and societal growth of any country (Davidsson, 2001), by bringing elements of novelty to the society (Rumelt, 1987). Given the importance of entrepreneurship to the world economy, numerous researchers in the western world have tried to find the antecedents of new venture success and performance. Several entrepreneur specific, firm level and structural factors have been explored to explain and understand firm performance, including entrepreneur's social skills (Baron and Jintong, 2008), prior experience (Harada, 2003; Stuart and Abetti, 1990), intent (Cha and Bae, 2010), gender (Kalleberg and Leicht, 1991), specific know-how (Cooper *et al.*, 1994), skills (Gompers *et al.*, 2006), genes (Nicolaou *et al.*, 2008), behavior (Sadler-Smith *et al.*, 2003), geography (Davidsson *et al.*, 2002), firm resources (Cha and Bae, 2010), organizational learning (Corbett, 2005), among others.

In the strategy literature, key variables which have been studied to understand venture performance include strategic planning (Duchesneau and Gartner, 1990) and strategic decision-making processes (Xu, 2011). Interestingly, despite the recognized importance of strategic persistence – "the extent to which a firm's strategy remains stable over time" (Finkelstein and Hambrick, 1990) – on entrepreneurial performance,

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the existing empirical research has not offered any conclusive results. Further, very little is known about the implications of strategic persistence for ventures in their formative years. Accordingly, we extend the prevailing literature by exploring the effects of strategic persistence on new venture performance. Finally, since the business environment of emerging economies like India and China is extremely turbulent (Zhou and Li, 2010), it is crucial to understand the appropriate strategic postures of organizations in such economies.

Theory and hypotheses

Strategic persistence

A difficult decision which firms in a dynamic environment face is whether they should persist with their current strategy or change their course of action (Lant *et al.*, 1992). Strategic persistence refers to the tendencies of organizations to stick to their past strategies (Finkelstein and Hambrick, 1990, p. 487). Researchers in one strand argue that it takes a lot of time for organizations to build their strategies, and the benefits of such an exercise can only be acquired if organizations persist with their strategies, especially during times of adversity. Persistence is crucial for organizations to exhibit a sense of strategic direction among its members (Hughes and Morgan, 2007). Further, firms operating in industries with a slow clock-speed may benefit more from strategic persistence, since it provides them a longer competitive advantage (Nadkarni and Narayanan, 2004). Hence, strategic change may not necessarily be beneficial at all times (Haynes and Hillman, 2010).

On the other hand, several researchers have pointed negative implications of persisting with current strategy. It is argued that persistence is detrimental to organizations when environment changes often, since the strategies which worked previously may not work any longer (Audia *et al.*, 2000). Additionally, a strong commitment to failing strategies may also be detrimental to the firm performance in the long run. Several reasons may underlie organizational tendencies toward strategic persistence, including individual bias and social psychological bias (Westphal and Bednar, 2005), and lack of opportunities for the entrepreneur (Gimeno *et al.*, 1997). Accordingly, this stream of research suggests that strategic persistence may not be the best strategic posture.

Combining the two streams, the prevailing literature on the implications of strategic persistence on firm performance offers mixed and ambiguous results. Further, despite the emphasis given to the formative years of a venture in the strategy literature, there is limited attempt at understanding the implications of strategic persistence in the formative years of new ventures. Accordingly, we explore the performance implications of persisting with the current strategies during the formative years of a new venture.

Strategic persistence in new ventures

New ventures' strategy formation process is different from that of existing firms in at least three ways. First, when firms exist for a long time and invest in long term resources, it becomes imperative for them to persist in their strategic responses (Nadkarni and Barr, 2008). However, new ventures do not have any such commitments and can easily switch between strategies. Second, since bringing strategic change is far more difficult to accomplish in large established firms as compared to new ventures, (Rumelt, 1987), change is considered to be the best alternative for new ventures.

Finally, while past performance dictates whether existing firms persist with their strategies or not (Lant *et al.*, 1992), new ventures do not have any such historic indicators to guide their strategy. New ventures have lesser understanding of the environmental contingencies and rely more on the founder's existing knowledge and experiences. Accordingly for new ventures, the decision to persist with one strategy in the formative years can lead to altogether different performance consequences as compared to the decision to switch to multiple strategies.

