Strategic choice and new ventures: a longitudinal examination of the performance implications of initial strategic decisions and changes in strategic decisions

Charles E. Bamford

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To the Graduate Council:

I am submitting herewith a dissertation written by Charles E. Bamford entitled "Strategic choice and new ventures: a longitudinal examination of the performance implications of initial strategic decisions and changes in strategic decisions." I have examined the final electronic copy of this dissertation for form and content and recommend that it be accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy, with a major in Business Administration.

Thomas J. Dean, Major Professor

We have read this dissertation and recommend its acceptance:

Accepted for the Council:

Carolyn R. Hodges
Vice Provost and Dean of the Graduate School

(Original signatures are on file with official student records.)
To the Graduate Council:

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[Signatures]

Accepted for the Council:

[Signature]

Associate Vice Chancellor and Dean of the Graduate School
STRATEGIC CHOICE AND NEW VENTURES:
A LONGITUINAL EXAMINATION OF THE PERFORMANCE IMPLICATIONS OF INITIAL STRATEGIC DECISIONS AND CHANGES IN STRATEGIC DECISIONS

A Dissertation
Presented for the
Doctor of Philosophy Degree
The University of Tennessee, Knoxville

Charles E. Bamford
May 1997
ABSTRACT

This study examines the apparent importance of strategic decisions for new ventures despite the mixed theoretical and empirical findings regarding the impact and timing of those decisions. As has been pointed out in past research, the most precarious and formative part of organizational life occurs at its founding and yet our knowledge of the relationships between strategic decisions and subsequent firm performance remains unresolved. The strategic choice perspective is examined as it places proactive control for the venture in the hands of the management team and further suggests that these decisions have performance consequences. This study examines two issues: 1) Do Strategic Decisions matter? and 2) When do Strategic Decisions matter?

A database of over 500 new, independent banks formed in the United States between 1985 and 1988 was developed with the assistance of the U.S. Office of the Comptroller of the Currency as well as secondary data sources from the Federal Reserve, Federal Deposit Insurance Corporation, U.S. Census Bureau, and the Polk's Bank Directory. Combining data from all of these sources provided the opportunity to examine the impact of strategic decisions
(as a group) upon the growth of new banks. The result of this analysis includes additional validation of the strategic choice model and specifically its application to new ventures. The strategic decisions of new, independent ventures were found to significantly affect the performance of the venture. This was especially true for the initial decisions of the firm which appears to be the point of maximum opportunity to observe strategic choice. Further analysis of the oft-mentioned broad/aggressive product approach for new venture success was examined. This study found that in highly munificent markets, the importance of a broad breadth approach is much less important than in less munificent markets. For this group of ventures, a broad breadth approach is more important as the munificence of the environment decreases. The value of the broad breadth approach also appears to be highly dependent upon the level of initial capital. It appears that utilizing a broad breadth approach is most important in the presence of lower levels of initial capital.
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CHAPTER 1

INTRODUCTION

At conception, a new venture has no norm, no momentum, no identity and no established routine. Cause-effects between actions and outcomes remain to be discovered (Woo, Daellenbach & Nicholls-Nixon, 1994).

In virtually all organizational research, and perhaps most especially in entrepreneurship research, much of the literature has “crystallized around one definitive research question: What causes certain firms to outperform their competitors on a sustained basis?” (Meyer, 1991:828). New ventures enter an industry having made a long series of strategic decisions and having acquired resources that are presumed to be needed for success (Bhave, 1994; Cooper, Gimeno-Gascon & Woo, 1994; Hansen, 1990,1995; Learned, 1992; Stuart & Abetti, 1987). Once these decisions are made and the new venture begins operation it is not possible to return to a pre-formation stage and repair initial shortcomings or inadequacies (Hansen, 1990). This tends to suggest that these initial decisions, within the context of the environment that is entered, may be critical to the future performance of the
venture (Cooper, Gimeno-Gascon & Woo, 1994; Eisenhardt & Schoonhoven, 1990; Sandberg, 1986; Stinchcombe, 1965).

Some researchers have suggested that initial decisions may not even be related to the performance of the firm by positing that the resources and environment in existence at the founding of a firm tends to lock the new venture into a path that determines its future performance irrespective of management efforts (Carroll & Delacroix, 1982; Freeman, Carroll & Hannan, 1983; Hannan & Freeman, 1984; Low & MacMillan, 1988). This would imply that the strategic choices of the firm are relatively inconsequential and furthermore, that the environment may even decide the survival and success of the new venture.

This line of reasoning continues by suggesting that even if there was some acceptance for a limited role for initial decisions (such as the timing of the entry decision and the industry chosen), that choices made after the founding of an organization are unrelated to the new ventures' future performance (Hannan & Freeman, 1984). This study does not attempt to resolve the issue of the dialectic between the various views of the organization (Astley & Van de Ven, 1983). Instead the aim is to investigate the performance implications of the enacted
strategic decisions of new ventures. The youth of the firm and its management along with the limited resources typical in a new venture may make it particularly susceptible to the environment (Stinchcombe, 1965).

Theorists have suggested that an examination of the organizational decisions at the point of venture inception may have implications across perspectives (Boeker, 1988) as all but a natural-selection perspective acknowledges some role for the management to guide the venture (Astley & Van De Ven, 1993). Amongst these various perspectives, the strategic choice view places the performance control of the venture directly with the enacted decisions of the venture.

The strategic choice perspective suggests a substantial role for the initial decisions of the venture and the ability of the founders to establish the resources, capabilities, and strategic direction of the firm (Andrews, 1980; Child, 1972). Furthermore, this approach asserts that once a new firm is born, the managers do not simply abdicate their authority but remain proactive (Astley & Van de Ven, 1983). The strategic decisions appear to include efforts to adjust to changing conditions, acquire the resources needed by the firm, and
attempts to shepherd the firm for success (Chandler & Hanks, 1994; Covin, Slevin & Covin; 1990; Eggers, Leahy & Churchill, 1996; Jarillo, 1989). The implication is that these changes in strategic decisions will enhance the performance of the new venture. Indeed, several researchers examining young firms (or internal corporate ventures) have found that the pursuit of specific strategic postures or approaches has led to improved performance (Duchesneau & Gartner, 1990; Freeser & Willard, 1990; Miller & Camp, 1985).

The strategic choice perspective places the control for the venture in the hands of the management team and suggests that decisions have performance consequences (Astley & Van de Ven, 1983). While strategic choice can be examined with more established firms (although a long administrative history makes this difficult), new ventures provide a unequalled forum for its study. New ventures have no history and perhaps only limited resources, making them resemble more of a “commercial experiment” (Starr & MacMillan, 1990:81) than a profit-making entity. Furthermore, the new venture has to make a series of decisions both at the point of founding as well as during the formational years (Boeker, 1988; Eisenhardt &
Schoonhoven, 1989; Hansen, 1990; Romanelli, 1989), each of which (if we follow the tenets of strategic choice) should have a performance impact. If we wish to examine the impact of strategic choice, then it appears that at no other time in the life of a business will the opportunity for strategic choice be as strong (Biggadike, 1979; Stinchcombe, 1965; Weick, 1979) and the performance results so clearly observable.

An additional element of the strategic choice perspective that should be emphasized is that the decisions made after founding must be considered to be no less critical to the success of the new venture (Child, 1972). The ability of the firm to respond to changes in the environment as well as to adapt to conditions within the company should provide the firm with substantial influence over its fortunes (Child, 1972, 1975; Weick, 1979).

Granting a role for the environment (and perhaps industry entered), a significant question remains as to whether the strategic decisions made by the venture have performance implications as well as at what point do these decisions have an impact. Substantial validation of the strategic choice perspective as a unique and contributing
view of the firm would be provided with positive results from the following research questions.

RESEARCH QUESTIONS

1. Do Strategic Decisions Matter?

Do the strategic decisions of new ventures significantly impact the performance of the organization? This omnibus question is the most fundamental of the strategic choice perspective.

2. When do Strategic Decisions Matter?

Do the initial strategic decisions of a new venture significantly impact the performance of the organization? The point of maximum choice in both scope and domain would appear to be the point of founding.

Do the strategic decisions of a new venture made after founding significantly impact the performance of the organization? The ability to change the organizational strategy after founding is important for the validation of the strategic choice approach.

The study of initial strategic decisions (in addition to the subsequent changes in those choices) requires us to address the issue of what constitutes a "new venture". As firms evolve over their first few years of life, their strategies evolve and coalesce (Romanelli, 1989). The strategies which led to their initial success may no longer be the strategies which they are currently pursuing. Thus, measuring strategy several years after
founding may not provide a valid theoretical test of the relationship between initial venture strategy and performance. This research aims to examine independent ventures at the point of formation as well as track subsequent changes. While previous research in this area has been hampered by a lack of information on new ventures at the point of formation, this study was able to overcome this issue through the development of a database which includes measures of strategic decisions at the point of formation for a large sample of independent, new bank ventures that has been developed by the author over the past two years with the direct assistance of the U.S. Office of the Comptroller of the Currency.

**SIGNIFICANCE**

This research should provide a window into the most precarious and formative part of organizational life. The complexity of new venture formation and subsequent performance requires an extension of our reach temporally, not only for dependent variables such as performance, but also for independent variables such as the content of decisions made by the founding team. New venture vulnerability, importance to the economy, and great interest to investors and researchers alike suggests that
a more comprehensive understanding of the contributors to performance will be important. The resulting information should assist new entrepreneurs in focusing their efforts in those areas and at those times that will yield maximum benefit. Regulators/investors would be provided with some objective measures for evaluating the potential success of new ventures as well as assisting in the subsequent success of new firms.

The results of this study should assist both entrepreneurial and strategic choice researchers. First, this study should help provide some empirically-based organization to a vast, but un-integrated literature regarding the impact of strategic decisions upon the success of new ventures. Value should be added by examining decisions made at the point of inception as well as after the new venture's strategies have coalesced. While Sandberg (1986) found that initial strategy had an impact upon new venture performance, his data consisted of 17 firms, whereas this research data set exceeds 500. Furthermore, each of these firms can be tracked, using secondary data, for many years after formation.

Second, this study has the opportunity to eliminate two data deficiencies common in organizational research.
The inclusion of failed firms in the analysis should provide researchers with guideposts for examining the entrepreneurial event without a bias (and the resulting statistical/predictive concerns associated with a success-only sample) toward successful firms (Ginsberg, 1988). This study also includes secondary data on private firms which has been generally difficult for entrepreneurship researchers to include in their analyses of organizational decisions (Brush & Vanderwerf, 1992; Cooper & Gimeno-Gascon, 1992).

Third, by examining performance over a longitudinal time period, it may be possible to identify some of the differences in the performance effects based upon the whether those decisions are made initially or subsequent to firm inception. As pointed out earlier, this is important to the discussion of strategic choice as it has been suggested that the impact of strategic decisions and commitments made at the point of founding have a long lasting impact upon the performance of the company, perhaps even a multiplicative effect that leaves weaker firms with little comparative opportunity (Eisenhardt & Schoonhoven, 1990). On the other hand, strategic choice theorists have suggested that the new venture has the
ability to adjust and modify its resources and strategies so as to improve the performance of the firm (Child, 1972; Mintzberg & McHugh, 1985; Quinn, 1980; Weick, 1979). This research should provide some much needed insight into this discussion.

DEFINITIONS

New Venture Formation. Vesper (1980) suggested that locating the actual beginning of a new venture was problematic due to the many ways that firms pursue a market. For instance, a high technology firm may have an organization and be pursuing research for years prior to their first sale. However, the industry may help dictate the appropriate point for venture creation (Spender, 1983). This research defines the point of new venture formation as the date that a state or federal bank charter of operations was approved. Prior to this point, no official business may be transacted in the banking industry.

Strategic Decisions. The enacting of strategic decisions is a core of the strategic choice model. Schwenk (1988) defined strategic decisions as those that were non-routine, important to the organization, and very complex. Quinn (1980) further reiterated that these decisions
"determine the overall direction of the enterprise and its ultimate viability..." (1980:8). Using interviews with bank founders as well as literature from entrepreneurship (Cooper & Gimeno-Gascon, 1992), strategy (Reger, Duhaime & Stimpert, 1992) and finance (Hempel, Simonson & Coleman, 1994; Lindley, Verbrugge, McNulty & Gup, 1992), a comprehensive list of the strategic decisions of a new bank venture and the subset that was measurable and trackable with secondary data was utilized. This set of decisions was reviewed with the U.S. Office of the Comptroller of the Currency and was confirmed to consist of all the measurable strategic decisions of a new bank venture.

Changes in Strategic Decisions. Romanelli (1989) found that new ventures tended to achieve strategic stability within three years. Therefore this study examines changes made in the strategic decisions of the new venture that were in place by the end of the third year of operation. There is no effort made to cumulate these changes into categories of revolutionary/evolutionary (Miller & Friesen, 1980; Romanelli & Tushman, 1994; Virany, Tushman & Romanelli, 1992), instead changes are observed and recorded...
individually. Without information such as the structure and power changes, it would be inappropriate to conclude a cumulative effect from these individual changes in strategy.
CHAPTER 2  
LITERATURE REVIEW

Entrepreneurial research has developed into a substantial area of research that has drawn researchers from numerous fields of study (Aldrich, 1990). At the same time, the importance in the economic life of a country that entrepreneurial activity provides has propelled the search for ways to improve both the survivability and growth potential for such firms (Acs & Audretsch, 1992; Birch, 1981; Birley, 1986).

The general state of entrepreneurial research and its impact have been examined in a number of relatively recent articles (Aldrich, 1992; Cooper & Gimeno-Gascon, 1992; Churchill & Lewis, 1986; Wortman, 1987; Paulin, Coffey & Spaulding, 1982) at the same time that the field has seen the addition of two dedicated, referred journals, a national conference and a separate and well-developed division of the Academy of Management (Woo, Daellenbach & Nicholls-Nixon, 1994). However, the state of new venture formation research and the impact of various organizational, entrepreneurial and environmental conditions is at an elementary level. As
Cooper & Gimeno-Gascon pointed out “at this stage in the development of the field, it is clear that there are few unambiguous findings which could give guidance to entrepreneurs and their advisors...[and that] the systematic study of founding factors and their relationship to subsequent performance [is] in its infancy” (1992:316,318). This is, in part, due to the fact that few definitions have been agreed upon or even explicitly stated in much of the past research. Whether it is examined strategically, environmentally, or organizationally, new ventures and new venture formations appear to be unique events with perils, problems and potential that separates them from established firms (Eisenhardt & Schoonhoven, 1990; McDougall & Robinson, 1990; Stinchcombe, 1965).

Founding a new venture is the clearest and most visible result of the efforts of an entrepreneur. This economic or perhaps managerial outlook of the entrepreneurial process is grounded in the examination of results, not potential (Bull & Willard, 1993; Gartner, 1988; Jarillo, 1989; Low & MacMillan, 1988). In this light, Gartner (1985) developed a comprehensive framework for examining new venture creation. He suggested that new
venture creation was multidimensional requiring an examination of the interaction of the individual entrepreneur(s), the environment, the organization, and the process of resource accumulation. He specifically outlines a framework for examining the new venture creation process.

