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LINKING ENTREPRENEURIAL STRATEGY AND FIRM GROWTH (INTERACTIVE PAPER)

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INTERACTIVE PAPER

LINKING ENTREPRENEURIAL STRATEGY AND FIRM GROWTH

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Principal Topic

A dominant literature stream addressing the growth of new ventures is the resource-based view. Arguably, resources are only one part of the story. Firms employ resources to attain organizational goals, i.e. they deploy strategies. The strategy literature has traditionally focused on how companies build competitive advantage to enter product markets. More recently, researchers argue that firms may focus their efforts on targeting technology markets. So far, the literature on product and technology markets has mainly focused on explaining market choice, without examining the effects of the chosen commercialization strategy for firm growth. Furthermore, growth is not a unidimensional construct. Therefore, scholars have argued that research should focus on the differences in dominant type and the determinants of these differences. In this paper, we extend previous literature by focusing on the relationship between entrepreneurial strategy and firm performance conceptualized as growth in revenues and employment.

Method

To test our hypotheses, we use a unique hand-collected sample of 80 research-based spin-offs in six European countries. We limit the sample to firms that are founded between 1995 and 2002; these companies have survived, yet do not resemble established firms. We used two sources to collect the data for our study: 1) financial databases to collect data on revenue and employment growth, and 2) data on the firm’s strategy, founding team and sector were collected during face-to-face interviews with the founder or top management of the firm.

Results and Implications

In this paper, we analyzed how the strategy deployed by firms influence growth in revenues and employment respectively. We found revenue growth to be positively associated with product and hybrid strategies while a technology strategy has a negative effect on revenue growth. We also showed that employment growth is positively associated with a hybrid strategy, while there is no significant relationship between product and technology strategies and employment growth. Our findings lend support to the view that growth in revenues and growth in employees reflect different underlying constructs in the value creation process. By explicating the role of entrepreneurial strategy, we offer theoretical insights into the mechanisms underlying revenue and employment growth.

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