While exhibiting status quo strategies may be equivalent to inertia and inability to adapt in the case of existing firms (Nadkarni and Narayanan, 2007), new ventures need to exploit maximum benefits from their limited resources. Introducing new products, ideas and strategies too often may not allow sufficient exploitation (Kessler and Chakrabarti, 1996). For any idea to take shape of a real product or service, the champions must stick to their strategies and continue to allocate resources irrespective of the changes in environment. While drastic changes in the environment sometimes necessitate entrepreneurs to abandon existing strategies and implement new ones which fit in the new environment, there have been several examples of ventures which have survived predominantly due to the faith of the entrepreneurs in their ideas. What may look like an escalation of commitment toward a potential failure may actually be the strategic persistence toward creating something new and successful (Kisfalvi, 2000). Based on the ongoing discussion, we propose the following hypothesis:

H1. In the formative years of new ventures, strategic persistence is positively related to firm performance.

Moderating role of proactive personality

While strategic persistence is positively correlated to firm performance in the formative years of new ventures, this relationship is contingent on various individual and venture-specific factors. One individual factor which has often been argued to impact firm performance is the founder's personality. Individuals characterized by proactive personality are those who do not feel constrained by situational forces (Bateman and Crant, 1993) and who possess the abilities to influence environment (Wu *et al.*, 2014). Such individuals are not scared of introducing change if required. While it is good to persist with what one believes is the best recourse, such persistence should not be due to individual biases or fear of change, rather persisted commitment to specific strategies should be due to founders' strong belief in what they are doing. Accordingly, we posit that only those individuals who have a proactive personality are the ones who successfully persist with the current strategies in order to create sustainable ventures and generate better performance. Accordingly, we propose the following hypothesis:

H2. Proactive personality moderates the relationship between strategic persistence and new venture performance; such that when founders are characterized by higher proactive personality, the impact of strategic persistence on new venture performance will be higher.

Method

Data and sample

Consistent with the definition of new ventures, data for this study were collected from firms that were established less than five years ago. The respondents in this study were founders taking part in a training program designed for new ventures. Since we were interested in understanding implications of strategic persistence for firm performance, and it is difficult to measure persistence in a very short duration, we only considered those firms that had completed at least three years of operations. The final sample had representations from both manufacturing and services sector (Table I).

Measures

Strategic persistence was measured using six key strategic indicators suggested by Finkelstein and Hambrick (1990). All respondents were asked to indicate the extent to which their relative expenses on the following six strategic elements is similar today, as compared to what it was at the time when their venture was launched: first, advertising intensity (advertising/sales); second, research and development intensity (R&D/sales); third, plant and equipment newness (net P&E/gross P&E); fourth, non-production overheads (total expenses/sales); fifth, inventory levels (inventories/sales); and sixth, financial leverage (debt/equity). Respondents were asked to provide their response on a seven-point Likert scale ranging from "almost very different" to "almost very similar." The responses on the six indicators were aggregated to calculate strategic persistence in the organization. A high score indicated high level of strategic persistence. Since the six elements utilized in this scale are essentially different elements of strategic persistence, reliability analysis does not convey a meaningful interpretation even though the Cronbach's α was high ($\alpha = 0.95$). This value could be interpreted as a high level of consistency of decision making across different strategies, such that most respondents either persisted in all strategic indicators or in none of them.

Proactive personality was measured operationalized using four items scale of Bateman and Crant (1993) and adapted by Wu *et al.* (2014). The responses were captured on a seven-point Likert scale ranging from "strongly disagree" to "strongly agree." This scale had items such as "No matter what the odds, if I believe in something I will make it happen." The complete scale is presented in the Table AI. The scale is used extensively in previous studies (Wu *et al.*, 2014), and exhibited good reliability with the present data set ($\alpha = 0.93$).

Firm performance was operationalized using the four item scale of Jiménez-Jiménez *et al.* (2008). This scale required respondents to evaluate their performance on four criteria – market share, productivity, profitability and customer satisfaction. In most emerging economy studies, performance is accurately measured through subjective measures (e.g. Zhou and Li, 2010). The responses were provided on a seven-point scale ranging from "very low" to "very high." Cronbach's α for this scale was 0.98.