...a framework for describing the creation of a new venture across four dimensions: (a) individual(s)-the person(s) involved in starting a new organization; (b) organization-the kind of firm that is started; (c) environment-the situation surrounding and influencing the new organization; and (d) new venture process-the actions undertaken by the individual(s) to start a venture (Gartner, 1985:698).

Other extant research confirms this consideration of multiple causes. Eisenhardt & Schoonhoven (1990), in examining new high-tech ventures found that multiple strategies led to equally effective results. They confirmed a basic premise of many strategy researchers, that multiple configurations of strategy, structure and processes may be utilized by founders/top managers to lead to superior performance (Andrews, 1980; Miles & Snow, 1978; Porter, 1980, 1985).

Given the focus of this study which is upon the performance effects of the strategic decisions made by the management of new ventures, the evaluation of the prior
literature has been divided into three sections. The first examines the literature on the determinants of new venture performance. Many entrepreneurial characteristics, environmental conditions, strategies and resources have been suggested and studied in this research area with mixed results. The second section examines the entrepreneurial event as a unique area of study. The entrepreneurial event would appear to offer the researcher an unparalleled opportunity to investigate the role of strategic choice (Biggadike, 1979; Hansen, 1990; Hofer & Bygrave, 1992). The third and final section discusses the temporal dimension of decisions made by the founder(s) of a new venture and their relationship to the study of entrepreneurship. The study of strategic choice would not be complete with a singular examination of the initial decisions made by the management of the new venture. Instead, this approach requires an examination of strategies as they have changed in the process of the firm becoming established in the market (Child, 1972; Romanelli, 1989).

NEW VENTURE PERFORMANCE

A wide assessment of the literature suggests that new venture performance is a function of multiple
organizational and environmental factors (Aldrich, 1992; Cooper & Gimeno-Gascon, 1992; Gartner, 1985). Generally using Gartner's (1985) four-point model, the literature review examines the following: 1) the entrepreneur(s) (Stinchcombe, 1965; Bull & Willard, 1993; Cooper & Gimeno Gascon, 1992; MacMillan, 1983); 2) the structure of the external environment (Bull & Willard, 1993; Cooper & Gimeno Gascon, 1992; Low & MacMillan, 1988; McDougall, Covin, Robinson & Herron, 1994); 3) the strategy pursued (McDougall, et al., 1994; Bruno & Tyebjee, 1982; Quinn, 1980; Jacobson, 1992); and 4) the resources employed (Stinchcombe, 1965; Cooper & Gimeno Gascon, 1992; Cooper, Gimeno-Gascon & Woo, 1994; Chandler & Hanks, 1994). Each of these areas in the literature will be examined.

THE ENTREPRENEUR(S)

In a similar vein of research to Hambrick & Mason's (1984) research into top management team demographic characteristics, the entrepreneurship literature has been replete with research examining various characteristics of the entrepreneur(s). Race and gender, occupation of parents, education, psychological characteristics, entrepreneur(s) age, and entrepreneur(s) goals have all
been examined with generally very weak or at best mixed results (Cooper & Gimeno-Gascon, 1992).

There is an intuitive appeal to believing that there are some fundamental differences between those who successfully start new ventures and those who choose not to do so. However, many attempts to develop a profile of these characteristics/psychological profiles have failed to find systematic differences (Gartner, 1988; Sandberg, 1986). This suggests that researchers should orient their efforts toward more productive arenas focused on the actions taken to initiate a new venture (Sandberg, 1986; Gartner, 1988).

Gartner (1988) attempted to reorient the field by suggesting that researchers “look at what the entrepreneur does, not who the entrepreneur is...” (1988:26) as much of the personality trait and background information used in research is suspect both methodologically and causally. His approach focuses on the results of entrepreneurship and on those skills and resources that are brought to bear to initiate a new venture.

The founder(s) of a new venture bring to the organization, a set of skills as a fundamental part of who they are. These skills help them guide this new
organization through the trials of venture creation that are inevitably encountered (Timmons, 1994). Researchers examining the background experience of entrepreneurs have found widely mixed results. One of the earlier researchers suggested that practical experience in forming and especially failing with new ventures would lead to better subsequent performance (Stinchcombe, 1965). The case seems to be made and supported by later researchers, that the new venture faces numerous obstacles. These obstacles require knowledge not only of the industry and business, but also of a wide variety of skills, methods and efforts that can only be experienced and learned about by doing (Lamont, 1972; Vesper, 1980). The popular business press encourages this conclusion as it seeks out the entrepreneur who has started many businesses and even hails the fact that failures are a part of the equation (Burlingham, 1995). And this call has gone out to researchers as both an admonishment and a research agenda (Executive Forum, 1986).

Given this interest and the intuitive appeal, it is interesting to find research results that are so mixed. Sandberg’s (1986) detailed analysis of 17 venture-capital sponsored firms found no relationship between prior
entrepreneurial experience and new firm performance (yet, Sandberg was still reluctant to exclude the entrepreneur from his new venture model). Subsequently, Cooper & Gimeno-Gascon examined a variety of literature and concluded that 'looking across the research to date, it would be difficult to make the case that prior entrepreneurial experience is associated consistently with success' (1992: 307).

Yet, other experiences may be associated with subsequent new venture success. The relatedness of the venture to the previous work experience of the entrepreneur or entrepreneurial team seems to be associated with subsequent firm performance (Cooper & Gimeno-Gascon, 1992; Bull & Willard, 1993; MacMillan, 1983; Walsh, Kirchhoff & Boylan, 1996). While Sandberg’s (1986) analysis failed to find significance between prior entrepreneurial experience and new firm performance, his sample was quite small (17 firms) and it narrowly missed being statistically significant.

If not prior entrepreneurial experience, perhaps, the lack of skills of the individual entrepreneur may be compensated for by an effective entrepreneurial team (Eisenhardt & Schoonhoven, 1990; Sandberg, 1992; Timmons;
This team of individuals would provide knowledge, experience and skills that the founder lacked and would reduce the uncertainty inherent with the starting of a new venture. An examination of the literature found that most "studies have found that firms started by teams did better than those started by single founders" (Cooper & Gimeno-Gascon, 1992:313). At the same time, the effectiveness of the entrepreneurial team appears to be a function of both its size and makeup. The need for quick decision making and the vast number of critical aspects built-in to the formation of a new venture seems to indicate that a larger founding team and one with significant team heterogeneity may lead to improved new venture performance (Eisenhardt & Schoonhoven, 1990; Kazanjian, 1988).

This was supported by some ancillary research into the use of Board of Directors and their value as resources for existing firms. Boyd (1990) found a curvilinear relationship between board size, performance, and the uncertainty in the environment. As uncertainty went up (a standard condition for new ventures) the use of boards and their interlocks with the community also went up for high performing firms. Interestingly, an additional insight was gained by Boyd in this research as he observed that there
was also a curvilinear relationship between uncertainty and board size. In effective firms, a high level of uncertainty was associated with a decrease in board size. This built on the research agenda suggested by Pettigrew (1988) where he strongly urged the research community to pursue the study of managerial teams and the use of the board of directors as sources of advantage for all organizations.

As this team is imbued with skills needed by the new venture, it appears that there is also some evidence that the impact of initial team size increases with time. Eisenhardt & Schoonhoven (1990) examined the effect that initial team size had on a sample of U.S. semiconductor ventures. They found that large teams created new advantages for the venture that multiplied with time such that there was a clear and significant performance effect with both team size and composition.

The ability to develop and cultivate a wide network of formal and informal contacts also appears to be one of the critical, observable skills that is potentially related to new venture performance (Birley, 1985; Aldrich, Rosen & Woodward, 1987). The ability of the new venture team to develop and utilize these contacts provides them
with expertise, helps them to avoid pitfalls and enhances their credibility within the marketplace (Stinchcombe, 1965; MacMillan, 1983). Gersick's (1994) in-depth study of a venture capital firm that helped launch a new venture is an excellent example of this effect. The venture capital firm helped to recruit an experienced CEO from a related industry in order to provide the new firm "with an experienced professional" (1994:16) who established credibility for the firm as well as providing it instant access to an established network within the industry.

It also appears that the size of the network formed as well as the level of interaction with that network appears to be related to firm profitability (Aldrich, Rosen & Woodward, 1987; Boyd, 1990). Networks that included strong ties and lots of interaction were significantly more likely to be profitable. New ventures form both formal and informal networks in order to co-opt resources for use (Aldrich, 1990). The formal network for a new firm would include the members of the initial Board of Directors as well as consultants, accountants and other paid experts. More specifically, the Board of Directors may play a dual network role for the new venture. While they often have a direct financial tie to the new venture,
they are also part of the advising and business soliciting team for a new venture. This is especially true for outside members of the Board of Directors who are often retained for their visibility and contacts within the business community. Much like an incubator, the business network developed by the entrepreneurial team would appear to be related to future performance (Low & MacMillan, 1988).

**THE EXTERNAL ENVIRONMENT**

The environment is the source of the resources that a firm needs for survival (Aldrich, 1979; Dess & Beard, 1984; Pfeffer & Salancik, 1978). The environment that a new venture enters may be of increased importance given the firm's need to acquire resources to achieve the immediate goals of firm growth and survival (Boeker, 1989; Carroll & Delacroix, 1982; Chandler & Hanks, 1994; McDougall, et al., 1994). Eisenhardt & Schoonhoven (1990) examined the effect that various environments (described as market stages) had on new venture growth. Examining U.S. semiconductor ventures, they found that firms grew larger in growth-stage markets than in either mature or emergent markets. Although clearly not a prescription for success, they suggested that growth-stage (highly
munificent) markets provide the new venture with superior resources. A subsequent study by McDougall, Covin, Robinson & Herron (1994) also found support for the contention that market attractiveness (high growth) seemed to be a critical factor for the new venture to consider when forming. Using a similar approach, Covin & Slevin further supported the impact of the environment on small firm performance concluding that the "analysis of environmental factors is central to the effective strategic management of firms of all sizes" (1989:85). Finally, a very recent piece of research examined small manufacturing firms in a broad spectrum of industries (SIC codes 20-39) and found a positive relationship between founder-perceived market attractiveness and venture performance (Chandler & Hanks, 1994).

However, not all of the new venture research has concluded that the munificence of the environment should be accepted as a necessary condition for new venture growth. Boeker (1991) tracked firms in the U.S. brewing industry over an 18-year period and constrained the measurement of the environment to the state level. Small firms were found to benefit less from a growth market, but more from dense, concentrated markets when compared to
large national firms. Local brewers do not attempt to compete outside of a geographic niche and it was suggested that they may apply specialized resources that would not be evident at the industry level (Boeker, 1991). This possibility was also examined by Carroll (1985) in an earlier study of the U.S. newspaper industry. Small, local newspapers were found to compete very successfully even in a highly concentrated, low growth environment.

These insights point out the complexities of interpreting the effect of the environment upon firm performance in general and new venture performance in particular. Examining the environment from multiple aspects seems to be called for, and as the research community was recently reminded, probably necessary to characterize the environment both parsimoniously and accurately (Dess & Rasheed, 1991).

The evaluation of the environment and the consideration of the impacts on all ventures has been a central tenet of the population ecology literature (Hannan & Freeman, 1984) which has been effectively integrated into the entrepreneurship research domain (Aldrich, 1990). This research approach suggests that significant explanatory power is available in understanding the forces
within the environment and more importantly that these forces should not be isolated in our analysis of the entrepreneurial event (Low & MacMillan, 1988).

The fact that the environmental effects on new firm performance have been somewhat ambiguous suggests that the impact may not be direct and/or may be dependent upon other aspects fundamental to the founding of a new venture (e.g. Strategy, Resources, Information, Skills).

**STRATEGY**

The apparent ability of small firms to compete effectively given dynamic, non-munificent environments, suggests that the firm may be able to employ unique (perhaps inimitable) strategies that allow the new venture to attain and sustain superior rents (Boeker, 1991; Carroll, 1985). This suggestion is supported in the strategic management literature (Miles & Snow, 1978; Porter, 1980; Conner, 1991) and has begun to be applied to entrepreneurship research (Cooper, 1993; McDougall, et al., 1994; Miller & Camp, 1985). Furthermore, theory appears to suggest that founding strategies tend to set firms on a course from the beginning that is difficult to change given the investment and alignments that develop.
The strategic management literature has investigated the effect of strategies and the decisions of managers as they relate to the effectiveness of organizations, albeit usually large organizations. The suggestion of typologies of organizations has ranged from Miles & Snow's (1978) four types consisting of prospector, defender, analyzer and reactor to Porter's (1980) three types of differentiation, low cost and focus. It has been suggested in the entrepreneurship literature that these strategic typologies may not sufficiently capture the depth or breadth of strategic approaches utilized by new ventures who have no built-in structures, processes, culture or administrative history (Carter, Stearns, Reynolds & Miller, 1994; McDougall & Robinson, 1990).

Sandberg (1986) utilized a basic approach to evaluate new venture strategy that was similar to Porter's (1980) and Abell's (1980) typology. That is, the ventures were evaluated on their distinctive competence, level of differentiation (focused, differentiated and undifferentiated), and type of political substrategies (to develop alliances and external support). Sandberg found
virtually no support for a relationship between distinctive competencies and new venture performance, some support for a relationship between performance and the value of differentiation and he lacked sufficient sample size to evaluate the political substrategies. However, in addition to the direct relationships, Sandberg found some support for a relationship between a strategy defined as broad/narrow with the stage of industry evolution defined as early/late. A superior performance fit was suggested and found between early stage industries and a broad strategy as well as between late stage industries and narrow strategies. Sandberg's sample was quite small (N=17), but his evaluative criteria was qualitatively rich which provided support for a continued examination of strategy in new ventures.

McDougall and Robinson (1990) began with a basic assumption that new ventures had unique issues to deal with as they entered an industry and a question as to whether the variety of strategies used by new ventures had truly been captured by prior literature. An examination of the extant literature suggested both a series of contradictions and a need to identify new venture strategies. Utilizing a survey to businesses in the
information processing industry that were less than eight years old and utilizing factor as well as cluster analysis, they identified eight distinct 'archetypes' of competitive strategies used by new/young firms. While these strategies were generally categorized dichotomously between niche and aggressive approaches, McDougall and Robinson found that market coverage and type of buyer helped detail unique strategies. They defined these strategies as follows:

1. Aggressive growth via commodity-type products to numerous markets with small customer orders.

2. Aggressive growth via price competitive new products to large customers

3. Aggressive growth with narrow, special products priced competitively to a few large buyers.

4. Controlled growth with broad product range to many markets and extensive backward integration.

5. Controlled growth via premium priced products sold directly to consumers.

6. Limited growth in small niches offering a superior product and high customer service.

7. Average growth via steady development of new channels, brand/name ID and heavy promotion.

8. Limited growth selling infrequently purchased products to numerous markets, with some forward integration.

(McDougall & Robinson, 1990: 464)
McDougall and Robinson did not suggest the efficacy of any of these strategic approaches, merely that the identification of unique strategies for new/young ventures was an appropriate place to start our analysis of strategic effectiveness. Furthermore, it pointed out that there were unique strategies being utilized even within a single industry with the accompanying presumption of varying performance impacts.

