

What Is New?

A Proposal for Advancing the Concept of New Ventures

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Abstract

This paper examines the question of whether a new venture is a theoretically distinct organizational form, or a special case of existing forms for which conventional organizational theory should be adapted. The authors contend that the form of new venture has not been adequately addressed, and that without a well grounded definition as to what is a “new venture” research in the field will continue to yield inconsistent and contradictory results. To address this need a taxonomy is offered that promises clarity of research related to new ventures.

Introduction

What makes a business venture a “new” venture has been the focus of much scholarly interest. This ranges across a wide variety of theoretical approaches including organizational evolution (Kimberly & Miles, 1980; Quinn & Cameron, 1983; Churchill & Lewis, 1983), entry strategies (Vesper, 1990; Mitchell, 1991) and performance of new firms (Hofer & Sandberg, 1987; Duchesneau & Gartner, 1990). These studies have used well established concepts and methodologies from traditional strategy and organizational design literature. However, even ten years after Carsrud, Olm and Eddy’s (1986) call for improved rigor in entrepreneurial definitions any review of the new venture research literature suggests the operational definition of what is a new venture remains a potential cause of inconsistent research results and makes interpretation of existing research difficult.

For example, evidence of such inconsistency exists in defining the scope of new venture research. There are studies supporting narrow scope (Hobson & Morrison, 1983;

Low & MacMillan, 1988) while others recommend a broad scope (Biggadike, 1976; Miller & Camp, 1985; MacMillan & Day, 1987, Robinson, 1988; Tsai et al., 1991; McDougall, Covin, Robinson & Herron, 1994). Some researchers such as McDougall et al. (1994) use only independent new ventures in their studies, while excluding corporate ventures. Others such as Biggadike (1976) have researched new corporate ventures excluding independent ventures. Much of this difference in populations of “new ventures” comes from the difficulty in classifying ventures as “new.” Often size, or smallness and/or age have been used as rough proxies (Biggadike, 1979; McDougall et al., 1994). The trouble with any demographic variable is that they are not always accurate representatives of the real variable of interest (Carsrud, Gaglio, & Kernochan, 1993). For example, “age” based on a legal entity’s start date may not accurately reflect the true start date of an organization nor does small adequately reflect the concept of “newness.”

An obstacle in the fields of strategy and entrepreneurship is the continuing insufficiency of theoretical discussion on the operational definition of the term “*new venture*”. Types of ventures that may not be new are frequently included in research samples, especially those from large secondary data bases, while other types of new ventures are explicitly excluded (such as non-legally registered organizations as found in “informal economies”). These lapses raise questions about the ability to generalize the results to all new ventures and makes interpretation of complex results problematic. To complicate matters further, it is not immediately clear whether the conceptual frameworks applied in explaining the performance of a long established firm is appropriate to a new venture (Carter, Stearns, Reynolds, & Miller, 1994). The definition of the new venture criterion itself, deserves reconsideration.

To investigate the problem of new venture definition, Aldrich, Kalleberg, Marsden and Cassell (1989) identify three possibilities in defining a new business:

1. an enterprise formed when all the elements of the business are assembled for the first time into one coherent entity,
2. a takeover by a new owner, and
3. any change in legal form of a business.

Although this definition has provided grounding for some high quality empirical research, these possibilities actually represent potential paths to creation of a business rather than a definition of new venture itself. The definition of a new venture must account not only for business creation but also must serve as a criterion for deciding when a business is no longer new.

At this point in the field’s intellectual history another line of thinking concerning new ventures might be more fruitful. That is, a new venture may have many different and varied forms. For instance, a retired supermarket manager invents a new product and then forms a firm to produce a carbon fiber ultra-light bicycle. To most observers there is little doubt that this is a new venture since both the product and the business are new to its originator. But the concept “*newness*” has other possible meanings. For example, if a lawn mowing franchisee extends her business by acquiring another’s territory, this could

also be termed a new venture, but new in a very different sense from that of the bike building supermarket manager. Here new territory is being added to an existing business. According to Aldrich, et al. (1989) both businesses would be categorized as new ventures, without recognizing the obvious differences between these organizational forms. More importantly, many other possible differences that could contribute to the ultimate explanation of each venture's success or failure are hidden from discovery.