Controls: in order to adequately build the model, we controlled for factors at various levels which have been traditionally linked to firm performance including the age and size of firm, the industry in which firms operate (manufacturing vs services), and the education level and gender of the respondents.

Parameter	Statistic
Firm age	Mean age = 3.55 years, SD = 0.85
Firm size	Mean size = 16 employees, SD = 17.82 (ranging from 2 to 90 employees)
Industry	49.5% manufacturing, 50.5% services
Gender	88% men, 12% women
Education	81% under-graduates, 19% graduates

Table I. Demographic details

Measurement model and validity

Confirmatory factor analysis (CFA) was conducted in order to test the validity of constructs used in this study. When all items load on their respective latent construct significantly, and the item loadings are greater than 0.5, convergent validity can be assumed (Liu *et al.*, 2003). CFA analysis indicated convergent validity. The model fit indices were also acceptable: CMIN/DF = 1.094; CFI = 0.99; RMSEA = 0.03.

Potential sources of bias

We undertook several tests to ensure that data were clear of any potential biases. The most common bias concerning cross-sectional data are common method bias. In order to reduce the possibility of common method bias, we had introduced some irrelevant items in between the constructs of interest. We also entered a latent construct into the structural equation model and found that its presence did not impact the model fit indices significantly, thereby confirming that common method bias was not a concern with the current data set. Further, in order to control for any social desirability concerns, we never revealed the exact purpose of the research to the respondents.

Findings

We utilized linear regression to test our proposed hypotheses. The findings and interaction plots are presented in Tables II, III and Figure 1, respectively.

As can be interpreted from the regression table, the coefficient of strategic persistence is positive and significant, thereby confirming the proposed *H1* that

Table II. Summary statistics and correlation analysis

Construct	Mean	SD	1	2	3	4	5	6	7
(1) Firm age	3.55	0.84							
(2) Firm size	16.44	17.82	−0.10						
(3) Industry	1.50	0.50	0.01	−0.04					
(4) Gender	–	–	−0.12	0.17	−0.17				
(5) Education	–	–	−0.13	0.01	−0.10	0.07			
(6) Strategic persistence	4.21	1.35	−0.03	0.00	0.15	−0.11	−0.06		
(7) Proactive personality	4.86	1.61	−0.12	−0.03	−0.03	0.19	0.03	0.37***	
(8) Venture performance	4.41	2.00	−0.08	−0.02	0.21*	0.05	−0.12	0.66***	0.69***

Notes: $*p < 0.05$; $**p < 0.01$; $***p < 0.001$

Table III. Regression analysis

Model→	1	2	3	4
Firm age (ln)	−0.10	−0.07	−0.01	−0.02
Firm size (ln)	−0.05	−0.08	−0.03	−0.06
Industry	0.34**	0.20*	0.17*	0.18**
Gender	0.08	0.15	0.05	0.09
Education	−0.08	−0.08	−0.12	−0.10
Strategic persistence		0.62***	0.45***	0.52***
Proactive personality			0.50***	0.49***
Interaction				0.17*
Adj. R^2	0.08	0.45	0.68	0.70
Model F	2.30	11.35***	23.39***	22.53***

Notes: $*p < 0.05$; $**p < 0.01$; $***p < 0.001$

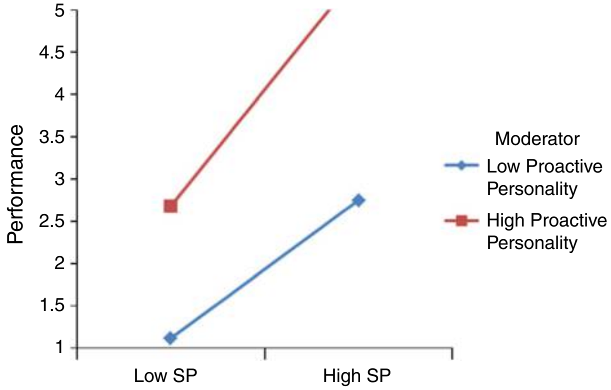

Figure 1.
Interaction plot

strategic planning is positively correlated to new venture performance. Also, model 4 indicates that the interaction term of strategic persistence and proactive personality is positive and significant; confirming *H2* that proactive personality positively moderates the relationship between strategic persistence and new venture performance.

