

## STRATEGIC BEHAVIOUR IN THE NEW VENTURE

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This article describes the process of strategy formulation and implementation as observed in entrepreneurial new ventures formed in the Republic of Ireland. It analyses these processes, and especially the strategy implementation processes, in the context of some traditional themes of research on new venture management and strategic management. Special attention is paid to the relationships between the entrepreneur and organisational stages of development, on the one hand, and strategy implementation, on the other. In addition, the impact of the type of entry strategy adopted on the implementation process is explored, as too is the manner in which learning takes place through strategy implementation. Finally, some implications of the findings for popular concepts of strategy formulation and implementation are outlined and discussed.

### The Information Base for the Analysis

The information base for the descriptions and interpretations of strategy implementation presented in the paper derive from several sources. One is a continuing programme of *in-depth case research* on the development of new ventures at various stages of their early life-cycle, from conception of an enterprise idea through to consolidation of a successful new venture or its failure. To date twelve such detailed studies have been completed. A second source is a set of over one hundred *case descriptions and analyses* undertaken by final year undergraduates during the years 1977-1983, based on structured interviews with new venture promoters and managers. A final source is a series of Master's degree *theses* written on the subject of entrepreneurship and new venture management. Because of the diversity of these sources, and the inclusion of much qualitative data, findings are not presented here in any statistical form. Instead, a review has been undertaken of the data, and the common patterns concerning strategy implementation identified. The companies represented in the data base are all in the small and medium sized enterprise category, although some may well grow to be large enterprises as they mature and develop.

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It should be noted that the methodology is qualitative and subjective, and while every attempt has been made to ensure objectivity, it must inevitably reflect some of the biases and conceptual prejudices of the author. The findings should therefore be most validly treated as the material for formulating hypotheses for further research.

### Strategy

The definition of strategy used is that suggested by Mintzberg – “a pattern in a stream of decisions” [Mintzberg, 1978]. The paper therefore explores implicit as well as explicit strategic behaviour, intended as well as emergent strategy and unrealised as well as realised strategy. It is critical in studying new ventures to allow for this richness of definition. New ventures, by virtue of their small size and the rapidity of their learning, are characterised by informality in strategy making processes, by fast feedback and adaptation in behaviour and by considerable flexibility. The absolute aridity of research that measures only formal processes of strategy formulation and implementation is especially obvious in attempting to explore these issues in an entrepreneurial venture.

### The Entrepreneurial Roots of New Venture Strategy

The origins of “roots” of new venture strategies lie in the entrepreneur or entrepreneurial team. New ventures are created by individuals who innovatively combine a perceived market opportunity with some personal resource. The personal resource may be a skill, information or access to resources of one kind or another. The appropriateness of the balance between these two factors (similar to the familiar notion of demand-pull and technology-push in the innovation process) has a major impact on the quality of the strategy formulated for the new firm and on its implementation. Over-emphasis on one rather than the other generally spells disaster.

While warnings of this nature about over-emphasis on technical knowledge and capability are widely voiced and suggested to lead to the formation of production-oriented ventures with little sensitivity to demand and customer needs, we have observed just as great a danger threatening the venture based on market opportunity and inadequate technical or resource capability.

The entrepreneur brings to the new venture a unique knowledge of technology, potential customers and market needs. The new venture's choice of strategic scope, or its product-market domain, is fundamentally based in this knowledge. It is therefore reasonable to visualise this foundation of organisational strategy as a direct extension of what the

entrepreneur has learned through personal experience of an industry and related technology. The strategic scope is a function of the founder's past experience and accumulated knowledge. Once the choice of domain, or scope, is made in this way, further development and implementation of strategy becomes bounded or constrained by the pressure to either dominate and defend the initial position, or to proceed by related steps into new product-market domains. How goals of growth and development may be implemented is significantly constrained far into the strategic future by this initial choice.

The entrepreneur, his personality and motivation also embeds a characteristic "vision" concerning company performance in the organisation. It is these personal attributes that above all else determine whether the vision of the company – the ultimate ends it will pursue – will be based on an ideal of survival, of satisficing, of excellence, of "being best", of serving customers or of any of the other classes of vision or ideal that motivate strategy formulation and implementation through the long generations of corporate evolution. Much attention has been paid recently to the strength and impact of the ideals that drive successful companies. These ideals, where they exist, almost without exception originate in the expressed aims of the organisation's founding entrepreneur and are propagated through time and through the growing structures of a developing company by various "legends" and "myths" that fundamentally influence which strategy options are generated and considered and how they are implemented. The entrepreneur, as an individual, sets the initial mission for the enterprise. For most new ventures, the concept of mission is a mixture of personal and organisational objectives. On the personal side, it is likely to embody aims of personal achievement and security, independence, financial reward and career development. It may, in some cases, reflect the necessity to survive economically for the redundant or displaced person. These personal goals typically dominate the early concept of mission for the company. Personal and organisational goals are largely synonymous. Goals stated in terms of sales, profits, market share or return on investment are usually instrumental goals – necessary goals for the achievement of personal ends.