Some researchers have recognizing these subtleties in venture "*newness*", but still conceptualized in relatively limited terms. Chrisman (1995) defines a new venture as occurring:

"...when an organization is created, or when new ownership inspires the strategic transformation of an existing organization. Strategic transformation in turn, deals with the attempt by an existing organization to change its competitive advantage. Competitive advantage refers to a combination of resources that is valued in the market place and relatively rare (either in type or degree) among competing firms in the referent industry."

Clearly Chrisman is attempting to deal with the richness of the concept of "new venture", but is still limited by trying to find one definition that fits all forms and not directly addressing what is meant by "*new*". The primary limitation with his definition is that new venture is still proposed as a unitary concept. Unlike prior conceptualizations, the current paper builds on Chrisman's definition to provide a classification system where distinct classes of organizations are defined that represent very different types of new ventures.

This taxonomy is based on a review of published research which illustrates the organizational ecology, competitive strategy and economic perspectives which have been adopted by various researchers in the study of new ventures. These perspectives show that the concept of a new venture has no common definition in these studies and this could account for divergence in research findings. This new venture taxonomy, the authors believe, will allow for the diversity of findings to be better understood.

Current Perspectives on New Ventures

Organizational Ecology

From the view point of organizational ecology, corporate history is often defined in terms of a sequence of stages (Chandler, 1962; Kimberly & Miles, 1980; Quinn & Cameron, 1983; Mintzberg & Waters, 1984). The first stage of organizational growth typically is assumed to begin with the initiative of an entrepreneur to create a new firm. Not surprisingly Stinchcombe (1965) asserts that these new organizations face greater risk of failure than do established firms. Then, as new ventures mature, their survival is

governed by similar risk patterns to those of established firms. The proposal that the risk of failure declines monotonically with age is supported by studies of the “*liability of newness*”, a term coined by Stinchcombe (1965) and further elaborated by Carroll and Delacroix (1982); Carroll, (1983; 1984; 1987); Singh, Tucker and House (1986), and Hannan and Freeman (1989).

The greater risks arising from *newness* appear to result from a wide variety of sources. These include the costs of learning new tasks; the invention (new product or service) itself, conflicts regarding new organizational roles; the absence of both formal and informal organizational structures; lack of stable links being established with other stakeholders (Stinchcombe, 1965); lack of organizational inertia (Hannan & Freeman, 1984); and the lack of organizational stability to ensure customer trust (Hannan & Freeman, 1989).

An alternative approach taken by some organizational ecologists is to define a new venture in terms of “time to reach profitability”. Adopting this approach, Biggadike (1979) shows that if a new venture survives, it takes an average of eight years before it surpasses the full cost break-even point. McDougall & Robinson (1990) adopt Biggadike’s criterion of eight years as their definition of a new venture. Beyond eight years, according to their definition, a venture is no longer new. A further four years is needed, according to Biggadike (1979), before a firm typically displays returns on investment which resemble an established firm. But is the new venture stage constant in duration between firms and across industries? This is an issue not addressed by either study. Their definitions remain essentially a uni-dimensional definition of new ventures.

Competitive Strategies

Extensive research has indicated that markets for products/services offered by new ventures operate in a different manner to those created by more established enterprises. Customers find it easier and safer to buy products and services from firms they have bought from before (Vesper, 1990; Schmalensee, 1978; Yip, 1982). Apparently habit and conservatism motivates customers to continue to buy from an established venture even though a new venture may offer superior value (Vesper, 1990). This often forms a significant entry barrier that must be taken into consideration in the formulation of new venture strategy (Vesper, 1990; Porter, 1980). Distinctive strategic responses to habitual and conservative patterns of customer purchasing behaviors is a defining characteristic of a new venture, but one frequently ignored by researchers using demographic based definitions of new ventures.

Whether new ventures display diversity in marketing strategy leads to the broader question of whether traditional classes of business strategy account for the unique business conditions associated with a new venture. Are new venture strategies implicitly embedded in existing strategic models, such as Porter's (1980) generic cost leadership, differentiation and focus strategies or Miles & Snow's (1978) defender, prospector, analyzer and reactor

types? If new venture strategies are really the same as strategies of “mature firms”, then competitive strategy ceases to be a defining characteristic of a new venture.