A subsequent study by Carter, et al. (1994) found that the foundational strategic typologies within the strategic management literature of Porter (1980) and Miles & Snow (1978) were inadequate for explaining the types of strategies utilized by new ventures. Also using factor and cluster analysis but with a broad sample of industries from Minnesota and Pennsylvania, they found six generic strategies that were distinguishable by scope of segmentation and the type of emphasis (product or marketing). The six strategies are:

1. Super Achievers - Firms pursuing all strategy focus dimensions simultaneously

2. Price Competitors - Reliance upon a combination of marketing/advertising, service and low price

3. Equivocator - Fail to emphasize any of the strategy focus dimensions

4. Technology Value - Differentiation through the development of new technology
5. Niche Purveyors - Emphasize site qualities of convenience/ attractiveness/ uniqueness

6. Quality Proponents - Reliance upon distinctive products, superior service, and high technology
(Carter, Stearns, Reynolds, & Miller, 1994: 31-33)

These authors found differences in the predominance of use of these strategies based upon industry and suggested propositions for differential impacts of the strategies depending upon their position in the supply chain.

Unfortunately, these typologies have not been utilized in empirical research in the field. A series of empirical research studies have utilized broader, less refined measures of strategy and drawn conclusions based upon these postures. Covin and Slevin (1989) defined these strategic postures as the organizations' overall competitive position. They evaluated the organizational strategy as a dichotomous orientation of entrepreneurial-conservative and found that strategic posture explained "only slightly more than 1 percent of the variance in performance" (1989:81). Eisenhardt & Schoonhoven (1991) conceptualized new venture strategy as the degree of technological innovation. They found that less
technological innovation strategies lead to faster early-period growth, but that the differences were virtually eliminated by the third or fourth year after founding. Therefore, they concluded that there were no discernible, long-term impacts based upon a strategy founded in innovativeness.

Beginning with a review of the major strategic management typologies, Romanelli (1989) used the dimensions of market-breadth and market-aggressiveness to define the strategic activities of new firms. In somewhat a similar vein to the later McDougall and Robinson (1990) study, Romanelli conceptualized strategy breadth as the type of market segment that was sought by the new venture, that is, broad or narrow. Market aggressiveness was conceptualized as the efforts to acquire or husband resources in order to grow. Using survival as the measure of performance, Romanelli found that strategy had an impact on both early and longer-term survival, with her conclusion being that a key to survival was the ability of the founder(s) to tailor their new firm to the conditions of the environment.

On average, specialist organizations are more likely to survive their early years than generalists. Generalists, however, will have a higher likelihood of early survival than specialists when industry sales are increasing. In addition, on average, aggressive
organizations will fare better during their start-up years than efficient firms. Efficiency tends to promote early organizational survival when industry sales are declining. (Romanelli, 1989:385)

Following Romanelli's (1989) findings that strategy and market growth seemed to be intertwined, McDougall, Covin, Robinson and Herron (1994) used strategic breadth (focus/broad) as a measure of strategy and compared a number of potential strategy variables against various strategy/environment combinations. They found a large number of strategic variables that were uniquely situated in a particular strategy/environment combination. These authors did not evaluate the performance impacts of these differences, but led future researchers to conclude that equifinality was highly probable. Choice of strategy, conditions in the environment as well as the means of competing appear to have multiple combinations and perhaps multiple effective, performance-impacting configurations.

RESOURCES

"Entrepreneurship involves mobilizing resources in pursuit of opportunities, resulting in the founding of a new business" (Aldrich, 1990). While this review has discussed the human resources or skills that the new venture acquires, there is also literature regarding the
financial and/or physical resources a new venture needs to develop. A new venture must compete for the fundamental resources needed to survive and prosper (Pfeffer & Salancik, 1978). These resources and especially the financial resources required for a new venture is normally beyond the individual entrepreneur's personal means (Bhave, 1994). Initial capital provides the new venture with the ability to adjust to the conditions in the environment as well as to establish a competitive position vis-à-vis its competitors (Cooper, Gimeno-Gasco & Woo, 1994; Porter, 1980).

From a resource-dependence perspective, the environment is the source of the key resources needed by the firm through an enacting process as well as attempts to co-opt key individuals, markets or political resources (Pfeffer & Salancik, 1978). This perspective suggests that firms in general and perhaps new ventures in particular, have an ability to constrict their environment and choose a market in which it can operate successfully given the resources available and the ability of the firm to acquire those needed resources.

Chandler and Hanks (1994) touched on this area with a survey to a broad sample of young manufacturing firms in
Pennsylvania that were founded between 1980 and 1991. They asked the respondents to evaluate their resource-based capabilities. Presumably a firm that felt that they had a broad variety of resource-based capabilities would be better prepared to succeed in the competitive environment. Indeed, they found that those firms that felt that they had a broader variety of resource-based capabilities were also positively related to firm growth and sales volume (Chandler & Hanks, 1994).

While this does not evaluate specific resources, it does lend credence to the suggestion that initial firm resources would provide the new venture with more of an ability to respond to the market and increase the potential for success.

**THE ENTREPRENEURIAL EVENT**

Shapero and Sokol (1982) sought to refine the definition of new venture formation and called it the “entrepreneurial event” (1982: 77). The entrepreneurial event can be viewed as the endpoint in the process of formation and includes: 1) initiative-taking; 2) consolidation of resources; 3) management; 4) relative autonomy; and 5) risk-taking. As mentioned in the introduction of this paper, developing models of
entrepreneurship have been confounded by a lack of definition and by the inherent breadth of this phenomenon. There has been some substantial discussion as to what constitutes an entrepreneur (Carland, Hoy, Boulton, & Carland, 1984), at what point a new venture begins (Hansen, 1990; Vesper, 1980), what constitutes an entrepreneurial venture (Naman & Slevin, 1993), the applicability of applying mature-firm concepts to entrepreneurship (Carter, et al., 1994; McDougall & Robinson, 1988) or the impact and uniqueness of the type of entry (initiating or imitative) (Baumol, 1986). As if this were not sufficient, Low and MacMillan (1988) pointed out that the study of entrepreneurship is such a multifaceted phenomenon that it cuts across disciplinary boundaries as well. How should researchers approach this effort? Is it fundamentally different when compared to other organizational phenomenon?

The short answer appears to be yes, the entrepreneurial event is fundamentally different and unique in the study of organizations. The new venture has no history and little if anything to protect. There are no structures, processes or other inertial factors that would appear to force the new venture down a particular path.
The new venture may (within ordinary constraints) choose the environment, industry and people with which to associate. Its impact upon the existing competitors in an industry is unknown as is its' potential for success. This complete lack of fundamental structure suggests that the founder(s) of a new venture have the unique opportunity to pursue the development of the business in a manner that suggests neither a starting point nor a logical stepwise pattern. However, the risk is great, as new ventures must compete in established markets for the fundamental resources, competitive approach and market acceptance needed to survive and prosper (McDougall & Robinson, 1990).

Hofer and Bygrave (1992) suggested that the entrepreneurial event could be defined by nine criteria that seriously limit "... the application of many classical organizational theory and economics models to the field of entrepreneurship..." (1992:93). These criteria are:

1. Is initiated by the act of human volition.
2. Occurs at the level of the individual firm.
3. Involves a change of state.
4. Involves a discontinuity.
5. Is a holistic process.
6. Is a dynamic process.
7. Is unique.
8. Involves numerous antecedent variables.
9. Generates outcomes that are extremely sensitive to the initial conditions of those variables.

(Hofer & Bygrave, 1992:93, emphasis theirs)
The founding of a new venture also appears to be markedly different from the decision to change strategy or scope in a mature firm. While rational processes appear to have a significant impact on the decision processes of an existing firm (Schwenk, 1988), the decision to found a new venture and the development of that idea into reality appears to be an iterative function of stepwise movements that may lead to multiple permutations of the original idea (Hansen, 1990; Learned, 1992). The entrepreneurial event, that is the final outcome of a long (usually over a year) and resource-intensive process appears to be so complex that simple correlational and linear techniques may distort reality beyond the point of research viability.

A processual model of new venture formation suggests that the intention to form a new venture was an iterative process that involved attempts at accumulation and feedback from those attempts (Learned, 1992). He suggested that a wide variety of entrepreneurial tasks must be performed for a new venture to be founded. They are: 1) setting strategy and vision; 2) establishing boundaries; 3) resources identified, mobilized and acquired; 4)
social networks developed; 5) management teams put in place; 6) physical resources acquired, and 7) knowledge and competence developed (Learned, 1992: 43). This model suggests that those entrepreneurs that are unable to assemble sufficient items will abandon the project prior to its initiation. However, while this model addresses the complexity of founding a new venture, it, like many others, fails to address the configurations that will lead to entrepreneurial success. Which areas should the founder(s) focus upon? Is there a requirement to address every area?

**THE TEMPORAL DIMENSION OF STRATEGIC DECISIONS**

Meyer (1991) pointed out that much of the strategic management literature has "crystallized around one definitive research question: 'What causes certain firms to outperform their competitors on a sustained basis?' (Meyer, 1991:828). Management researchers have long sought explanations for the success of organizations which has led to the use of various modeling approaches (Summer, Bettis, Duhaime, Grant, Hambrick, Snow & Zeithaml, 1990). These techniques have ranged from idiosyncratic case studies to large, abstract data bases all of which has sought to explain the relationship between various
variables often on a cross-sectional basis. While researchers have advanced the statistical rigor of research by expanding and refining the variables that appear to have explanatory power in the discussion of organizational performance, there is nonetheless a frustrating simplicity for practitioners and an overabundance of statistical noise for researchers.

In virtually all organizational research and perhaps especially in entrepreneurship research, there is a need to approach the explanation of firm performance from a more encompassing perspective. Many entrepreneurship researchers believe that the fundamental liabilities of newness and smallness lead to a strong emphasis on the initial decisions and conditions as fundamental predictors of future success (Eisenhardt & Schoonhoven, 1990; Stearns, Carter, Reynolds & Williams, 1995; Venkataraman, Van de Ven, Buckeye, & Hudson, 1990). On the other hand, strategic choice models (especially that of older, more mature firms) suggests that firms have the ability to adjust to changing conditions and to influence the results (Low & Macmillan, 1988; Sandberg & Hofer, 1987; Van de Ven, Hudson & Schroeder, 1984).
The relevant literature has overwhelmingly focused upon environmental forces as a stimulus to various types of incremental or dramatic change (Chakravarthy, 1982; Ginsberg, 1988; Goodstein & Boeker, 1991; Kelly & Amburgey, 1991; Miller & Friesen, 1980). Much of this research has identified turbulent environments (Jennings & Seaman, 1994; Virany, Tushman & Romanelli, 1992) or even specific environmental discontinuities (Meyer, 1982; Tushman & Anderson, 1986) as a triggering device that pushes the organization toward a change in strategy. While this stream of research has yielded some interesting findings, it is conceptually limiting, since some aspects of the strategic management paradigm depicts strategic change as a deliberate managerial effort to align the company with its environment (Andrews, 1980; Child, 1972; Jennings & Seaman, 1994). As pointed out earlier, delineation of a new venture's strategy has been problematic for the field and therefore change in strategy has not been examined. Some researchers have specifically recognized this problem and simply waited for firms to coalesce around a strategic approach (decisions & resources aligned) prior to evaluating the strategy of the firm (Romanelli, 1989). Romanelli (1989) found that this
The process of achieving stability occurred "in three years or less; [while] most firms stabilized their strategies by age two" (1989:381). This implies that researchers may be missing a substantive area of explanation by either ignoring the initial strategic decisions made by a new firm or examining only those decisions. If strategic changes can be made by firms both prior to and after founding, then an examination of the strategic decisions made by these firms must include both to effectively evaluate the impacts upon performance.

**LIMITS IN THE PRIOR LITERATURE**

This review of the literature relating to new venture performance points out a number of significant voids in our research. First and foremost is a lack of theory in new venture formation and success. This may be more of a function of the uniqueness of the event and the multiplicity of factors that underlie the initial formation of a firm. Inclusion of the entrepreneur(s), the organization and its strategy, the environment, and the process of initiating a new venture belies easy description and strongly suggests a holistic approach (Gartner, 1985). Examination of these factors within a theoretical context requires inclusion and control. Our
ability to theoretically and empirically advance this field demands an examination of specific effects while maintaining a robust model.

Secondly, there has been little research that actually analyzed de novo firms at their operational inception (Aldrich, 1992; Sexton, 1982). The point of inception has been problematic and the inability to collect data at this critical stage has inhibited research efforts to analyze the impact of various strategies and resources. As previously pointed out, it has been strongly suggested that the inception of the firm is critical for its future success or failure (Cooper, Gimeno-Gascon & Woo, 1994; Eisenhardt & Schoonhoven, 1990; Hansen, 1990; Learned, 1992).

Third, entrepreneurial research has found it difficult to place factor importance in a causal manner. Simple, cross-sectional studies or even short-range longitudinal research leaves prediction in its wake. There is a strong need for studies that incorporate a significant time dimension.

Fourth, performance outcomes need to be clearly delineated and the differential impact of factors on various forms of performance needs clarification. Cameron
and Whetten (1983) pointed out the many ways that performance can be measured and some of the differences that are an inherent part of each approach. This need was reinforced in subsequent research by Chandler and Hanks (1993).

During the critical first years after formation some companies wither and die, others survive but their growth appears to be stunted, while others grow, develop, and have an enduring economic impact. Thus, research efforts should be concentrated not only on the factors influencing organizational birth, but also on performance during the early stages of development. (Chandler & Hanks, 1993:392)

Finally, and perhaps most importantly, the performance effects of initial strategies as well as changes in strategy remains unknown. While several studies have suggested that there is no long-term impact associated with new venture strategies (Covin & Slevin, 1989), other researchers have found at least a strong association between the strategy of young firms (after their strategies have coalesced) and venture performance.

In the next chapter, a model is outlined based upon strategic choice and hypotheses are suggested regarding new venture performance for both initial strategic decisions as well as changes in those strategic decisions.
CHAPTER 3
THEORETICAL MODEL AND HYPOTHESES

The founding of a new venture is a process of action under uncertainty (Knight, 1921). A series of critical decisions are made and resources are acquired or located in order to develop the idea into a business (Bhave, 1994; Hansen, 1990, 1995; Learned, 1992; Venkataraman, et al., 1990). It is at this point that the firms' founders appear to have the maximum flexibility in choosing both the scope and domain of their new operation (Biggadike, 1979; Child, 1972; Weick, 1979). At the same time, due to their small size and lack of market presence, they have a more difficult time obtaining sufficient resources or access to customers (Timmons, 1994; Venkataraman, et al., 1990).

Once the new venture has begun operation, the firm exists as part of an industry and within the scope of the competitive structure of the market (Porter, 1980). The management team adjusts the resource mix, the strategic approach and the skill mix of the firm to compete effectively. These assumptions are at the root of research (in both entrepreneurship and strategic management) that examines the performance impacts of various strategies of

A fundamental aspect of the strategic adaptation or choice approach to new venture strategy suggests that firms have the flexibility to choose their initial domain and scope of operation in addition to having the ability to change the strategy and resource mix of the firm after its inception (Andrews, 1980; Child, 1972; Quinn, 1980; Weick, 1979). On the other hand, an opposing perspective has strongly suggested a viewpoint that states, among other things, that the initial decisions, (not the least of which is the timing of the founding), if they have any value at all, tend to lock the firm into a path that determines their performance regardless of future managerial efforts (Carroll & Delacroix, 1982; Freeman, Carroll & Hannan, 1983; Low & MacMillan, 1988).