### **The Determinants of the Opening Strategy**

The initial strategy formulated for a new venture, and the way in which it is implemented, is therefore seen to reflect very deeply the nature, experience, knowledge and motivation of the entrepreneur. What seems to make most impact on the success of the opening strategy of the venture, as determined by these forces is:

1. the depth and quality of prior experience of the entrepreneur . . . this is the initial corporate capability base;
2. the balance between perceived market opportunity and capability to create a product or service . . . if one of these forces is weak in the entrepreneur or entrepreneurial team, the ability to implement strategy is deeply flawed (resulting in a market opportunity addressed with a bad product or service, or a "good" product/service for which no significant market is found);
3. the balance between personal and non-personal organisational goals built into the original concept of mission . . . while personal goals may create a "vision" to drive and integrate the company, strategy implementation and control becomes impossible without a matching set of non-personal organisational goals.

### Some Special Features of Strategy Formulation and Implementation

Informal processes and, where they exist, structures that change frequently and fluidly are distinctive features of the new venture. The corporate strategic "mind" and that of the entrepreneur/entrepreneurial partners are virtually synonymous. While formal processes can significantly aid the formulation of strategy in the pre-launch period of venture projection and in the post-launch phase of consolidation and reappraisal, formal mechanisms for implementation are seldom seen. Financial, marketing and operations processes are usually formalised at the annual plan level, but the implementation of strategies and their adaptation is enacted through primarily informal, ad hoc and interpersonal mechanisms. One of the great dangers in studying strategy in the new venture is to search for formal structures and processes only. These are generally absent. But strategy-making and implementation is anything but absent. The researcher's measuring instrument must reflect this fact if strategic processes are to be observed.

In most entrepreneurial new ventures, the rapidity of learning, and the flexibility and speed of adaptation are also distinctive and unique when compared with similar processes in most large organisations. Size appears to be the key factor in creating this difference. The leadership qualities of the entrepreneur and the few short lines of communication he needs to inform, persuade, learn from and change the behaviour of others are also critical determinants. It is noteworthy that rapidity of learning and flexibility in strategic behaviour are characteristics also alleged to typify excellent large companies [Peters and Waterman, 1982]. In some significant sense, the "natural" processes of the new venture provide a model for excellence in strategic behaviour in more mature organisations. An absence of these two characteristics — rapidity of learning and flexibility

and speed of adaptation – is associated with new ventures that do not grow and which fail. The implementation risk inherent in an inflexible entry strategy is highlighted by this pattern. The ability to learn rapidly and to adapt strategy as learning takes place through implementation is one of the essential competitive advantages of new ventures – sometimes the only one! By entering a competitive environment with an inflexible strategy and capability base the new venture loses its most potent competitive advantage.

### **Implementation in Context**

The implementation process varies depending on the stage of development of the new venture, the nature of the entry strategy, and the nature of the entrepreneurial leadership. The stage of development of the new venture refers to three characteristic phases of its early evolution. The first is the pre-launch, projection phase; the second, the launch and “knothole” phase; and the third, the reappraisal and consolidation phase. It may seem contradictory to discuss strategy implementation at the pre-launch stage. Yet, in some very powerful ways strategy is “tried out” and modified quite radically during this incubation period. It is tried-out mentally by the promoter(s) and modifications made as flaws and weaknesses are discovered through the development of plans and inspection of their financial and other outcomes. Plans are also tried-out as they are presented to outside organisations who are to provide, technology and marketing (especially distribution, advertising/promotion services etc.). Pre-launch implementation of technological, manufacturing and marketing strategy also takes place as prototypes are built and tested, pilot plant commissioned and test marketing undertaken. The extent of implementation of initial strategies may therefore be quite considerable, prior to venture launch. Learning through such limited “implementation” can be considerable, and when it is precipitated by the evaluations of potential financiers or government support agencies it can have major impact. Outside agencies have considerable power to influence strategic behaviour at this stage of development. Formal tools of strategy formulation and analysis may also have considerable impact as they are used to formulate and refine the business plan with which the new venture will seek to raise capital.