However, there is another perspective on strategy that must be examined: the presence or absence of competency. A lack of competence is the criterion upon which a venture is classified as a “*newcomer*” by Mitchell (1991) in his study of entry strategy. In a similar vein, Teece (1987) proposes that the profitability of releasing a new product or service is determined by the transferability of the firm’s technology, the existence of a dominant design, and the presence of complementary assets. In other words, the relatedness of the product to the firm’s competence determines profitability and survival. Competence is the pool of experience, knowledge and systems of the firm (Markides & Williamson, 1994); collective learning; harmonization of various streams of technology; communication, involvement and commitment of employees and management (Prahalad & Hamel, 1990) that the firm must possess to succeed.

Economic Perspective

Even the most casual observer would note many established businesses actively discourage a new competitor from making claims on their customers and resources. Industry members deter entry of a new venture by using proprietary shields (entry barriers) and various pre-emptive behaviors to ward off any prospective entrants (Porter, 1980; Vesper, 1990). For example, a new entrant might trigger rivalrous behavior for access to resources (Main, 1955); geographic access, shelf space, and proprietary product characteristics (Prescott & Visscher, 1977; Schmalensee, 1978; Rao & Rutenberg, 1979; Eaton & Lipsey, 1979); and decrease revenues by adding capacity to the industry (Spense, 1977; Dixit, 1980; Gilbert & Harris, 1981; Eaton & Ware, 1987).

An entrepreneur who seeks to become a new industry competitor requires an “entry wedge” to break into the established pattern of business activities (Schumpeter, 1961; Porter, 1980; Vesper, 1990). Schumpeter's (1961) approach regards entrepreneurs as innovators who disrupt the status quo by using new combinations of resources and new ways of doing business. That is, new firms are responsible for the process of “*creative destruction*”, by exploiting technological discontinuities to displace incumbents and progress technology. Empirical studies by Yip (1982) and Bevan (1974) consider these technological discontinuities gateways for new venture entry. Two typical routes for industry entry are the establishment of a new firm or the acquisition of a going concern (Porter, 1980; Vesper, 1990). Both can be considered new entrants, with firms diversifying through acquisition into an industry often using their resources to cause a shake up, or at least introducing a new competitive philosophy (Porter, 1980).

Heeding the call by Woo, Nicholls-Nixon & Cooper (1990) for classification of meaningful differences among new venture firms, the current paper proposes a refinement of the concept of *newness* to identify various classes of new ventures which are distinct.¹ Only through recognition of such distinctions will further research be possible that seek

explanations for the success of such diverse phenomena as the aforementioned bicycle firm and the lawn mowing franchisee.

A Taxonomy of New Ventures

Theoretical Support for this Classification System

Guided by the work of Chrisman, Hofer and Boulton (1988), Mayr (1982), and McKelvey (1982) on taxonomies and classification, the proposed taxonomy of new ventures is designed adopting three levels, or categories of venture:

1. product or service newness,
2. industry novelty, and
3. novelty to competence.

Product/Service Newness

The product novelty variable represents the perspective of buyers. From their viewpoint a venture may be considered new if the majority of its market offerings are perceived as new. For example, assume a recently formed company promotes its launch product (a running shoe with technology that enhances performance through superior comfort, support, spring and reduced weight) as new and revolutionary. Is this a new venture? If the market perceives that the running shoe is novel and that these benefits are “real” to them, then the company would be considered a new venture from their perspective. However, if the market does not perceive the shoe as new, but merely a sales promotion, or a slight modification to existing products, then the market novelty is low and unlikely to be perceived as a new venture.

This customer perspective of *newness* is not necessarily embedded solely in products. *Newness* can potentially be perceived in the delivery of services (home shopping), marketing innovations (infomercials) or distribution channels (rental video vending machines). This category acknowledges that ventures can be expected to face different sets of problems depending on whether the firm is in the business of offering the market a genuine innovation or else transferring an established product or service from one location to another which has not yet been offered it.

Industry Novelty

This category of *newness* represents the perspective of the industry in which the venture has chosen to compete. New industry entrants cause a change to the competitive forces resulting in a new industry environment for the incumbents. A venture is considered new if it represents the creation of an additional competitor or the introduction of an external mind set through either the acquisition of an incumbent or the creation of a

new industry supplying substitutes. An incumbent's view of the *newness* of a venture to the industry is likely to be important since it represents a significant factor in choice of strategic response by all. This could consequently affect the competitive dynamics of the industry.