While much of this work has been at the industry level, this more deterministic perspective means that firm birth is the critical point for examining new firms, new firm strategies, and their relationship with performance. It furthermore implies that the strategic choices of the firm, subsequent to founding, are relatively
inconsequential. The impact of this approach would be to negate the central tenets of the strategic choice perspective that suggest a continuing ability of the management of a firm to evaluate and choose performance-enhancing strategies (Andrews, 1980; Child, 1972).

Cooper, Gimeno-Gascon & Woo (1994) examined several initial founding factors for new firms and suggested an extension beyond the strict deterministic view. Using a large, well diversified survey of members of the National Federation of Independent Businesses, they found that some aspects of initial financial and human capital were related to both survival and growth. However, although they felt that these factors may be important predictors that "predispose ventures to [a] certain future. Clearly the subsequent unfolding of events, including key decisions, strategies and the management practices of the entrepreneur, will shape the performance of the venture" (1994:373).

This more moderate view has been previously supported by Eisenhardt & Schoonhoven (1990) who used the level of technical innovation as a proxy for strategy (and firm size as the dependent variable). They found that the choice of initial strategy was only significant in the
early years of the firm, but that strong management teams were performing better than weak teams. Although they did not test strategic choice directly, they suggested that this finding may be due to the ability of these stronger teams to navigate the firm with greater ability.

This suggestion that new venture teams have the ability to navigate their firm after founding has some face validity as well as a stream of research that has suggested that the choices made by management may be related to the performance of the firm. This has been especially true in literature that has examined more mature firms, but has also been found in the new/young venture literature (Covin & Slevin, 1989; McDougall, Robinson & DeNisi, 1992; Naman & Slevin, 1993; Romanelli, 1989; Sandberg, 1986).

Unfortunately, none of this research has examined the relationship between the strategic decisions made by the firm at founding as compared to the strategic decisions made by the firm after operations begin and it is a player in the market. This appears to be critical for two reasons. First, strategic decisions appear to change dramatically during the first few years of the new venture and may take up to three years to become stable.
(Romanelli, 1989). This would suggest that examining initial decisions without examining how the firm changes those decisions over time or (on the other hand) examining firm decisions after founding without taking into consideration the initial decisions of the organization, leaves the researcher unclear as to impact of the decisions made and ignores a potentially important temporal dimension in strategic choice research.

Secondly, strategic choice theorists would specifically identify these early changes in strategic decisions as critical efforts, made by the founders, to adjust the course of the firm and improve its performance (Andrews, 1980; Child, 1972).

A model of new venture performance that incorporates both initial strategic decisions as well as changes made in those decisions would appear to provide an explanation of new venture performance and a direct examination of the strategic choice perspective. This dissertation builds and empirically examines a model that incorporates both initial strategic decisions as well as changes to those decisions.

Testing such a model is theoretically and empirically important for several reasons. First of all, if it is
found that initial strategic decisions have a long-term impact upon the performance of new ventures, then future research efforts must be made to incorporate those decisions as a foundation for explaining new venture strategy and performance. Furthermore, while not invalidating the strategic choice perspective, the suggestion of a more deterministic perspective would appear to have merit. Second, if it is found that changes in the strategic decisions have significant long-term performance implications for new ventures, then the strategic choice perspective would appear to be greatly strengthened and a focus on the changes made by the management of the new venture would appear to be very appropriate.

It should be noted that a model that investigates the role of strategic choice needs to control for the other potential influences to new venture performance as has been outlined in my previous discussion. Given this discussion, Figure 1 is presented below and specific hypotheses are developed.
The overall model examines the strategic choices at both the inception of the new venture as well as three years subsequent to founding. This includes their ability to bring together a management team (Eisenhardt & Schoonhoven, 1990), choose both their level of aggressiveness in their new market as well as the breadth of their product line (McDougall & Robinson, 1990; Romanelli, 1989), decide how innovative/imitative to be
(Sandberg, 1986), as well as attempt to gain legitimacy and initial sales by developing direct business contacts with important individuals in their markets (Gersick, 1994; Weick, 1979). Elements of these choices have been outlined in prior entrepreneurship research (Biggadike, 1979; Eisenhardt & Schoonhoven, 1990; McDougall & Robinson, 1990; Romanelli, 1989; Sandberg, 1986).

Given this discussion, it would appear that the strategic choices of the new venture have a significant impact upon its performance and therefore it is hypothesized that:

\[ H1: \text{The initial strategic decisions and changes in the strategic decisions of a new venture will explain a significant amount of variance in new venture performance.} \]

Fundamental to this evaluation of the impact of strategic decisions is the timing of these decisions. An effective examination of strategic choice cannot simply look at the strategic decisions of a new venture after its strategies have become stable. Instead, the analysis must look at the firm at both inception and after its strategies have coalesced in order to determine if each has an independent performance impact upon the new
venture. Each of these are analyzed individually in the following sections.

**INITIAL STRATEGIC DECISIONS**

New ventures appear to exercise considerable choice as the new firm moves through the process of pre-founding (Hansen, 1990; 1995). As pointed out previously, this includes the choice of domain and scope as well as a series of choices regarding the level, intensity and complexity that the new venture wishes to adopt prior to formation (Andrews, 1980; Child, 1972; Quinn, 1980; Weick, 1979). For instance, an entrepreneur who has decided to form a new business that is fundamentally imitative within the industry and who has both experience and contacts within that same industry, may decide to begin operations as soon as possible, with minimum start-up expenses or planning. On the other hand, the same type of person may investigate the market, develop detailed market plans, enlist people to work with the new firm and acquire substantial initial capital prior to beginning formal operations (Duchesneau & Gartner, 1990).

A 'set' of initial decisions would appear to be an important, evaluative area for researchers to examine. Some initial decisions have been found to not only have a
lasting effect, but also a multiplicative effect upon new
venture performance. Eisenhardt & Schoonhoven (1990)
examined new semiconductor firms founded between 1978 and
1985. They found that even small advantages, such as a
larger initial top management team, "created new
advantages in the future, multiplying advantages in what
was apparently a positive-feedback system. [They went on
to point out that] For example, large teams initially had
more skills to build strategic alliances, raise money, and
meet potential customers. Once their firms were modestly
successful, other customers, investors, and allies were
then attracted to what appeared to be a successful
venture" (1990:526). With almost a birth rite approach, it
appeared that those who had the gold at birth were
uniquely privileged in a biased market system.

Romanelli (1989) approached the issue of new firm
strategy in a study of minicomputer ventures founded
between 1957 and 1981. Using survival as the dependent
variable, she found a link between new venture strategy
and survival, when strategy was examined as the strategic
posture of the firm after it developed a degree of
strategic stability (usually within 2-3 years of
founding). Taking an approach that both supports and
contradicts the strategic choice perspective, her research assumed that most firms have wide flexibility in their initial choices (characterized as market-breadth and market-aggressiveness), but that these firms did not significantly alter their strategy after this short initial period. This approach to strategic choice would strongly suggest that researchers examine new firm strategy at the time period in which a new firm was born in order to explain long-term venture performance.

The choices made by the founders/investors/managers of a new venture include decisions regarding, amongst other things, the amount and type of financing desired, the number of investors, as well as the number and specific skill set of the new members of the top management team. Cooper, Gimeno-Gascon & Woo (1994) examined these constructs with a large study of relatively new entrepreneurs (in business on average, for less than 11 months) over a three-year time period. Using the level of firm growth as their measure of success, they found support for the importance of: 1) level of initial capitalization; 2) number of partners; 3) specific industry know-how; and 4) several general background characteristics. While not addressing strategic choice,
their findings suggest that there are important choices that, when made at the inception of the firm, may lead to higher organizational growth (at least within the first three years).

Sandberg’s (1986) work which examined 17 new ventures in great detail found a relationship between the new firms initial strategy and its subsequent performance. His research conclusions were that the initial strategy of the firm and its appropriateness with the environment were important in the examination of new venture performance. While appearing to fundamentally agree with the strategic choice perspective, he nonetheless concluded that “...the results of an inappropriate initial strategy may be mitigated, but are unlikely to be overcome, by an opportune revision of that strategy” (1986:137).

Thus, it appears that the importance of initial decisions upon longer term new venture performance is significant. A strategic choice perspective would suggest that this is indeed a point in a firm’s life where tremendous flexibility exists in the choice of both the domain and scope of operations (Biggadike, 1979; Child, 1972; Weick, 1979). Consequently, it is hypothesized as follows:
H2: The initial strategic decisions of a new venture will explain a significant amount of variance in new venture performance.

CHANGES IN STRATEGIC DECISIONS

However, the strategic choice approach also discusses the ability of the firm's management to change the direction of the firm in order to adjust to environmental conditions or simply to improve the performance of the firm. Child (1972) pointed out that the performance of the firm is used as a type of feedback mechanism for the dominant coalition. If the initial strategic approach appears to be deficient or if the resource decisions appear to be incorrect, there is room for changes to be made and performance improved.

Whether directly addressing the issue of strategic choice or not, many researchers have conceptually pursued this line of research with the examination of the background, actions and/or approaches of new and young firms. This research suggests that managers matter in the performance of a firm and, in many cases, the fit between the firm and its environment changes so the firm must change to remain competitive (D'Aveni, 1994; Naman & Slevin, 1993).
Naman and Slevin (1993) examined 82 manufacturing firms in Pennsylvania that were at least 5 years old and while not examining the ability of these firms to change, nonetheless concluded that a fit between the environment, entrepreneurship, organicity and, mission strategy was important for explaining performance. In keeping with the strategic choice perspective, they stated that “successful firms will engage in a continuous process of organizational learning and adaptation. Managers will be charged to modify continuously the variables in their control in order to maximize the fit score for their firm” (1993:146).

Conceptually, changes in strategy are pursued to improve the performance of the firm (Andrews, 1980; Child, 1972; Porter, 1980; Roure & Keeley, 1990). Therefore, evidence that strategic choice has a role in new venture performance is of particular interest. Several researchers have addressed this issue with varying degrees of success. Sandberg (1986) found some support for differential performance impacts based upon the strategic decisions of a small sample (N=17) of new firms provided by venture capitalists. This research was extended and examined directly by McDougall, Robinson and DeNisi with a larger
sample (N=247) of young firms in the information-processing industry. They found specific strategy/industry structure combinations that were strongly associated with new venture performance (ROI in this case). Although these firms were generally older new firms (classification was based upon firm age being less than 8 years), and may have changed their strategies prior to the survey instrument being administered, an important point should be noted. That is, unique strategic directions were found in this sample of firms and substantial performance differences were clearly delineated.

While there is a large body of research that examines change within organizations (albeit mostly larger, established firms), this research specifically examines change in the strategic decisions of new organizations and its ability to impact performance. Singh, House & Tucker (1986) found that the effect of changes in strategy were more directly related to performance (be that positive or negative) when they occurred earlier in the organization's life. A later study by Jennings and Seaman (1994) used adaptation as a measure of change in strategic decisions (changes in the product line mix and breadth). Using survey data from 99 Savings and Loan companies in Texas,
they found a relationship between the strategic adaptation/structure alignment and performance. In general, higher levels of adaptation were found to be related to future performance (measured over a three-year period).

While there have been a number of efforts to examine changes in organizational strategy (Goodstein & Booker, 1991; Jennings & Seaman, 1994; Romanelli & Tushman, 1994; Tushman & Romanelli; 1985; Wiersema & Bantel, 1992) very few examples of strategic change literature exist that measure the impact of that change upon performance. Some studies have examined the level of change as revolutionary vs. incremental (Miller & Friesen, 1984; Virany, Tushman & Romanelli, 1992), but most of these articles examine established firms and postulate from a perspective that claims that changes in these strategic decisions is fundamentally firm-threatening. This approach makes substantive sense for larger firms who have processes, procedures and structures in place that have been generally successful (that is, they have survived). However, changes in strategy and the decisions regarding resources and approach made by new firms is done within a context of newness, investigation and a level of
organizational flexibility that is most probably not comparable to larger, well-established firms. While change may appear to be threatening in general, it may indeed be less threatening and more directly related to positive firm performance for new ventures.

The firm begins its life with a set of resources and a strategic direction that is established prior to operation (Hansen, 1990; 1995). As the firm begins operation in the market, changes are made in order to account for the realities of the business climate and to improve the relative position of the new venture. These firms suffer from a lack of experience and their own market-based liability of newness (Stinchcombe, 1965). Furthermore, a strategic choice perspective suggests that the firm has the ability to change, adjust and improve its position, within the constraints of the environment in which it finds itself (Child, 1972). This ability to adjust the resources and direction of the new venture is critically important for the strategic choice perspective to be well-founded. Therefore, the following hypothesis is suggested.

**H3:** Changes in the strategic decisions of a new venture explain a significant amount of variance in new venture performance.
CHAPTER 4
METHODOLOGY

The data used in this research was chosen to specifically address the issue of strategic choice with new ventures. Given the inherent problems with identifying the starting point of a new venture (Vesper, 1980), as well as that of obtaining accurate information regarding the choices made at the point of inception, a single industry was chosen that provided substantial secondary data collected at the appropriate points in the life of new firms.

The research population consists of all new banks formed in the United States between the years 1985 and 1988. New bank formations provide a relatively unique opportunity to examine ventures at the point of inception as well as the ability to track their performance. First, banks are members of a regulated community and as such must report on a wide variety of decisions and performance criteria in a standardized manner (Hempel, et al., 1994). Second, since bank records are public, tracking performance, as well as changes in some strategic
decisions may be done for both public and privately held organizations. This allows the researcher an unequaled opportunity to examine a much wider variety of firms within a given population. Third, a bank cannot begin operations prior to receiving regulatory approval and a charter. This marks a clear starting point for operations and provides researchers a unique opportunity to evaluate strategic choices at the actual inception of the firm. Fourth, in an average year, over 200 new banks are formed in the U.S. (Hicks, 1988). This large number of new ventures in a single industry provides an effective single-industry control and its associated improvement in our ability to determine the nature of the theory being investigated (Spender, 1983). The year 1988 was chosen as an end point in order to allow for performance to be measured five years after founding. In keeping with the research model, all of the independent variables were collected and analyzed at the point of inception and again three years after founding, while the dependent variables were measured five years after founding.

Changes in strategic decisions were measured three years after firm inception (T3) in keeping with the findings of Romanelli (1989) that new ventures tend to
achieve strategic stability within three years. Since initial decisions were incorporated into the equations examining the changes in strategic decisions, these changes were evaluated as the percentage change when compared to the original decision \(((\text{Decision in Year 3} - \text{Decision in Year 1})/\text{Decision in Year 3}) \times 100\).

Evaluating performance in year 5 (T5) was chosen as the appropriate point given that prior research has suggested that a strategy be in place for at least two years before an evaluation of its performance impact can be made (Virany, Tushman & Romanelli, 1992; Wiersema & Bantel, 1992; Zajac & Shortell, 1989). Furthermore, bank chartering agencies traditionally examine new bank actions and performance at both the three and five-year points after the charter has been granted (Arshadi & Lawrence, 1987).