Discussion

Implications for theory and practice

Our findings offer new theoretical insights. While extant literature has given a lot of attention to strategic persistence of large firms, the role of strategic persistence in new ventures during the formative years has not been explored. Accordingly, we made an attempt in this study to identify the role of strategic persistence in the performance of new ventures. We argued and empirically tested that strategic persistence during the formative years of a new venture plays a key role in enhancing firm performance. While change is imperative, it may not always result in benefits for the organization (Grossman and Cannella, 2006). When organizations are not ready for change, when change is unplanned, and when change is introduced without completely exploiting the benefits of previous strategies, change can be harmful for organizations. Since new ventures lack resources in their formative years, changing the strategies often could cost a lot to the ventures, and such ventures might be perceived as having no strategy at all.

Also, entrepreneur's personality plays a significant role in enhancing the positive outcomes of strategic persistence. When entrepreneurs are proactive and possess the power of bringing out change easily, they do not feel necessitated to bring change when it is not required. Accordingly, when such proactive entrepreneurs persist with a strategy because of its potential, it translates into positive firm performance.

This study has several implications for practitioners. Our findings revealed that while strategic persistence is a good strategic posture for organizations, such a commitment should come from founder's faith in the strategy and not from fear of change. Accordingly, new ventures sticking to their current strategies must be evaluated based on the personality of the founder. For example, if an entrepreneur restricts to a certain product because he/she is unable to create newer products which are more relevant to society, persistence in that case will be negatively related to performance. However, if the founder sticks to that product because he/she believes that market for that product will increase over time, and the founder is open to making adequate changes in the product as required, persistence in such a case would be positively related to venture performance.

Further research and limitations

This study has several limitations. Since secondary data are not available for new ventures of emerging economies, we utilized primary perceptual data to measure strategic persistence and firm performance. Future studies can potentially try to corroborate our findings by utilizing secondary data. Next, the data utilized in this study was cross-sectional. A better research design could be one in which performance was captured one year after capturing the strategic persistence. However, since we measured persistence over a period of three years in this study, we believe that this limitation was partially alleviated. Only one respondent from each organization took part in the survey. Multiple respondents could help further in reducing the possibility of common method variance.

This study can be extended in multiple directions. In this study, we have utilized strategic persistence as a proxy for a firm's strategic posture. Other studies in the context of new ventures can explore numerous other strategic postures which may be of significance. Also, we incorporated one individual-level moderator in order to understand the contingencies that surround strategies of new ventures. Other studies can benefit by exploring other individual-, firm- and industry-level variables. It would not be misguided to assume that different industries might benefit differently from strategic persistence. Finally, it might help to study these relationships in the context of other kinds of firms-like small businesses.

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Further reading

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Appendix

Construct	Items	Internal consistency
Strategic persistence	As compared to the expenses in the first year of operation, how similar or different are your expenses in the current year of operations on the following parameters: 1. Advertising intensity (advertising/sales) 2. Research and development intensity (R&D/sales) 3. Plant and equipment newness (net P&E/gross P&E) 4. Non-production overheads (total expenses/sales) 5. Inventory levels (inventories/sales) 6. Financial leverage (debt/equity)	0.95
Proactive personality	Please provide your responses on the following items, based on how they apply to you: 1. No matter what the odds, if I believe in something I will make it happen 2. I love being a champion for my ideas, even against others' opposition 3. I am excellent at identifying opportunities 4. If I believe in an idea, no obstacle will prevent me from making it happen	0.93
Firm performance	How would you rate your firm performance for the current year on the following parameters: 1. Market share 2. Productivity 3. Profitability 4. Customer satisfaction	0.98

Table AI.
Operationalization of constructs used in this study

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Safal Batra is a Faculty in the Strategy Area of the Indian Institute of Management Kashipur. His research interests surround the cognitive, cultural and strategic determinants of organizational innovation, change and creativity, especially in the context of small and medium enterprises of emerging economies. His research has been accepted/published in some of the top management journals like *International Small Business Journal* (Sage), *Journal of Manufacturing Technology Management* (Emerald) and *Journal of Entrepreneurship* (Sage), among others. Safal Batra can be contacted at: safal.batra@iimkashipur.ac.in

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