Is the clothing company which creates a subsidiary to manufacture sailing boats a new venture? This would be considered a new venture if the incumbent firms within the sailing boat manufacturing industry perceive the subsidiary to represent a competitor which did not exist beforehand. Would the venture by the clothing company be considered new if it acquired an existing firm in the sail boat industry? Once again this depends upon the perspective of the incumbents. If they believe that the newly acquired company now represents a different competitor, through increased capacity, lowering prices and/or increased promotions, then the venture is likely to be seen as new. However, if a firm is acquired but brings no changes in competitive behavior, then other industry competitors are not likely to perceive the venture as new and their strategic responses would remain unchanged. A venture is new if it is perceived by most of the industry as new. Therefore a change in ownership is not a defining characteristic.

Novelty to Competence

The "Novelty to Competence" category represents *newness* from the perspective of the venturers' competence. A venture is new from this perspective, if the venture initiator is unfamiliar with the details of the business operations and its external competitive environment. Such a venture initiator comprises an individual, group, existing firm, or recently created subsidiary of an established firm. Novelty to competence is therefore relative to the overall experience and knowledge of staff and organizational systems. For example, is the purchase and management of an existing corner store by an elderly couple a new venture? This depends upon whether in their view they are familiar with store management in terms of current knowledge, previous education, and experience. If the couple are retired primary school teachers, then they are likely to perceive the venture as unfamiliar and therefore new. If, however, the couple have previously managed a store in a similar situation, then novelty to competence is likely to be low and therefore the venture not new.

This category takes into account the fact that new ventures sometimes represent relatively small shifts away from the venture initiator's competence, perhaps through horizontal or vertical integration by a well established business. At other times the venture might take the form of a business initiative utilizing new technology which represents a field previously unknown to the initiators.

Mutually Exclusive and Exhaustive

New technology would intuitively appear to be a defining characteristic of a new venture. New technology can represent a revolutionary new product, a new means of production, or significant improvements in existing products, e.g., miniaturization of computers. These would all appear to contribute to the degree of *newness*. However new technology does not represent a further underlying dimension, but is explained by the other dimensions detailed above. In other words, is there a new technology that is not new to management's competence, not new to the buyers and not new to the industry's members? The underlying philosophical assumption is that in order for something to be a new venture, it must be perceived as new. This taxonomy's underlying dimensions represent the major perspectives: internally through management's perspective and externally through both the buyers' and competitors' perspective. If a venture has technology that is not perceived by any of these perspectives as new, then this technology is deemed not to contribute to the *newness* of the venture. Similarly, the form of financing is an indication of a financier's interpretation of the dimension of newness rather than a category itself.

This approach is similar to Aldrich and Fiol's (1994) concept of *cognitive legitimization* which refers to the spread of knowledge about a new venture and the concept of *socio-political legitimization* which refers to the process by which key stakeholders accept a venture as appropriate and right. This paper builds on, and adds value to Aldrich and Fiol's (1994) concepts through the classification system below.

Construction of Classification System

For the purpose of parsimony each of the three categories comprising the classification system is dichotomous. This device enables explication of the system and provides a means of operationally defining category membership for a venture based on a simple expert judgment. The structure of the classification system is illustrated in Figure 1. It should be noted that although a hierarchical order is adopted as a necessary feature of the taxonomy, no priority or significance is implied by the order of categories. Most importantly, the classes of venture shown in Figure 1 do not form an ordered continuum, but include all possible forms of new venture.

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Insert Figure 1 about here.
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This classification system results in eight distinct classes of new venture. The classes define an absolute new venture as **Class 1**, whereas **Class 8** ventures have few characteristics typically associated with a new venture. **Class 8** ventures can be referred to as established firms.

Methodologies for Validation

Various methodologies could be employed to test for the validity of the operational definitions of these categories. For example, expert judges could be employed to assess a set of ventures from each perspective and assign each venture to one of the two alternatives proposed by each category. An alternative approach could be to survey a representative sample of buyers, industry competitors, and the venturer's management.

