

OPERATIONS STRATEGY IN NASCENT ENTREPRENEURIAL VENTURES

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INTRODUCTION AND HYPOTHESES

In this paper, we consider the relationship between operations strategy and new venture survival. Operations strategy is a critical element in the management of a firm [1], and venture survival is a fundamental and widely used measure of performance for startup firms [2], [3], [4]. In particular, we examine how nascent entrepreneurs, those individuals who are in the early stages of starting new firms, assign relative importance to various competitive priorities, and the ways in which these importance assessments are related to their firms' survival. We incorporate the concept of how focus – a view that a narrow set of goals helps align decisions and behavior – is related to survival. In brief, our results point to the conclusion that a strong predictor of survival is a focus on quality or a focus on innovation.

Firms that emphasize a specific competitive priority over others and therefore pursue a focus strategy typically achieve better performance [5], [6], [7]. Moreover, the entrepreneurship literature has shown that new ventures with a focused approach to startup activities have higher performance [8]. We follow this logic in developing hypotheses related to focus in new ventures.

H1: Quality focus is positively related to new venture survival

H2: Innovation focus is positively related to new venture survival

Focus in operations has been associated with better performance, as we note above. We would also expect that a lack of focus (emphasizing more than one competitive priority *simultaneously*) would be negatively associated with performance. Porter [9], in his examination of business strategy, argued that a firm that tries to compete based on more than one performance dimension would be “stuck in the middle” and would be likely to perform poorly. We therefore predict:

H3: Lack of focus is negatively related new venture survival

METHODOLOGY

To test our hypotheses, we used data from the Panel Study of Entrepreneurial Dynamics II (PSED II). The collection of this data set was coordinated by the University of Michigan's Survey Research Center from 2005 through 2011. The objective in the collection of this data set was to provide reliable data about the process of business formation from a nationally representative sample of nascent entrepreneurs.

Our analysis included variables measuring strategy focus, new venture survival, and an extensive set of control variables. To construct the strategy focus variables, we used principal component analysis with

varimax rotation to identify three strategy importance factors: Quality, Innovation, and Marketing. Strategy focus was measured by dichotomous variables indicating whether the importance of the only the focal strategy dimension was above the median value for all ventures. The outcome measure was a dichotomous variable indicating whether the venture was still in existence after 12 months. We also included more than 30 control variables to account for other possible factors that might affect a new venture's survival.

RESULTS

We used logistic regression to test the relationship between strategy focus variables and venture survival. The results of the logistic regression analysis show that both Quality Focus ($B = 0.820$, $p < 0.01$, $\text{Exp}(B) = 2.270$) and Innovation Focus ($B = 0.997$, $p < 0.05$, $\text{Exp}(B) = 2.711$) were positively and significantly related to the probability of survival, while Marketing Focus was not significant. No Focus was not significantly related to survival. Odds ratios show that Quality Focus ($\text{OR} = 2.27$) and Innovation Focus ($\text{OR} = 2.71$) were both associated with a strong probability of survival.

DISCUSSION AND CONCLUSIONS

In this paper, the results relating quality focus and innovation focus to survival were quite strong. A strategy exhibiting either quality focus or innovation focus was strongly related to venture survival, supporting H1 and H2. Contrary to our expectations, a lack of focus was not significantly related to survival, so H3 was not supported. Taken together, these findings provide evidence of the important role of operations in the success of entrepreneurial firms. Specifically, we find evidence that focus is strongly associated with higher levels of performance. From a managerial perspective, this link might be interpreted as a demonstration of the importance of not only knowing one's target market in a marketing plan, but also making day-to-day *operational* decisions that support this mindset.

REFERENCES

Available upon request from the first author.