The period chosen also allowed for a relatively large sample (over 500 banks after non 'de novo' commercial banks are eliminated). Only newly-formed, independent, commercial banks were chosen for this study. Banks formed by other banks (a form of internal corporate venture) were excluded as they are regarded as exhibiting characteristics that may not be similar to that of...
independent start-ups (Biggadike, 1979; Reger, Duhaime & Stimpert, 1992). Furthermore, all trust banks and credit card banks were eliminated as these are established with unique missions and are not generally comparable to traditional banks.

The Bank Research Division of the Office of the Comptroller of the Currency of the United States (OCC) provided a detailed database of all newly-chartered commercial banks founded the United States. This included basic information, such as bank name, address, products authorized, charter type, and disposition information (that is, what has happened to the bank over time).

Additional data was collected on each of the banks from four sources. Polk’s Bank Directory (North America) - Fall Edition for the period 1985-1993, the Report of Condition and Income for Selected Banks and Other Financial Institutions from the Board of Governors of the Federal Reserve System which contains the financial performance data of banks operating in the United States, the annual Data Book: Operating Banks and Branches published by the Federal Deposit Insurance Corporation which tracks all market data by county and state within
MEASURES

New Venture Performance. Determining an appropriate measure for new venture performance is a unique issue in organizational research. A wide-ranging body of literature has examined performance measures of new ventures using profitability measures, growth measures and more gross measures such as survival (Cooper & Gimeno-Gascon, 1992; Kalleberg & Leicht, 1991). Profitability measures in entrepreneurship research are generally deemed to be poor measures of success for several reasons. First, the "profit-goals" of the venture can be co-opted by the founders (Cooper & Gimeno-Gascon, 1992). Secondly, an accounting-type profit may not be the primary or even most appropriate goal for a new organization (Quinn & Cameron, 1983). Establishing a market position, re-investment in the core business, and the need to acquire critical resources all limit the effectiveness of profitability measures.

While no consensus has been reached, an extensive study of life cycle models by Quinn and Cameron (1983) suggested that firm performance in entrepreneurial firms
should not focus upon such measures as efficiency, control or human resource development. Instead “Organizational success tends to be defined in the entrepreneurial stage primarily by how well the organization meets criteria of growth, resource acquisition, external support, and readiness” (Quinn & Cameron, 1983:44). Indeed, growth as the primary measure of entrepreneurial success and development has been developed into prescriptive models of behavior for successful ventures (Block & MacMillan, 1985; Churchill & Lewis, 1983). Growth measures (usually operationalized as sales growth or employment growth) have been widely used throughout the extant literature (Brush & Vanderwerf, 1992; Cooper, Gimeno-Gascon, & Woo, 1994; Kalleberg & Leicht, 1991) as a reliable, readily available and appropriate means of evaluating the performance of a new venture. Therefore, sales growth is the measure of new venture performance utilized in this study.

Unfortunately for new venture researchers, it is difficult to measure and operationalize new venture growth, especially when that growth is measured from the point of venture inception. During their examination of start-ups in the semiconductor industry, Eisenhardt and Schoonhoven (1990) pointed out that traditional percentage
growth measures cannot be computed from founding, since all sales figures are initially zero.

In order to solve this problem, this study utilized the methodology developed by Eisenhardt and Schoonhoven (1990). Firm growth was gathered from the Board of Governors of the Federal Reserve System and operationalized as the difference in sales (deposits) at year 5 as compared to sales at founding. Since the sales at founding were 0 for all ventures, the measure of growth in any year reduced simply to the sales in that year. As noted by Eisenhardt and Schoonhoven, this measures the absolute change in size of each firm from a common starting point, the founding of the firm, and fits with our interest in understanding why some ventures grow more than others. Deposit growth is a standard measure within the industry both for the bank to evaluate its sales as well as for the government to determine the financial impact within a county (Garcia, 1985).

An additional consideration when performing studies of organizations and especially new ventures includes dealing with firms that cease operations as independent entities. As noted by Eisenhardt and Schoonhoven (1990), studying only survivors is equivalent to sampling on the
dependent variable, thus making it difficult to obtain unbiased statistical estimates of variables in the model. In conducting research on established firms, researchers often regard closings, mergers, and acquisitions as failures and treat them by eliminating those ventures from the analysis. In new venture research, a merger or acquisition may not represent a failure, but may be the result of superior performance (Freeman, Carroll, & Hannan, 1983; Timmons, 1994).

Therefore, in this study a detailed examination of these firms was performed in order to alleviate this problem. From the primary dataset of over 550 new, independent banks, 66 had been closed, merged, or acquired by 1993. The 26 banks that were closed by banking regulators were clearly failures and were coded as will be explained below. The remaining 40 banks that were either merged or acquired were analyzed separately.

Based upon a set of heuristics as outlined below, the performance data for the 40 banks that were subject to a merger/acquisition were examined independently by three researchers who then judged each as a success or a failure prior to the merger/acquisition.
1. If the venture existed for only one year
   
a. If ROA was 1 standard deviation below the mean for all banks, then the venture was coded as a failure.

2. If the venture existed for more than one year
   
a. If ROA (during the final two years of its existence) was 1 standard deviation below the mean for all banks, then the venture was coded as a failure.
   
b. If not (a), but both ROA and Net Income were declining during the final two years of its existence, then the venture was coded as a failure.
   
c. If not (a & b), but Loan Volume or Deposit Volume was declining during the final two years of its existence, then the venture was coded as a failure.

The heuristics listed above were designed to maximize the conservativeness of this approach and in some cases judgment was used to resolve obvious conflicts. The raters agreed upon 37 of the 40 cases, for an inter-rater reliability score of .95. The three cases in which there was disagreement were dropped from further analysis. Fourteen ventures were identified as failures and 26 were concluded to be successes.

For those ventures classified as failures, sales were coded as zero for all remaining years of the study. For these firms, the strategic decisions made subsequent to
founding were coded as they existed in their last year of operation (Romanelli, 1989). Four of these failures occurred in their first year of operation. For these firms, the change in each of the strategic decisions variables was coded as no change.

The merged/acquired ventures which were classified as successful had to be dropped from the sample due to the inability to develop any appropriate assumptions regarding their performance over time.

In an effort to ensure that no new bias has been introduced into the study (Eisenhardt & Schoonhoven, 1990; Romanelli, 1989), the data was examined for a difference in the means of each variable in the study between the overall sample and the successful, merged/acquired banks (at the point of their ceasing operations as an independent organization) as well as between the sample prior to and after inclusion of the failed banks. Using t-tests, no statistically significant differences were found, therefore the inclusion of these ventures should create little distortion in the subsequent analyses.

**Independent Variables.** While there are many decisions made and/or contemplated at the point of formation (Hansen, 1990), the actual enacting of strategic decisions
is a core of the strategic choice model. Schwenk (1988) defined strategic decisions as those that were non-routine, important to the organization, and very complex. Quinn (1980) further reiterated that these decisions "determine the overall direction of the enterprise and its ultimate viability..." (1980:8).

Extensive efforts were made to develop a comprehensive set of strategic decisions for this set of new ventures. Therefore, the effort to delineate the strategic decisions made at the point of founding was a multi-step process that began with the author's ten years of experience in developing and acquiring new banks. The next step included a review of the literature from entrepreneurship (Cooper & Gimeno-Gascon, 1992), strategy (Reger, Duhaime & Stimpert, 1992) and finance (Hempel, Simonson & Coleman, 1994; Lindley, Verbrugge, McNulty & Gup, 1992), which resulted in a set of the important strategic decisions for new bank ventures. The next step included informal conversations with the founders of four of the banks founded during the period 1985-1988. Finally, multiple meetings with personnel from the U.S. Office of the Comptroller of the Currency were required to develop a
final list that included those strategic decisions that were observable and trackable with secondary data.

This research addresses only those strategic decisions that are enacted by the organization and tracked by a secondary organization. Important missing decisions include the structure of the organization, the background and experience of the top management and board of directors, methods of networking, and most importantly the process of forming and running the organization.

The decision variables included in this study are measures of risk, breadth, top management team, board of directors, environment, and initial capital. The quality of the data that this study utilizes is outstanding for secondary data, but is inherently limited in its ability to explain the underlying processes of venture decision-making.

Charter Class. At the time of formation a new bank organization must choose the class of charter that it will apply to operate under. Charter Class is a strong indicator of the type of operations anticipated, as well as the new venture’s intentions within the competitive environment (Arshadi & Lawrence, 1987; Lindley, Verbrugge, McNulty & Gup, 1992; Roussakis, 1984). Each of the three
classes of charter affords a differing level of perceived protection to the potential customer (i.e. FDIC-insured deposits) as well as differing regulatory requirements. All of this information was provided by the OCC.

A national bank charter has the most stringent requirements (e.g., supporting documentation, percentage amount of deposits to be held on reserve) and affords a higher level of perceived stability. The state-chartered, member bank has less stringent requirements than a national charter, but still affords the potential customer with FDIC protection. The state-chartered, non-member bank requires a substantially less rigorous review prior to startup, but may not offer FDIC insured deposits protection to potential customers (although, in many cases state agencies provide a smaller level of protection). The charter class variable will be coded as 0 for State-chartered, non-member, 1 for State-chartered, member, and 2 for Nationally chartered banks. Although it was initially assumed that banks might change their charter status during their first five years of operation, in fact, only one bank in the entire sample changed their charter class. Therefore, the change in charter class variable was not utilized.
Risk. The risk position that the bank chooses has an effect both in the way in which the bank chooses to grow as well as its opportunities in various market conditions. A bank that chooses a risky portfolio has the potential to grow very rapidly and perhaps even to be profitable for a time (Hempel, Simonson & Coleman, 1994). However, the risk position of the bank is one of the major concerns of regulators and so must be managed actively (Reger, Duhaime & Stimpert, 1992). Even when examining the effect that strategic decisions have on performance in established companies, the risk position of the organization becomes a significant, and continuing set of decisions for the organization (Baird & Thomas, 1985; Fiegenbaum & Thomas, 1988; Hitt & Tyler, 1991; Reger, Duhaime & Stimpert, 1992).

Reger, et al., 1992 accounted for risk as a strategic decision in their evaluation of large bank holding companies. They developed a single measure of risk that was termed 'Bankers Risk'. It was calculated as total interest income less total interest expense, as a percentage of average total assets. While this measured interest risk, it does not account for the multiplicity of risk inherent in the banking environment or within the
purview of the management of the organization. In an effort to account for the multi-faceted nature of risk, this research includes two separate measures of financial risk as outlined by Hempel, et al. (1994) and will be measured at $T_0$ and $T_1$.

The initial calculation of these variables will be made after the first quarter of operations of the new firm. Until the firm begins operations, there are no dollars associated with these categories and therefore no means of identifying the product mix attributes. However, it would appear that the initial approach can be determined by assessing the variables after the first quarter of operations but prior to the end of the first year of operations. This information was obtained from reports obtained from the Board of Governors of the Federal Reserve System.

These measures appear to be an evaluation of how aggressively a firm intends to approach the market i.e., by leveraging the firm or taking weaker loans to increase market share. Therefore, Liquidity Risk is calculated as total loans divided by total deposits and Leverage Risk is calculated as total equity divided by total assets. While there are other measures of risk within each of these
categories (for example, leverage risk could also be evaluated on a risk-adjusted basis by using total equity/total deposits or liquidity risk could be used to account for the borrowing costs of only liquid assets by using liquid assets/deposits), these measures (and their associated operationalizations) are widely recognized measures of bank risk (Hempel, et al., 1994).

The original intent was to include credit risk (Nonperforming loans divided by total loans), however, an evaluation of the data revealed that credit risk at T0 was almost universally zero and that there was little change in the variable over the next three years. Changes in the risk position of the venture will be coded as the percentage increase or decrease in the appropriate risk variable.

Product Breadth was created as a factor score consisting of three strategic decision variables that previous research has indicated are highly related (Biggadive, 1979; Hofer & Schendel, 1978) most specifically in recent research on the strategy of larger bank holding companies (Reger, Duhaime & Stimpert, 1992). Thus, the dimensions of product/market choice were evaluated as single strategic choice construct (Romanelli, 1978).
1989). A confirmatory factor analysis was performed on these three variables (number of actual products offered, breadth of loan product mix, and breadth of deposit product mix). They loaded on one factor with a Cronbach alpha of .70. The factor score from the varimax-rotated solution was used as the measure of initial product breadth. At T3 a factor analysis was again performed on the three variables with very similar results. The Cronbach alpha was .72, however, for consistency the factor loadings from the first year’s results were used to calculate a product breadth score for year 3. Then (as with the other change variables in this study) the percentage increase or decrease in the product breadth was calculated. Each of these individual variables is outlined below.

Number of Products offered by a new bank at the point of inception is a proxy for the breadth of operations within which the new organization wishes to compete (Biggadike, 1979; Miller & Camp, 1985). Banks have a wide variety of potential products that may be marketed. All potential products were examined (at the same time as was used for evaluating the risk factors) and each product was coded as a 0 for no
sales or a 1 for those products that had sales during the first year of operation and again at year 3. These were summed for a total number of products being actively offered to the market (Romanelli, 1989). This data was gathered from the Board of Governors of the Federal Reserve System.

Product Mix (Loans & Deposits) is defined as the concentration of resources in a particular product area and is an indicator of the breadth of activity within the firm (Arshadi & Lawrence, 1987; Lindley, Verbrugge, McNulty, & Gup, 1992; Reger, Duhaime & Stimpert, 1992). This was measured as a Herfindahl-type index separately calculated for loans and for deposits. Actual dollar sales during the first year of operation (and again at year 3) was recorded for each product offered (the calculation of these variables at T₀ was done at the same time as the risk variables, with the same caveats as outlined in that section) and a Herfindahl measure was calculated as the sum of the squared percentage of either total loans or total deposits. This index ranges from 0 to 1 with a higher score equating to more concentration (Boyd, 1990). This data was also
Top Management Team Size (TMT) is an important indicator of the capabilities of the new venture (Eisenhardt & Schoonhoven, 1990). There are a wide variety of issues/problems that must be addressed for a new firm to begin operations (Hansen, 1995; Kazanjian, 1988) and empirical research suggests that the more complete the management team, the higher the expectation of success (Eisenhardt & Schoonhoven, 1990; Roure & Maidique, 1986; Roure & Keeley, 1990).

Unfortunately, it is widely understood that banks in general and small banks in particular reward employees with officer titles. These titles are often referred to as “dry promotions” as they include no additional remuneration. Furthermore, they are often awarded for reasons other than holding a significant strategic position within the firm (e.g. long tenure, community visibility). This makes archival identification of the true members of the TMT difficult. Fortunately, the Polk’s Bank Directory reports (in a standardized manner) the individuals who hold the top positions at every bank.
within the United States. For these top management team positions the number of top management positions filled at the inception and at T₃ for the new firm were recorded. However, this was recorded as the number of ‘unique’ individuals reported in these titled top management positions. Thus, if one person was filling the role of CEO, Chief Loan Officer and Operations Officer, then this was coded as one position filled out of three possible positions. It is assumed that one person is filling multiple roles generally because a specific individual had not yet been recruited to the organization or the organization does not choose to fill the position with someone specifically dedicated to that function. In either case, the firm would be limited by the resources available. The change in the number of positions filled at T₃ was coded as the percentage increase or decrease in the number of unique positions held (Romanelli & Tushman, 1994; Wiersema & Bantel, 1992).