Examples of Classified New Ventures

The proposed classification system offers a number of benefits to research studies. The most obvious is an ability to distinguish features for analytical comparison. For example, consider classification of the following hypothetical businesses using the system presented above. Application of this classification system not only reduces ambiguity, but allows a venture to be assigned to one of eight classes representing different classes of newness. These examples are as follows:

1. A retired supermarket manager has invented and begun the production of a revolutionary carbon fiber bicycle for athletes which is not only half the weight of a conventional bike, but with a unique pedal which minimizes time in the swimming/cycle and cycle/running transitions. This venture is new from the perspective of the buyers as it represents a revolutionary product. It is new from the industry incumbents perspective as they see this venture as a newly created competitor and it is new from the perspective of the venturer's competence as the inventor-manager has little or no prior bicycle manufacturing or marketing experience. The bicycle venture could be considered a **class 1** venture, that is, the highest degree of newness, because it is new on all three dimensions.
2. A **class 2** firm is represented by a retired product development engineer with a major bicycle company who decides to design, build and sell a revolutionary new bike frame design. This venture is new from the perspective of the buyers as it represents a revolutionary product. It is also new from the industry incumbents perspective as they could see this venture as a newly created competitor. However, it would not be considered new from the perspective of the venturer's competence as the inventor-manager has had extensive experience in bicycle manufacturing.
3. **Class 3** is represented by an up-scale women's specialty store which has been operating for ten years. Its new owner, a retired airline stewardess, acquires a new designer label not carried by other up-scale stores in the area. The acquisition of the new label is new in that the venture's offerings now have something exclusive. However, the venture does not represent a new competitor as it neither creates a new entity nor provides a new mind-set (mind-set remains constant through franchise agreement, training, marketing, etc.). It is, however, new to the store owner/manager

since the venturer most likely has no prior experience and knowledge of selling designer label clothes.

4. A **class 4** firm is represented by an up-scale men's specialty store who has been operating for ten years. It acquires a new men's designer label not carried by other up-scale stores in the area. The acquisition of the new label is new in that the venture's product/service offerings now have something exclusive. However, the venture does not represent a new competitor as it neither creates a new entity nor provides a new mind-set (mind-set remains constant through franchise agreement, training, marketing, etc.). Third, it is not new to the store owner/manager since the venturer is very familiar with the required roles and responsibilities and has the benefit of experience and knowledge of selling designer label clothes before.
5. A **class 5** firm is represented by a young product development engineer of automobile frames who decides to open a new Mexican fast-food restaurant using traditional recipes he found on a trip to New Mexico. This venture is not new from the perspective of the buyers as there are many Mexican fast food eateries. It is new from at least the local industry incumbents perspective as they could potentially see this venture as a newly created competitor. Finally, it is new from the perspective of the venturer's competence as the former engineer has little or no prior experience in running a fast-food restaurant.
6. A wine making company creates a subsidiary firm and forward integrates through the acquisition of a well managed, but under-funded, chain of five wine retailing outlets. The wine retailing chain subsidiary is considered new from the perspective of the industry incumbents because the previous restricted incumbent now has different capabilities and objectives, thus most likely increasing competition. However, this venture is unlikely to be considered new from the buyer's perspective as the product and service is essentially unchanged. Similarly, the venture is unlikely to be considered new from the perspective of the venturer's competence since it only represents a small extension of the current business and retains the management of the existing retailers. Thus the subsidiary would be assigned to **class 6**.
7. A former airline pilot who was laid off acquires a successful small business from a local business operator who is about to retire. The acquisition of the existing firm is not a new venture in terms of product/service offerings as they have existed for some time. The venture does not represent a new competitor as it neither creates a new entity nor provides a new mind-set (mind-set remains constant through existing employee, training, marketing, etc.). However, it may be perceived as new to the acquirer's competence since the role of small business owner is very dissimilar to the previous roles and responsibilities of an airline pilot. Therefore the recently acquired small business would be assigned to **class 7**.
8. A lawn mowing franchisee who has been operating the business for seven years and acquires her second franchise from a neighboring business operator who is about to

retire. The acquisition of the neighboring region's franchise is not a new venture on any of the three dimensions. First, venture's product/service offerings have existed for some time. Second, the venture does not represent a new competitor as it neither creates a new entity nor provides a new mind-set (mind-set remains constant through franchise agreement, training, marketing, etc.). Third, it is not new to the acquirer's competence since the venturer is very familiar with the required roles and responsibilities and has the benefit of experience, knowledge and support of the franchiser. Therefore the recently acquired franchise would be assigned to **class 8**.