During the launch, and what Collins and Moore (1970) labelled the “knothole” period (typically, in our experience, the first 18-24 months after launch), the new venture is usually committed to its entry strategy – its opening move. Implementing this strategy through a new organisation is a very stressful and demanding process. Much of the entrepreneur’s and management’s time is of necessity devoted to the tactical crises and pressures of the short run. For most new ventures observed, this is truly

a fight for survival period. A good opening strategy allows the company the freedom to devote itself to tactical survival, secure in the knowledge that it is going in the right direction. A poor or misjudged opening strategy is almost impossible to rethink and reformulate during the knothole period, because of the time and energy required to deal with the inevitable crises of launch — never mind the crises induced by a poor entry strategy.

As the enterprise emerges through the knothole — typically after 18-24 months of trading, a new phase of strategic behaviour appears to commence. If it has survived the launch crisis and has achieved some degree of success, the overwhelming pressure of tactical, day-to-day management problems begins to recede. The first really serious appraisal of the opening strategy and its implementation becomes possible. A great deal has been learned by implementing and adapting the opening strategy and in the successful enterprise this learning is now formalised and strategic “lessons” drawn for the future. Some other radical changes may take place at this stage with far reaching impact on future strategy implementation and formulation. The coincidence of personal and organisational goals and strategies begins to loosen in the organisation set for further growth. The entrepreneur, having attained many of his original personal objectives of independence and achievement, can become an organisation builder. Some entrepreneurs are observed to begin to consider the handing over of the management of the venture to professional salaried management, while they withdraw to create a new, related venture to fuel further long term growth. Many of the more successful entrepreneurs begin to evaluate strategies of significant innovation at this stage, secure in the knowledge that they have created an asset base and financial capability that allows them to implement higher risk strategies than the original. The opening strategy and its implementation for such entrepreneurs is sometimes a calculated low-to-moderate-risk means of acquiring the resources and financial independence to implement a higher risk long-term strategy.

The nature of the entry strategy, not surprisingly, affects the process of implementation. Where the entry is effected through a highly flexible strategic positioning with non-specialised assets and resources, the strategic degrees of freedom in implementation are great. The enterprise may shift between related customer groups and respond actively to what it learns from customers about their needs and their use of the venture's product. General purpose technology in operations or manufacturing allows the company to follow up newly discovered needs and to undertake tasks that are not directly related to the core strategy, but which may help overcome temporary cash shortages and capacity utilisa-

tion problems. This type of entry strategy makes it possible to learn intensively during the process of implementation, and to revise and adapt the entry strategy by a process of experimentation with alterations, deletions and additions to the strategy. Strategy may therefore evolve in a fluid, incremental but quite purposeful manner much as Quinn (1980) describes in large organisations. The entrepreneur stands at the centre of a web of action experiments, supporting and encouraging those that work well, and withdrawing resources and commitment from those that work less well. Strategy implementation and formulation roll into one complex adaptive process where it becomes difficult to tell one from the other.

Where the entry strategy is one of limited flexibility and where significant resources of a specialised nature have to be committed early in the implementation process, the degrees of freedom available in implementation are few. Learning through 'conceptual implementation' and through pre-launch product testing and market testing is vital in reducing the risk inherent in this type of entry strategy because once launched, the strategic outcome is win or lose with very little middle ground. The post-launch implementation process must therefore be a formal one with only limited scope for innovative or entrepreneurial adaptation. The process therefore looks more like that in a mature efficiency-oriented business than in the popular vision of an entrepreneurial new venture.

The nature of the entrepreneurial leadership of the firm also affects implementation. Some aspects of our research suggest that one-person vs. team structures are differentially effective in different organisations and environments. Traditional concepts of entrepreneurship reflect an emphasis on the strong solitary leader as the strategic centre of the new venture. More recent literature on technology-based new ventures stresses the role of entrepreneurial teams with complementary skills. The wide diffusion of this latter body of research and writing has biased many financial and government support agencies towards funding team ventures in preference to solo entrepreneurs. Some of our data suggests that this may do quite a disservice to the capacity of new ventures to develop and implement strategy. Where there is a high degree of complexity in markets and technology, the team structure may well remain the appropriate formula for the structure of leadership – it matches the environmental and technological variety. Set against this, however, major problems can emerge in pinpointing ultimate responsibility and in generating the depth of individual commitment necessary to take difficult or harsh implementation decisions. For the relatively simple new venture not confronted by great market or

technological complexity, the solo entrepreneur is probably most effective in the leadership role. This ensures rapid assimilation of the lessons of implementation and rapid application of this learning to the adaptation and reformulation of strategy. The key capability strengths of a new venture are amplified – rapid learning and fast adaptive action.