External Members of the Board of Directors (BOD). The board of directors of a firm constitutes a linkage to the external environment (Andrews, 1980). Empirical analysis has suggested that firms interested in improving both their growth and profitability should seek boards made up
of outsiders who will provide them with increased contacts (Boyd, 1990).

This variable consists of those members of the board who were not employed by the organization and therefore provide an external resource for the new venture (Pettigrew, 1992). As was done in several of the previous measures, a change in the number of external member of the BOD at \( T_3 \) was coded as the percentage increase or decrease. This data was gathered from the annual Fall editions of the Polk's Bank Directory.

**Control Variables.** This research focuses upon the strategic decisions made at the inception of a new venture as well as the influence of choice upon the subsequent performance of the firm. As such, it is necessary for this study to control for those variables which may provide alternative explanations for the research (Kerlinger, 1986). Specifically, prior research suggests that any examination of strategic decisions and especially changes in strategic decisions must control for environmental factors (Ginsberg, 1988), initial capitalization (Cooper & Gimeno-Gascon, 1992), and the year of formation (Carroll & Delacroix, 1982).
Environment was operationalized with three measures: 1) Munificence; 2) Dynamism; and 3) Competitive Intensity. Munificence, dynamism, and competitive intensity were calculated for the county in which the new bank was based. The authors' knowledge of the industry as well as previous new bank research (Arshadi & Lawrence, 1987; Lindley, et al., 1992) suggests that the environment in which banks function is defined by geographic boundaries. Competition is based upon branch location and is tracked by the Federal Reserve and the FDIC on a county by county basis. Despite recent press reports and the efforts by the largest banks in the country, most banks (and especially those that are new) do not operate on an interstate level. No bank in the sample began operations in multiple counties and indeed, an examination of these banks three years after formation found that 97.3% were still operating solely within one county.

The munificence measure was adopted from the literature (Boyd, 1990; Dess & Beard, 1984) and was measured as the annual percentage increase in countywide bank deposits (value of shipments) for the five-year period after bank formation. This was calculated as 100 multiplied by the regression coefficient of the trend in
the natural logarithm of the county bank deposits over the five year period and was gathered from the annual Data Book: Operating Banks and Branches published by the Federal Deposit Insurance Corporation which tracks all market data by county and state within the United States. Dynamism was measured as the standard error of the estimate for the regression of the natural logarithm of the county bank deposits for the five-year period after bank formation, divided by the average (for all years) natural logarithm of county deposits for the same period (Dean, 1995). Dividing by the county average adjusts this measure for the size of the countywide banking industry (Dess and Beard, 1984). Competitive Intensity was developed to measure the level of overall banking that exists in each county (Arshadi & Lawrence, 1987). This is important given that the intensity of competition appears to have an impact on the ability of firms to acquire needed resources (Carroll, 1985; Romanelli, 1989). The measure consists of the population in the county divided by the number of branches in the county at the point of firm inception (Arshadi & Lawrence, 1987) and is consistent with current research approaches into the environment (Swaminathan, 1996). This information was
gathered from the U.S. Census and the previously mentioned Data Book: Operating Banks and Branches published by the Federal Deposit Insurance Corporation.

*Initial Capital.* Cooper & Gimeno-Gascon (1992) examined a significant set of the extant entrepreneurship research as of 1992. Their examination of the relationship between initial capital and performance found that six of the eight studies reported that more initial capital was associated with better performance.

While it can be effectively argued that the ability of the founding team to attract capital is a significant indicator of both the ability of the firm's management as well as an indicator of future intentions, it is also relatively apparent that a firm with high initial capitalization would tend to have the opportunity to grow faster and perform better than other firms regardless of the strategic posture chosen or even the ability of the management team to make changes as the firm developed (Arshadi & Lawrence, 1987; Duchesneau & Gartner, 1990; Eisenhardt & Schoonhoven, 1990). Therefore, initial capital was used in this study as a control variable and was operationalized as the actual dollar amount of initial capitalization for the new firm (Eisenhardt & Schoonhoven,
Initial Capital was obtained via the quarterly reports to the Board of Governors of the Federal Reserve.

Year of Formation. Previous research has suggested that imprinting at the time of founding and the general conditions of the country can have an impact on the success/failure of new firms (Carroll & Delacroix, 1982; Carroll & Hannan, 1989; Stinchcombe, 1965). As this research is longitudinal, encompassing four years worth of foundings, this variable was coded as the year of initial operations for each new firm (Boeker, 1988; 1997) and was provided by the OCC.

An analysis of the individual variables resulted in the need to transform two of them as they violated the tenets of normal distributions necessary for effective linear regression analysis (Neter, Wasserman & Kutner, 1990). The dependent variable sales growth and initial capital were skewed and somewhat kurtotic. Examination of scatter plots suggested a natural log transformation would be effective. After transformation each variable was improved without affecting the distributions. Similar research utilizing sales growth over a period of time has also found the need to use this transformation (Kalleberg
& Leicht, 1991). All variables and their operationalizations are presented in Table 1.
TABLE 1. Operationalization of Variables

<table>
<thead>
<tr>
<th>VARIABLES</th>
<th>OPERATIONALIZATION</th>
<th>YEAR</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variable:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deposit Growth</td>
<td>Actual Sales from $T_0$ (Natural Log)</td>
<td>Year 5</td>
</tr>
<tr>
<td><strong>Independent Variables:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charter Class</td>
<td>0 for State-charted, non-member, 1 for State-chartered, member, and 2 for Nationally chartered banks</td>
<td>Year 1</td>
</tr>
<tr>
<td>Liquidity Risk</td>
<td>Total loans/Total deposits</td>
<td>Year 1 and Year 3</td>
</tr>
<tr>
<td>Leverage Risk</td>
<td>Total equity/Total assets</td>
<td>Year 1 and Year 3</td>
</tr>
<tr>
<td>Product Breadth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1) Number of Products</td>
<td>Number of products authorized</td>
<td>Year 1 and Year 3</td>
</tr>
<tr>
<td>2) Product Mix - Loans</td>
<td>Herfindahl index of Loans</td>
<td>Year 1 and Year 3</td>
</tr>
<tr>
<td>3) Product Mix - Deposits</td>
<td>Herfindahl index of Deposits</td>
<td>Year 1 and Year 3</td>
</tr>
<tr>
<td>Top Management Team Size</td>
<td>Number of 'unique' individuals reported in titled top management positions</td>
<td>Year 1 and Year 3</td>
</tr>
<tr>
<td>External Board of Directors</td>
<td>Members of the BOD who were not employed by the organization</td>
<td>Year 1 and Year 3</td>
</tr>
<tr>
<td><strong>Control Variables:</strong></td>
<td></td>
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<tr>
<td>Initial Capital</td>
<td>Actual dollar amount (Natural Log)</td>
<td>Year 1</td>
</tr>
<tr>
<td>Munificence</td>
<td>Growth in the natural log of sales growth (deposits) in the county over the 5-year period after firm inception utilizing the regression slope coefficient</td>
<td>Five Year Period From Birth to Year 5</td>
</tr>
<tr>
<td>Dynamism</td>
<td>Standard error of the estimate for the regression of the logarithm of the value of deposits in the county for the 5-year period after firm inception, divided by the average logarithm of deposits for the same period</td>
<td>Five Year Period From Birth to Year 5</td>
</tr>
<tr>
<td>Competitive Intensity</td>
<td>Population in the county divided by the number of branches in the county</td>
<td>Year 5</td>
</tr>
</tbody>
</table>
ANALYSIS

The three hypotheses in this research will require an analysis of the impact of: 1) all strategic decisions upon new venture performance; 2) initial decisions upon new venture performance; and 3) the additional assessment of the impact of subsequent strategic decisions upon performance. This will be assessed using hierarchical regression (Hitt & Tyler, 1991; Zahra, 1996). For hypotheses 1, 2 and 3, all of the independent and control variables will be utilized in a hierarchical manner. For hypothesis 1, a regression model will be used that includes all of the control variables in step 1. Then all of the strategic choice variables for both T0 and the changes in those decisions at T3 will be added in step 2. The change in R² will then be evaluated for significance. Hypothesis 2 will utilize all of the control variables in the first step of the regression model and then all of the initial strategic decisions will be added in step 2. Hypothesis 3 will utilize a model that includes all of the original control variables and the initial strategic decision variables (entered as control variables) in step 1. The changes in the strategic decisions at T3 will be added in step 2. Each model is evaluated and the change in
$R^2$ is tested using a procedure recommended by Cohen (1968) which accounts for the degrees of freedom in the model. Support for each of the hypotheses is achieved if the resulting change in $R^2$ yields a significant value in the F-test procedure.
CHAPTER 5
ANALYSIS AND RESULTS

Summary statistics and the correlation matrix are presented in Table 2. As the table shows, by year 5 the average bank in the sample had almost $48,000,000 in deposits. They started, on average, with almost $3,400,000 in initial capital in markets that were growing (Munificence = 14.6827). This sample had an initial Top Management team size of 3.4 individuals that grew approximately 5% during the next three years, while the initial size of the non-management Board of Directors was 7.7 which grew just over 2% (although the standard deviation of this variable was quite large at 71.8%) during the next three years. Although actual means and standard deviations are reported, as previously mentioned, an analysis of the variables suggested a log transformation would be beneficial for two of the variables used in this study. Therefore, sales (deposits) and initial capital were transformed and analyzed subsequently (Neter, Wasserman & Kutner, 1990).

It is interesting to note the movement in the risk variables for these organizations. Leverage risk (Total
<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>s.d.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sales - Year 5*</td>
<td>47992</td>
<td>54123</td>
</tr>
<tr>
<td>2. BOD - Year 1</td>
<td>7.7516</td>
<td>3.5602</td>
</tr>
<tr>
<td>3. Charter Class - Year 1</td>
<td>0.9438</td>
<td>0.9012</td>
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<tr>
<td>4. TMT - Year 1</td>
<td>3.4156</td>
<td>1.4655</td>
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<td>5. Leverage Risk - Year 1</td>
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<tr>
<td>6. Liquidity Risk - Year 1</td>
<td>0.6250</td>
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</tr>
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<td>7. Breadth</td>
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<tr>
<td>8. Change in BOD</td>
<td>2.1039</td>
<td>71.7881</td>
</tr>
<tr>
<td>9. Change in TMT</td>
<td>5.5226</td>
<td>63.3964</td>
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<tr>
<td>10. Change in Leverage Risk</td>
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<td>11. Change in Liquidity Risk</td>
<td>69.9747</td>
<td>493.5667</td>
</tr>
<tr>
<td>12. Change in Breadth</td>
<td>135.10</td>
<td>1541.78</td>
</tr>
<tr>
<td>13. Initial Capital^</td>
<td>3392</td>
<td>2450</td>
</tr>
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<td>14. Date Open</td>
<td>1986</td>
<td>1.0910</td>
</tr>
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<td>15. Munificence</td>
<td>14.6827</td>
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<td>16. Dynamism</td>
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</tr>
<tr>
<td>17. Competitive Intensity</td>
<td>4690.99</td>
<td>2150.14</td>
</tr>
</tbody>
</table>

† p < .10  * p < .05  ** p < .01  *** p < .001

Means and Standard Deviations shown are un-transformed
<table>
<thead>
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<th>Variable</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
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</tr>
<tr>
<td>2. BOD - Year 1</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Charter Class - Year 1</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>4. TMT - Year 1</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>5. Leverage Risk - Year 1</td>
<td></td>
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<td>6. Liquidity Risk - Year 1</td>
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<td>7. Breadth</td>
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<td>8. Change in BOD</td>
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<td></td>
</tr>
<tr>
<td>9. Change in TMT</td>
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<td>10. Change in Leverage Risk</td>
<td>.02</td>
<td>1.00</td>
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<tr>
<td>11. Change in Liquidity Risk</td>
<td>.03</td>
<td>.01</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>12. Change in Breadth</td>
<td>-.02</td>
<td>-.03</td>
<td>.01</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Initial Capital</td>
<td>.17***</td>
<td>-.05</td>
<td>.04</td>
<td>.00</td>
<td>1.00</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>14. Date Open</td>
<td>.09*</td>
<td>-.06†</td>
<td>-.02</td>
<td>.01</td>
<td>.30***</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Munificence</td>
<td>.11**</td>
<td>-.13***</td>
<td>.02</td>
<td>-.03</td>
<td>.38***</td>
<td>.04</td>
<td>1.00</td>
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<td></td>
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<tr>
<td>16. Dynamism</td>
<td>.01</td>
<td>-.01</td>
<td>-.01</td>
<td>-.01</td>
<td>.15***</td>
<td>.08*</td>
<td>.04</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>17. Competitive Intensity</td>
<td>-.02</td>
<td>-.12**</td>
<td>-.05</td>
<td>.01</td>
<td>-.09**</td>
<td>-.20***</td>
<td>.33***</td>
<td>-.01</td>
<td>1.00</td>
</tr>
</tbody>
</table>

† p < .10
* p < .05
** p < .01
*** p < .001
equity/total assets) is 25.8% during the first year of operations, however it decreases by an average of 54.7% during the next three years. As organizations lower this number they increase their risk and are clearly acting more aggressively with their stockholder's investment. At the same time, the liquidity risk of the organization (Total loans/total deposits) is 62.5% during the first year of operation and increases by almost 70% during the next three years. As liquidity risk goes up the firm is supporting more loans as a percentage of the deposit base and therefore are acting more aggressively with their depositors money.

The initial breadth measure is a standardized factor score, however, the changes in breadth are substantial as most firms dramatically increased the breadth of their product offering (135% increase in three years). This reflects the efforts by the organization to consciously offer additional products as well as to simultaneously try to obtain significant sales in these products. These banks began operations by actively selling approximately 12 unique products while three years later that number had increased by 13%. At the same time the concentration levels dropped by over 37% for the deposit portfolio while
the loan portfolio's concentration level increased almost 8%. It appears that the banks began offering and seriously marketing a wider variety of deposit products while at the same time focusing and narrowing their efforts on their loan products. Presumably, these banks wished to increase the means by which individuals could keep their money in the bank and focused on only their most profitable or most experienced methods of lending so as to maximize their efforts.

Multicollinearity is only potentially an issue for a few of the variables concerned and is not usually significant unless the correlation between the two variables exceeds .50 (Hanusek & Jackson, 1977; Neter, Wasserman & Kutner, 1990). In addition to examining the correlations, each variable's variance inflation factor was examined. No variable VIF exceeded 2 which is considered to be well below that which might unduly influence a regression estimate (Neter, Wasserman & Kutner, 1990). All of the variables utilized in this study were subjected to rigorous evaluation to ensure consistency with the tenets of standard regression techniques (Dean, 1995; Neter, Wasserman & Kutner, 1990). After potential outliers were determined, each variable
was examined for observations that produced undue influence using three techniques (DFFITS, DFBETAS, and COOK’S DISTANCE measures). None of the cases in any of the variables appeared to exert undue influence.