In addition to the benefit of clear specification of venture class, the taxonomy offers a means by which transitional phases in new venture development can be defined. Thus, a new venture becomes either an established firm as the three sources of *newness* are reduced, or fails, due to the various risks associated with each form of *newness*. The bicycle venture therefore becomes an established business when customers no longer see the product offering as novel, when other cycle manufacturers have adjusted to its presence and industry equilibrium has been re-established, and when the venturer has learned, developed or hired expertise that increases competence relevant to this industry.

Benefits of the Classification System

First, the classification system achieves the following broad objectives as identified by Chrisman, et al. (1988). Its differentiation of ventures allows valid generalizations to be made about the members in each classification thus forming the basis for comparative studies between classes of new ventures. Identification of classes of new ventures ensures consistency and comparability among future studies using the classification system by clearly allowing the assignment of ventures to the appropriate class. Also the scheme serves as a convenient method for information retrieval from comparative studies (Chrisman, et al., 1988).

Perhaps most importantly, the new venture classification system reduces ambiguity associated with previous application of the term "new venture". It reduces reliance on arbitrary criteria such as age of the firm in classifying new ventures. Thus a gross classification can now be replaced by specification of a new venture class. The classification system recognizes that new ventures might be of vastly different size and that all small businesses are not necessarily new. Thus reducing the reliance on size and age as distinguishing criteria.

Second, over reliance on new venture as a unitary concept is hopefully avoided. The taxonomy permits a focus on analysis of new ventures of the same class and enhances the likelihood of building explanation and understanding of similar phenomena rather than inflating Type II Error rates.

Third, the taxonomy encourages research on firms in a class as a distinctive domain, drawing insights from theories relating to mature and well established

organizations. In short, it promotes the search for theory of new ventures as phenomena in their own right rather than assuming such ventures are special cases to which more general theories apply.

Fourth, since *newness* is associated with increased risk, the classification system allows the source of the newness to be specified and consequently appropriate attention directed towards the particular source of newness risk and thereby increase the chance of venture survival.

Implications of the Classification System for Previous Research

Sandberg and Hofer (1987) examined over 200 new venture proposals submitted to four different venture capitalists. These were screened to include only start up ventures deemed suitable for the study. Ventures involving leveraged buy outs, real estate developments, oil and gas explorations and the purchase and subsequent restructuring of existing businesses were explicitly excluded. While it appears reasonable to assume screening produced a homogeneous sample according to specified criteria, they acknowledge that it clearly excludes some ventures which could be considered new according to the classification system proposed here. The generalizability of the research results to all new ventures is therefore open to question since the sample apparently represents a subset from the population of new ventures rather than conclusions about the population itself.

Furthermore, Sandberg and Hofer's (1987) results failed to support the expected positive relationship between the entrepreneur's experience and new venture performance. The researchers attribute this deviation from expectation to the operational definition of experience, where "perhaps time matters less than quality of experience" (Sandberg & Hofer, 1987). The proposed classification system explicitly accounts for this factor through the dimension of "*novelty to competence*" which is based on relevant management knowledge and experience rather than relying solely on the number of years experience.

McDougall, et al. (1994); Biggadike, 1979; Miller and Camp, (1985) consider a venture new if it has been in existence for eight years old or less. This criterion opens the research validity to threats since firms with characteristics of an established venture, according to the proposed system of classification, yet operating for fewer than eight years would confound results. Considering these limitations of operational definitions of the new venture concept using age, it is not surprising that McDougall et al.'s (1994) hypothesis "...new ventures in high growth industries place greater emphasis on the ownership of patent or other proprietary technology," was not supported.

McDougall, et al. (1994) also exclude corporate ventures, taking the advice of previous researchers who agree that they are better studied separately (Biggadike, 1979; Weiss, 1981). However, utilizing the proposed classification system, differences could be

accounted for by the *newness* differences between corporate ventures and independent ventures. These firms might differ in terms of their distribution across venture classes and therefore both could be included in a new venture sample. For example, a corporate venture might be able to obtain some of its competence from its parent organization through the transfer of strategic assets, whereas, the independent venture is unlikely to have such access. The classification system recognizes this difference and assigns the firms to different types of new ventures.