### **Implications for Concepts of Strategy Formulation and Implementation**

The findings reviewed suggest several implications for the general body of concepts and prescriptions about strategic management processes. One is the connection between the entrepreneur and the long-term strategic “personality”, strategic scope and vision of the organisation. Strategic types such as those observed by Miles and Snow (1978) – the defender, prospector and analyser – reflect a kind of organisational “personality” which our research would suggest owes its origin largely to the objectives, capability and style of the initial entrepreneur. This “imprinting” of a corporate personality – stable consistent patterns of response to the world – takes place during the pre-launch and early post-launch stages of development, and is unlikely to be easily discarded even after the entrepreneur has bowed out of a maturing company. Vision and style can become institutionalised in various legends that are created about the character and ideals of the entrepreneur. These may then be handed down through generations of succeeding managers and staff to exert a powerful directive influence on the company’s strategic preferences and modes of implementation.

The entrepreneur locates the embryonic company in a specific competitive context that reflects his own industry and technical experience. Choice of strategic scope is therefore an extension of the entrepreneur’s experience. The natural forces of organisational development and competitive dynamics then act, over the later history of the company, to limit its strategic scope to a domain close to this original competitive position. Effective diversification strategies are most usually limited to stepwise progression from the initial product-market-technology scope [Murray, 1984]. Explanations of strategic domain in any company should therefore involve an historical analysis through the pattern of strategies back to the founding entrepreneur’s experience prior to company formation.

The use of stages-of-growth models has been productive in the investigation of the evolution of corporate structure and strategic process over time [see Galbraith & Nathanson, 1978]. Our research suggests that there is much to be learned from studying pre-launch phases of development as well as the more typical focus on post-launch stages of development. Collins and Moore (op. cit) recognised this in their study of

independent entrepreneurs by analysing not only the post-launch “projection” phase and the “schooling” that their entrepreneurs received through their experience of life and business before they even began to “project” their new venture. Our observations suggest that these phases in the evolution of the embryo organisation have deep and perhaps irreversible influence on the organisation’s long term choice of strategy, and on its preferences and abilities to implement various strategic options.

Strategy and its implementation is most usually studied in formally organised mature organisations. Our research suggests that strategy formulated at pre-launch stages is of vital long-term significance for the organisation and deserves far more attention than is traditional. In addition, implementation actually takes place during this period! This happens through conceptual or largely abstract processes as early business plans are developed, evaluated and modified. Not only does the entrepreneur implement these evolving plans in a conceptual manner – important and influential outsiders participate in the process too. Bankers, accountants, venture capitalists and government support agencies may all become involved in “trying out” the strategies on paper and feeding back their judgements on the likely operational effectiveness of strategies. Strategy is adapted in response to this feedback both voluntarily and, on occasion, involuntarily if a third party supplying a vital input to the creation of the venture demands change (e.g. a banker setting preconditions for the provision of start-up finance).

In terms of our understanding of generalised strategic behaviour patterns, there would seem to be two types of entry strategy that may be general in nature, and that have significantly different implications for the process of strategy implementation. We characterised these as (i) the flexible, rapid-learning entry strategy which embodies many degrees of strategic freedom and the ability to adapt rapidly as learning takes place, and (ii) the inflexible, specialised resource base strategy that allows little opportunity to adapt strategy in response to the learning taking place during post-launch implementation. These two strategies seem to be reflected in quite different structural and process features of the new venture. The flexible entry strategy is more likely to be associated with relatively informal, ad hoc structures and an incrementalist strategy-making and implementation process. The incremental processes are likely to be “logical”, in the manner described by Quinn (1982), in successful growing ventures, and disjointed, in the manner described by Lindblom (1959), in ventures that stall and cease to grow, or fail.

Finally, many of the distinctive aspects of strategy formulation and implementation in new ventures have a remarkable resemblance to features of very successful large enterprises that have only begun to attract attention in the recent years — the role of vision and leadership, the role of strategic management systems as corporate learning mechanisms, the constrained nature of strategic choice, given an established competitive position and product-making scope and the coexistence of immensely powerful strategy making and implementing processes at informal and formal levels in the organisation. It is perhaps worth hypothesising that the strategic behaviour of successful new ventures provides, in relatively accessible form, an elementary model for adaptive strategic management systems in large companies.

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