Finally, it is apparent that the control variables performed as expected to control for external influences in this study of strategic choice. Initial capital, date of inception, munificence, and competitive intensity all were variously significant. Only dynamism appeared to be relatively un-constructive as a control variable in this study.

**HYPOTHESIS 1**

Hypothesis 1 suggested that an examination of the strategic decisions made by new ventures would explain a significant amount of the variance in new venture growth. Table 3 presents the results of the first hierarchical regression. The overall model (which includes all initial strategic decisions variables as well as the changes in those decisions at T₃) had an $R^2$ of .2132 while the restricted model which included only the control variables had an $R^2$ of .1295. Both step models were significant ($p<.001$) while the change in $R^2$ between the restricted model and the full model was tested for
Table 3. Results of Hierarchical Regression Analysis
Hypothesis 1 - Sales Growth

<table>
<thead>
<tr>
<th>Step Variables</th>
<th>B</th>
<th>( R^2 )</th>
<th>( \Delta R^2 )</th>
<th>F - Model</th>
<th>F - Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Control</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial Capital</td>
<td>0.26 **</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date Open</td>
<td>-0.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Munificence</td>
<td>0.16 **</td>
<td>0.09</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dynamism</td>
<td>0.09 *</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competitive Intensity</td>
<td>-0.07</td>
<td>0.1295</td>
<td>15.92 **</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Initial Formation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Directors</td>
<td>0.14 **</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charter Class</td>
<td>-0.06</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Top Management Team</td>
<td>0.08</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Leverage Risk</td>
<td>-0.10</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity Risk</td>
<td>-0.11 *</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breadth</td>
<td>0.13 **</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change at t3</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board of Directors</td>
<td>-0.01</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top Management Team</td>
<td>0.01</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Leverage Risk</td>
<td>-0.14 ***</td>
<td></td>
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</tr>
<tr>
<td>Liquidity Risk</td>
<td>0.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breadth</td>
<td>0.02</td>
<td>0.2132</td>
<td>0.0837 7.25 ***</td>
<td>4.74 ***</td>
<td></td>
</tr>
</tbody>
</table>

*P < .05
**P < .01
***P < .001

Significance using a procedure recommended by Cohen (1968) which accounts for the degrees of freedom and provides a conservative test of the significance as shown below.
\[ F = \frac{R^2_{\text{Full Model}} - R^2_{\text{Restricted Model}}}{\frac{b}{1 - R^2_{\text{Full Model}}}} \]

\[ N - a - 1 \]

Where \( F \)-statistic Significance = \( \frac{b}{N - a - b - 1} \)

In this model, \( (a) \) is the number of variables in the restricted model and \( (b) \) is the number of variables added to create the full model. Hypothesis 1 was strongly supported \( (p<.001) \).

**HYPOTHESIS 2**

Hypothesis 2 suggested that an examination of the initial strategic decisions made by new ventures would explain a significant amount of the variance in new venture growth. Table 4 presents the results of the second hierarchical regression. The overall model (which includes only the initial strategic decisions variables as well as the control variables) had an \( R^2 \) of .1918 while the restricted model which included only the control variables had an \( R^2 \) of .1295.
Table 4. Results of Hierarchical Regression Analysis

Hypothesis 2 - Sales Growth

<table>
<thead>
<tr>
<th>Step Variables</th>
<th>B</th>
<th>R^2</th>
<th>AR^2</th>
<th>F - Model</th>
<th>F - Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control</td>
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</tr>
<tr>
<td>Initial Capital</td>
<td>0.26</td>
<td>***</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date Open</td>
<td>0.01</td>
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<tr>
<td>Munificence</td>
<td>0.18</td>
<td>***</td>
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</tr>
<tr>
<td>Dynamism</td>
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<td>Competitive Intensity</td>
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<td>0.1295</td>
<td>15.92 ***</td>
<td></td>
</tr>
<tr>
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</tr>
<tr>
<td>Initial Formation</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Board of Directors</td>
<td>0.15</td>
<td>***</td>
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</tr>
<tr>
<td>Charter Class</td>
<td>-0.05</td>
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<tr>
<td>Top Management Team</td>
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<td>Leverage Risk</td>
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<tr>
<td>Liquidity Risk</td>
<td>-0.10</td>
<td>*</td>
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</tr>
<tr>
<td>Breadth</td>
<td>0.15</td>
<td>***</td>
<td>0.1918</td>
<td>10.34 ***</td>
<td>6.29 ***</td>
</tr>
</tbody>
</table>

*P < .05
**P < .01
***P < .001

Again, both of the step models were significant (p<.001) while the change in R^2 between the restricted model and the full model was tested for significance. Hypothesis 2 was also found to be strongly supported (p<.001).

**HYPOTHESIS 3**

Hypothesis 3 suggested that an examination of the changes in strategic decisions made by new ventures would
explain a significant amount of the variance in new venture growth. Table 5 presents the results of the third hierarchical regression.

Table 5. Results of Hierarchical Regression Analysis
Hypothesis 3 - Sales Growth

<table>
<thead>
<tr>
<th>Step Variables</th>
<th>B</th>
<th>R²</th>
<th>\Delta R²</th>
<th>F - Model</th>
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</tr>
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<td>0.26</td>
<td>**</td>
<td></td>
<td></td>
<td>3.25</td>
</tr>
<tr>
<td>Date Open</td>
<td>-0.01</td>
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<td></td>
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<tr>
<td>Munificence</td>
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<tr>
<td>Dynamism</td>
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<td></td>
<td></td>
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</tr>
<tr>
<td>Competitive Intensity</td>
<td>-0.07</td>
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<tr>
<td>Initial Formation</td>
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</tr>
<tr>
<td>Board of Directors</td>
<td>0.14</td>
<td>**</td>
<td></td>
<td></td>
<td>1.34</td>
</tr>
<tr>
<td>Charter Class</td>
<td>-0.06</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Top Management Team</td>
<td>0.08</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leverage Risk</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity Risk</td>
<td>-0.11</td>
<td>*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breadth</td>
<td>0.13</td>
<td>**</td>
<td>0.1918</td>
<td>10.34</td>
<td>***</td>
</tr>
</tbody>
</table>

| 2. Change at t3|       |      |           |           |            |
| Board of Directors | -0.01 |      |           |           |            |
| Top Management Team | 0.01  |      |           |           |            |
| Leverage Risk     | -0.14 | ***  |           |           |            |
| Liquidity Risk    | 0.03  |      |           |           |            |
| Breadth           | 0.02  |      | 0.2132    | 0.0214    | 7.25       | ***        |

*P< .05
**P< .01
***P< .001
The overall model (which includes all strategic decisions variables as well as the control variables) had an $R^2$ of .2132 while the restricted model which included the initial strategic decisions as well as the control variables had an $R^2$ of .1918. Each of the step models was significant ($p<.001$) while the change in $R^2$ between the restricted model and the full model was tested for significance. Hypothesis 3 was found to be supported ($p<.05$) statistically, however, it is apparent that the only variable that influenced this result was that of leverage risk.

**POST-HOC ANALYSIS**

Up to this point, this study has focused upon the total effect that a group of decisions has upon the performance of a new venture. Therefore, prior to concluding this chapter and considering the literature reviewed in Chapter 2 as well as the data available in this study, an additional examination of individual strategic decisions appears to be warranted. As outlined below, two important tests for the effectiveness of the initial product breadth are warranted. The first is in conjunction with the munificence of the market entered,
while the second is in conjunction with the size of the initial financial resources available to the new venture.

Empirical research has suggested that "rather than picking a small niche to serve, the most successful firms ... have tried to be aggressive, broad-minded, and opportunistic" (Miller & Camp. 1985: 99). Many of the studies performed have been completed on firms that are internal corporate ventures and part of the PIMS start-up database of firms. They have consistently found that broader product lines, more aggressive market penetration, and goals that are set higher, lead to improved survival and long-term performance (Biggadike, 1979; Miller & Camp, 1985; Kekre & Srinivasan, 1990). Biggadike pointed out that "the negative financial results were not conscious but, the moment managers decided to seek a toe-hold in their served market, they had, in effect, preordained them" (Biggadike, 1979: 193). Unfortunately, internal corporate ventures may be incomparable to independent new ventures as they have unique resource endowments (Biggadike, 1979; McDougall, Covin, Robinson & Herron, 1994; Shrader & Simon, 1997). Internal corporate ventures are not under the same limitations and constraints as
independent ventures that have no established system of direct support.

The findings of empirical research that have specifically analyzed independent ventures have been much less consistent and have often been found to be contingent upon the type of environment entered or the industry's maturity. For example, McDougall, et. al. (1994) found that those firms with the highest growth rates were those pursuing broad breadth strategies in high growth industries. In a similar vein, Romanelli (1989) found that aggressive firms had higher growth rates in their start-up years, but that a key was tailoring the strategy to the conditions of the environment. Further support was provided by Chandler & Hanks (1994) when they found that those firms that had developed a broader variety of resources had higher sales growth. These studies and others regarding the growth and performance patterns of new firms (Cooper & Gimeno-Gascon, 1992) generally focus upon young firms (as opposed to new firms) and are measured subsequent to their founding. Indeed, research has rarely been able to examine the impact of initial strategic decisions upon new venture growth. One exception is Sandberg's study (1986) which utilized a small sample.
(N=17) of venture capital-backed firms developed from venture capitalist files and was able to capture the strategic decisions at the point of founding. He found that firms that pursued a differentiated strategy significantly outperformed those firms that pursued a focus strategy.

It is potentially problematic for research on new ventures to rely on data that was gathered years after firm formation or on small-sample studies. An important study by Romanelli (1989) found that new firms exhibited a large amount of strategic instability during birth and furthermore found that it took between two and three years for a new firm's strategy to coalesce. This has important implications for entrepreneurship research. If the new venture's strategic approach is measured after this point, researchers may not be tapping the strategy that was used at start-up and indeed the strategy that may have been responsible for survival and growth up to that point. As has been pointed out by numerous researchers, many firms fail during the first two years of existence and many others achieve only a marginal type of survival (Cooper, Gimeno-Gascon & Woo, 1994; Timmons, 1994) that may be directly attributable to their start-up efforts.
(Hansen, 1995) or the environment entered (McDougall, et al., 1994).

Therefore, this database was utilized to examine the moderating effect (between new venture performance and initial breadth) for each of the two types of influences most suggested by prior research. That is: 1) the munificence in the environment and 2) the size of the initial financial resources available to the new venture. Table 6 examines the relationship between breadth and performance as moderated by the munificence of the environment.
Table 6. Results of Regression Analysis  
Interaction of Breadth and Munificence

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th></th>
<th>Model 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>s.e.</td>
<td>b</td>
<td>s.e.</td>
</tr>
<tr>
<td>Breadth</td>
<td>.12 **</td>
<td>.03</td>
<td>.50 ***</td>
<td>.13</td>
</tr>
<tr>
<td>Munificence</td>
<td>.18 ***</td>
<td>.02</td>
<td>.18 ***</td>
<td>.02</td>
</tr>
<tr>
<td>Breadth x Munificence</td>
<td></td>
<td></td>
<td>-.39 **</td>
<td>.009</td>
</tr>
<tr>
<td>Initial Capital</td>
<td>.28 ***</td>
<td>.00002</td>
<td>.28 ***</td>
<td>.00002</td>
</tr>
<tr>
<td>Dynamism</td>
<td>.09 *</td>
<td>3.85</td>
<td>.09 *</td>
<td>3.85</td>
</tr>
<tr>
<td>Competitive Intensity</td>
<td>-.06</td>
<td>.00002</td>
<td>-.05</td>
<td>.00002</td>
</tr>
<tr>
<td>Date Open</td>
<td>.02</td>
<td>.03</td>
<td>.03</td>
<td>.03</td>
</tr>
<tr>
<td>Overall F</td>
<td>14.91 ***</td>
<td></td>
<td>13.69 ***</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>531</td>
<td></td>
<td>531</td>
<td></td>
</tr>
<tr>
<td>$R^2$</td>
<td>.15</td>
<td></td>
<td>.17</td>
<td></td>
</tr>
</tbody>
</table>

*P<.05
**P<.01
***P<.001
Model 1 includes only the direct-effect variables while model 2 includes those with the interaction term. Both breadth and munificence are strongly and positively associated with new venture growth. However, for these new ventures the relationship between the breadth of entry and sales growth is dampened by the munificence of the market that is entered. Therefore, in highly munificent markets the importance of a broad breadth strategy is much less important to the growth of the venture. Yet, in less munificent markets, the value and importance of a broad breadth approach is much more important to the growth potential of the new venture. This is graphically represented in Figure 2.

![Figure 2. Relationship between Breadth and Environmental Munificence](image)

FIGURE 2. Relationship between Breadth and Environmental Munificence
Table 7 presents the results of a set of regression equations examining the relationship between breadth and performance while including the moderating effect of initial capital.

Table 7. Results of Regression Analysis
Interaction of Breadth and Initial Capital

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>b</td>
<td>s.e.</td>
</tr>
<tr>
<td>Breadth</td>
<td>.12 **</td>
<td>.03</td>
</tr>
<tr>
<td>Initial Capital</td>
<td>.28 ***</td>
<td>.00002</td>
</tr>
<tr>
<td>Breadth x Initial Capital</td>
<td>.14 *</td>
<td>.000009</td>
</tr>
<tr>
<td>Munificence</td>
<td>.18 ***</td>
<td>.02</td>
</tr>
<tr>
<td>Dynamism</td>
<td>.09 *</td>
<td>3.85</td>
</tr>
<tr>
<td>Competitive Intensity</td>
<td>-.06 *</td>
<td>.00002</td>
</tr>
<tr>
<td>Date Open</td>
<td>.02</td>
<td>.03</td>
</tr>
<tr>
<td>Overall</td>
<td>F</td>
<td></td>
</tr>
<tr>
<td></td>
<td>14.96 ***</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>531</td>
<td></td>
</tr>
<tr>
<td>R²</td>
<td>.15</td>
<td></td>
</tr>
</tbody>
</table>

*p<.05  
**p<.01  
***p<.001
Model 1 includes only the direct-effect variables while model 2 includes those with the interaction term. In model 1, both breadth and initial capital are strongly and positively associated with new venture growth. The interaction of breadth of entry and initial capital is both positive and modestly significant, however, the direct effect of breadth becomes non-significant. This was subjected to further analysis by splitting the sample on the median of initial capital. Breadth was significantly (p<.01) and positively associated with sales growth for those firms with below median initial capital. On the other hand, for those firms with above-median levels of initial capital, breadth was not significant.

It appears that, in this sample, for new ventures that have large initial financial resources, the impact of a broad breadth approach was not associated with the growth of the venture. On the other hand, for firms with fewer initial resources, the value and importance of a broad breadth approach is of increased importance in growing the new venture. It appears that the suggestion in the literature that a broad approach is universally associated with new venture growth could be tempered by
the size of the initial financial resources of the venture. This is graphically represented in Figure 3.