The above examples demonstrate the benefits of the classification system by reducing confounds and increasing homogeneity contained within a particular class. The proposed system also avoids unitary operational definitions with auxiliary exclusions. Thus allowing an integrated study of both independent and corporate ventures, thereby increasing external validity of the multi-dimensional concept of new ventures.

Prospects for Future Research

>From this deeper understanding of the concept of new venture, future research can investigate the question of whether a new venture is a special case of more general business phenomena or whether such a firm is a distinct entity which requires its own theory. To date the research reported appears to assume that a new venture is a special case to which one should initially hypothesize that the contemporary theory of marketing, organizational behavior and design, strategy, human resources, and finance apply. But the results from nearly two decades of research do not clearly support this supposition. Perhaps new venture forms need to be studied in their own right to avoid ambiguity which arises in attempting to transfer theories associated with mature firms to ventures which face special commercial circumstances.

From the ecological studies it is clear that in a developmental sense a new venture is a form of organization with a higher mortality rate than more mature firms. But is this inevitable or are there aspects of youth which, if effectively managed, can enhance the likelihood of survival to maturity? From an understanding of the underlying dimensions of *newness*, future research might better be able to understand which factors are associated with survival and which factors with failure. It might also become possible to study the processes by which factors operate to enhance survival.

Perhaps most intriguing are questions of whether new ventures display approaches beyond those in established strategic wisdom. Is there a wider range of strategic action associated with new ventures? Are new ventures more versatile, more strategically creative, or more experimentally inclined than mature firms? If they are, is this due to fewer constraints on strategic choice arising from lower levels of competence? Do markets behave differently towards various new ventures classes than towards established ventures? Are new ventures more pro-active and disruptive to the status quo with their use of entry strategies? Are they simply more responsive to environmental conditions? These important research questions may now be accessible with a clear and concise

definition of new venture. The fascination of these questions is that their answers possibly open new insights into the strategic alternatives facing more mature businesses.

Distinctions between classes of new ventures offer the prospect for inter-class and intra-class research. They also allow for reinterpretation of previous studies. More specifically, the following research agenda can now be envisaged.

1. Studies of new ventures across national and cultural borders will be enhanced by reference to the proposed taxonomy which controls features of a firm independently of size, scale, scope or location. Studies building on those of Oviatt and McDougall (1994) in international new venture formation, McDougall's (1989) comparison of international and domestic new venture strategies, and the work of Hill, Hwang and Chan Kim (1990) on international entry modes for multinational comparisons, could benefit from the ability to distinguish classes of new ventures.
2. The expectation that new ventures develop in similar patterns and by adopting similar business strategies within one industry is perhaps misleading. Although Carter, et al. (1994) have presented patterns of association between strategy and industry, their results indicate that even within industrial groups a wide variety of strategies appear to be employed. A possible explanation for this variation might be found by controlling for new venture class which itself accounts for many industry effects.
3. Managerial processes and organizational structures are areas of continuing interest in the management of new ventures. Distinctions between different classes of new ventures offer the possibility of more closely identifying process and structure which are associated with new venture survival and success.

Conclusion

A multi-dimensional concept of new venture expands the research stage through a larger pattern of organizational growth and development. With more dedicated research into a wider range of aspects of new venture initiation and business development comes a deeper understanding of this important phenomenon. This paper provides a necessary reconsideration of the concept of new venture itself and proposes a classification which offers the potential for more closely specifying the phenomena of interest than have been presented in studies to date.

The classification's three categories, namely, "Product/service Novelty", "Novelty to Industry", and "Novelty to Competence", represent *newness* from the perspective of the three most important stakeholders. The importance of these stakeholders and the relationship of their perception to the *newness* of the venture arises out of the analysis of the organizational ecology, economics and competitive strategy perspectives.

Footnotes

1. This endeavor is different from that of Gartner (1985) whose objective was to conceptualize new venture creation, i.e., the birth of a new venture, rather than describe the domain of new ventures.

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Figure 1: Taxonomy of New Ventures



