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ENTREPRENEURIAL STRATEGIC GROUPS (SUMMARY)

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≈ SUMMARY ≈

ENTREPRENEURIAL STRATEGIC GROUPS

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Principal Topic

Entrepreneurship scholars have long noted the need to explore the performance of new ventures by looking at the interaction between environmental and industry factors (Davidsson & Wiklund, 2001; Wiklund & Shepherd, 2005). This notion emerged in Strategic Management where research has shown that firm performance differs significantly across industries and sub-organization units (Short, Ketchen, Palmer, & Hult, 2007). However, empirically and theoretically the strategic group literature has ignored entrepreneurial choices such as when new ventures establish operations in the same environment, interact, and share resources.

Our study suggests alternative unifying features for defining strategic groups in an entrepreneurial context (Dranove, Peteraf, & Shanley, 1998). We suggest that entrepreneurial strategic groups exist when businesses in a similar stage of development concentrate geographically, exploit similar resource environments, and interact. Using various measures of industry density and strategic group configurations, we hypothesize that new businesses in a strategic group will show superior performance.

Method

Business Incubators (BI) offers an ideal setting to study entrepreneurial strategic groups since they house similar firms that share resources and interact. Our longitudinal dataset covers the entire spectrum of BI and their tenants in the United States over 18 years. This national census of BIs and their tenants consists of two sub-sets: 1) a database of 990 BIs and 2) a database of 18,400 firms incubated at these BIs.

Results and Implications

Our analysis reveals that firms belonging to a strategic group have a lower risk of closure than those not belonging to a strategic group. Additionally, as industry concentration increases, the risk of firm exit decreases. When looking at the effect of membership in a strategic group on growth, we find that membership also increases employment growth. However, we did not find statistically significant results confirming that strategic group membership increases sales growth.

Taken together, our findings suggest that new ventures gain from membership in a strategic group. Survival is longer and employment growth is higher. These findings are noteworthy because they imply that entrepreneurs may be able to improve the performance of their firms by joining strategic groups. Additionally, we show that promoting entrepreneurial strategic groups leads to higher firm performance but also contribute to industry competitiveness by concentrating similar companies in one geographical location.

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