FIGURE 3. Relationship between Breadth and Initial Capital
CHAPTER 6
CONCLUSIONS AND IMPLICATIONS

This study began by discussing the apparent importance of the strategic decisions of a new venture and the mixed theoretical and empirical findings regarding the impact and timing of those decisions. The suggestion made was that the strategic choice perspective placed the control for the venture in the hands of the management team and further suggested that these decisions have performance consequences (Astley & Van de Ven, 1983). It was pointed out that while strategic choice could be examined with more established firms, that new ventures provided an unequalled forum for its study. The opportunity to observe the performance impact of strategic decisions appears to be at its peak with an examination of new ventures at the point of founding (Biggadke, 1979; Stinchcombe, 1965, Weick, 1979).

New ventures have no history and generally only limited resources, making them resemble more of a "commercial experiment" (Starr & MacMillan, 1990:81) than a profit-making entity. Furthermore, the new venture must make a series of decisions at founding in order to
establish the firm within the industry (Hansen, 1990, 1995; Porter, 1980, 1985; Romanelli, 1989). In order to examine the research questions outlined in Chapter 1, this analysis required the development of a dataset of observations at the point of firm formation.

The Bank Research Division of the Office of the Comptroller of the Currency of the United States provided a detailed database of all newly-chartered commercial banks founded the United States. Additional data was collected on each of the banks from four sources. Polk's Bank Directory (North America) - Fall Edition for the period 1985-1993, the Report of Condition and Income for Selected Banks and Other Financial Institutions from the Board of Governors of the Federal Reserve System, the annual Data Book: Operating Banks and Branches published by the Federal Deposit Insurance Corporation, and the Census of the United States.

Combining data from all of these sources provided the opportunity to examine the impact of strategic decisions (as a group) upon the growth of new banks. The result of this analysis includes additional validation of the strategic choice model and specifically its application to new ventures. The strategic decisions of new, independent
ventures were found to significantly affect the performance of the venture. This was especially true for the initial decisions of the firm which is the point of maximum opportunity to observe strategic choice (Biggadike, 1979; Stinchcombe, 1965; Weick, 1979).

Astley and Van de Ven (1983) suggested that organizational theory must consider the multiple and antithetical roots of the field. Within the four views of organization and management they presented, there was a role for managerial decisions that ranged from Inactive to Proactive as shown in Table 8:

Table 8. Role of Strategic Decision Makers

<table>
<thead>
<tr>
<th>Perspective</th>
<th>Managerial Decision Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural Selection View</td>
<td>Inactive</td>
</tr>
<tr>
<td>System-Structural View</td>
<td>Reactive</td>
</tr>
<tr>
<td>Collective-Action View</td>
<td>Interactive</td>
</tr>
<tr>
<td>Strategic Choice View</td>
<td>Proactive</td>
</tr>
</tbody>
</table>

This study suggests an active role for decision makers in the determination of new venture performance, but did not have the fine-grained level of analysis with
which to determine the processes by which the decisions were made. However, this study examined firms at the point of formation, which the strategic choice perspective speaks to directly. That is, proactive decision-making under conditions of uncertainty so as to enter an industry (Andrews, 1980; Child, 1972; Knight, 1921; Scott, 1992) isolates this view from other views. The significant findings of the impact of initial decisions as well as the impact of changes in those decisions lends some substantial and unique support to the strategic choice perspective.

INITIAL DECISIONS

In this examination of new ventures, initial strategic decisions were found to have a significant and positive impact upon new venture growth. This is an oft-mentioned but rarely tested finding that has significant potential for both organizational theory and entrepreneurship research. The significant finding that strategic decisions made at the point of founding have long-term performance impacts upon the firm suggests that managers have a proactive ability to impact the firm. Prior to entry, there is no organization and no administrative history from which the venture manager can
either react or interact in order to change the firm. Decisions must be made (i.e. proactively) and they are made under conditions of uncertainty (Knight, 1921; Scott, 1992). The timing and substance of the decisions suggest that the Strategic Choice view may be the more appropriate.

For entrepreneurship researchers, these observations place a great deal of importance upon accounting for strategic decisions at the point of founding (Bamford, Dean & McDougall, 1996). It is apparent that management continues to make changes in the strategic decisions that guide the firm, yet this study found that most of the explanatory power was in the initial decisions of the venture. Empirical models which measure strategy variables subsequent to founding may not provide an accurate test of the strategic decisions that led to their initial success and may no longer be the strategies which they are currently pursuing.

A more detailed analysis of the results suggests several potential areas that may impact the performance of the new venture.

It appears that firms that begin operations with a larger non-management membership on their board of
directors will grow faster. As suggested in the extant literature, the external membership of the board provides the new venture with an external resource and increases contacts with the community (Andrews, 1980; Boyd, 1990; Pettigrew, 1992). Especially in the banking industry, these external contacts are critical to the ability of the new bank to attract deposits (particularly commercial deposits) and to provide commercial contacts.

Not surprisingly, and yet not common to this literature stream, various significant impacts with the risk position of the new venture were found. The risk position of any new firm would appear to be an important potential criteria when evaluating the growth potential of a new venture. Yet, quantifying this risk position is generally difficult for researchers. In the banking industry, risk management and its monitoring is very specific and lends a unique lens to this study. Prior research by Reger, Duhaime, and Stimpert (1992) utilized a measure they termed "bankers risk" (total interest income less total interest expense as a percentage of average total assets). While this measured the portion of income sensitive to interest rates, it does not tap the broader constructs of credit, leverage, and liquidity risk that
are directly related to the growth vectors of banks (Hempel, et al., 1994) and are not as directly controlled by the efforts of the Federal Reserve.

In Table 4, which included only the initial decisions, a significant impact to the growth of the new venture was found to be associated with a reduced level of liquidity risk at the inception of the firm. At the same time, initial breadth of product offering was found to be positively related to new venture growth. This would suggest that expanding the portfolio of products and aggressively marketing those products aids new venture growth. On the other hand, the means by which the firm performs this function would argue for some focusing of initial firm resources. Given that the firm performance was examined at year 5, this might suggest that longer term performance is related to the manner as well as breadth of initial approach. In the case of these new banks, the volume of loan growth was superseded by the growth of standard, individual and commercial deposits. This more substantial base provided these new ventures with a stronger and generally cheaper source of funds with which to grow the firm (Hempel, et al., 1994).
CHANGES IN STRATEGIC DECISIONS

The examination of the importance of changes in strategic decisions and their influence upon the growth of new ventures was also supported. It would appear that while statistical support for the ability of these firms to affect the growth of their venture was found, in practicality this ability was only slight. Again, while this study did not have the fine-grained ability to examine the issue, the results point to support, but not to very strong support for the Strategic Choice view. Each of the other perspectives suggest that changes in the strategic decisions will have little impact upon venture performance.

Specifically, the only significant aspect of change was their strong efforts to reduce the leverage ratio of the firm. For these ventures that involves the substantial increasing of the asset base of the venture without a comparable increase in the equity base of the venture. In other words, as ventures leverage their venture with non-equity, their growth vector is increased. This would be expected and would be substantially supported by the
merger and acquisition literature (Lubatkin, 1983; Lubatkin, Srinivasan & Merchant, 1997).

No other changes in strategic decisions had a significant individual impact upon the growth of these new ventures. The implications of this are clear and emphasize the importance of examining new ventures at the point of founding. It appears that managers have a significant opportunity to impact the growth of a new venture at its formation. This would suggest that entrepreneurship research needs to focus its efforts at the earliest possible stage of the new venture’s inception.

PRODUCT BREADTH

As was pointed out earlier, the findings from empirical research in entrepreneurship has strongly suggested that some form of a broad/aggressive approach for a new venture may be a key to success (Biggadike, 1979; McDougall, et al., 1994; Miller & Camp, 1985; Sandberg, 1986). However, these studies have examined either corporate ventures or independent ventures well after start-up. This study was able to examine independent ventures at the point of start-up. In addition, the moderating effect of each of the two types of influences
most suggested by prior research: 1) munificence; and 2) initial financial resources was examined.

In this analysis of the performance relationships of breadth and munificence, each variable had a positive and significant direct effect upon the growth of the new ventures. However, when the interaction was examined, it appeared that the relationship between the breadth of entry and sales growth was dampened by the munificence of the market. It appears that in highly munificent markets, the importance of a broad breadth approach is much less important than in less munificent markets. For this group of ventures, a broad breadth approach is more important as the munificence of the environment decreases.

In the examination of the performance relationships of breadth and initial capital, each variable had a positive and significant direct effect upon the growth of the new ventures. In the next step, when the interaction was examined, the relationship was also found to be significant. However, the value of the broad breadth approach appears to be highly dependent upon the level of initial capital. It appears that utilizing a broad breadth approach is most important in the presence of relatively lower levels of initial capital.
This has important implications for entrepreneurship research into initial approaches to the market. Much of the empirical entrepreneurship literature has suggested a universality to a broad/aggressive approach as a key to success for new ventures (Kekre & Srinivasan, 1990; Miller & Camp, 1985). Unfortunately, prior research has been unable to evaluate the approach of the new venture at the point of founding.

It is interesting to note that the theoretical literature has long suggested narrow strategies as a means for the new venture to enter the market and to establish itself for future success (Abell, 1980; Porter, 1980). These techniques have been called guerrilla-warfare tactics aimed at niches that are too small to engender retaliation by established competitors (Harrigan, 1986; Sandberg & Hofer, 1987).

This study suggests that new ventures with lower levels of initial capitalization are well advised to broaden their market approach. In addition, firms that enter environments that are less munificent would be better served by utilizing a broader breadth approach to the market.
These suggestions may be in harmony as these firms are seeking income in as many sources and in as many ways as possible, perhaps to overcome weaker initial finances and/or a weaker general market. Diomande's (1990) study of African businesses that operated with limited resources in generally non-munificent environments found that these new ventures pursued every opportunity available and offered every service or product at their disposal. Maximizing revenue, survival and establishment in the market was the primary goal for these firms. Indeed this matches the propositions of Quinn and Cameron (1983) who suggest that entrepreneurial firms focus their efforts upon resource acquisition and growth to the exclusion of other ends.

On the other hand, a new venture that enters a fast growing market and/or is endowed with a relatively high level of initial resources appears to have the opportunity to focus their efforts on the most profitable or high growth areas of the market. Their additional resources provide them the flexibility to await longer-term profits and the choice of a broad product strategy does not appear to be as important to their success.
LIMITATIONS

This research has several limitations that must be discussed in order to properly frame the results of this study. First of all, while extensive efforts were made to develop a comprehensive set of strategic decision variables, this study was ultimately limited to those decisions that were observable and trackable with secondary data. Many sources of data were consulted and used in this study to ensure a maximization of the potential decisions of a new venture and indeed, several variables were collected and subsequently not included in this study as there was no variance between new ventures (e.g. number of branches, credit risk). Therefore this study was limited to the content of measurable strategic decisions.

Second, this data provides few clues as to the processes that are used in arriving at these strategic decisions. In this case a finer-grained analysis might provide information as to the stimulus-response cycle, or internal information such as the structure of the organization that would provide additional insight into a more refined model of the new venture organization and motivation.
Third, although this study was able to track changes in many of these strategic decisions, there was no attempt to classify the magnitude of strategic change. Strategic transformations and their impact upon firm survival/performance requires an ability to tap the power distribution and internal structures of the venture (Romanelli & Tushman, 1994). Without this contextual information it would be inappropriate to conclude a transformational effect from these individual changes in strategic decisions. This information would aid researchers in an evaluation of the magnitude of change necessary to impact performance, or perhaps the level of change could be used to evaluate the proactiveness of the venture's management.

Fourth, although it was the desire of this study to specifically avoid the problems associated with asking founders to remember back to their original strategy, it is acknowledged that there would be some value in directly investigating the intent, associated reactions, as well as personal information regarding those involved in the making of these decisions.

Finally, regarding the issue of generalizability, this research studied a group of new ventures that are
somewhat limited by regulatory agencies. They can be closed by regulators and geographic expansion must generally be approved by a governmental agency. However, like most new ventures, they are formed by teams of entrepreneurs who gather capital, resources, and personnel. They put together comprehensive business plans (as a regulatory requirement) that are as developed as any new venture seeking funding. While in some manners these firms are forced to be more detailed in their planning, the opportunity to examine their choices provides researchers with unique possibilities that provide insights into all business formation. 

Bank formations provide researchers a unique opportunity (both for the availability of high quality secondary data as well as the large number of new firms formed each year in a single industry) to examine the new venture from the point of inception. Seldom are researchers able to examine new firms with data gathered at the time of formation, but more importantly it is truly rare for a study utilizing this rich secondary data to be able to include privately-held firms. Many of the theoretical propositions regarding new venture formation have remained untested as researchers have not had access
to the data at the point of formation (Cooper & Gimeno-Gascon, 1992; Stuart & Abetti, 1987). Furthermore, it is difficult to draw judgments regarding the efficacy of a particular theoretical approach with multi-industry studies when a scientific research methodology suggests that we begin with narrow, well-controlled studies (Kerlinger, 1986) that provides industry recipes that can then be extended (Spender, 1983).

**OVERALL**

In summary, it is hoped that this study has added both to organizational research in general and specifically to new venture research. By examining new ventures, this study was able to evaluate the effects that strategic decisions have upon the performance of ventures without being burdened by the administrative history of the firm. Fundamental support was found for the performance impact of strategic decisions and additional validation was provided for the strategic choice perspective. The findings were further refined as the moderating effect of both environmental and initial financial resources were found to have a significant impact upon the relationship between the breadth of strategic decisions and new venture performance.
Additional value was added by having the ability to examine firms at the point of founding. An analysis of the change variables leads to the conclusion that substantial changes are made as ventures grow, and yet (although statistically significant) only a modest impact to venture growth was found. Thus, examining the strategic decisions of ventures some years after formation may lead to inaccurate conclusions as to their true impact upon performance. This may at least partially explain the mixed findings of prior research that has attempted to determine the impact of strategic decisions upon performance.

Finally, the ability to tap high quality secondary performance data is particularly noteworthy. As new venture and small firm researchers (e.g. Chandler & Hanks, 1993; Fiorito & LaForge, 1986; Sapienza, Smith & Gannon, 1988) have noted, objective data is often unavailable as it is quite common for entrepreneurs to refuse to divulge it to researchers. Efforts made to study firms at their actual point of formation appears to provide insights that could be significant in the development of the entrepreneurship stream of literature.
REFERENCES
REFERENCES


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VITA

Charles E. Bamford graduated with an Associate Degree in Business Administration from Northern Virginia Community College in 1979 and a Bachelor degree in Commerce from the McIntire School of Commerce at the University of Virginia in 1981. He worked as a programmer/analyst in Boston, MA for several years before joining Virginia Western Community College as a full-time instructor in Computer Science. In 1985 he joined Dominion Bankshares Corporation in Roanoke, VA as the head of Systems Training. He received several promotions over the next eight years managing departments of User Support and Business Analysis which were primarily geared toward the merger and acquisition activities of the corporation. He completed his Master of Business Administration degree at Virginia Polytechnic Institute and State University in 1993 and joined the doctoral program at the University of Tennessee. He received his Ph.D. in Business Administration with a concentration in Strategy in 1997. He is currently an Assistant Professor of Strategy & Entrepreneurship at Texas Christian University in Fort Worth, TX.