CONTROLLING FOR INDUSTRY EFFECTS IN GROWTH: A COMPARATIVE STUDY (SUMMARY)

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SUMMARY

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A COMPARATIVE STUDY

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Principal Topic

There is an expectation that studies examining new firm growth should take potential industry effects into account by controlling for industry. For example, Baum, Locke and Smith (2001), examined the effect of industry characteristics in terms of dynamism, complexity, and munificence. Their finding that industry mattered, but to a smaller extent than strategic choices or motivations of management, adds to the debate whether outcomes of new ventures mainly depend on environmental conditions or on the strategic choices made by the new venture’s management. However, in the new venture literature there is no consensus with regards to how industry controls should be applied, and empirical results may be contingent on researcher’s conceptualization of industry. We therefore compare the three most commonly employed measures of industry (i.e. ISIC codes converted into a singular control variable (at varying levels of definition), multi-variable measures on the basis of census data and ISIC codes, and perceptual measures of the task environment) with respect to their ability to explain new venture growth.

Method

We analyze industry effects on growth using a sample of 2000 Swedish businesses, stratified across industries. These firms have been followed since start-up via mail and telephone questionnaires. We compare the three approaches to evaluate industry influences (i.e. industry code classifications, objective measures based on census data, and perceptual measures as reported by top managers). We test whether or not the three approaches measure the same dimensions of the industry. In addition, we evaluate the efficacy of the three approaches using multiple regression analysis.

Results and Implications

This research provides added input into the on-going debate of whether industry matters, and if so, how much. We pinpoint what repercussions researchers’ conceptualizations of “industry” have on overall firm performance. This is pertinent for entrepreneurship researchers, as industry characteristics have been shown to have an impact on the opportunities available for discovery and the resources accessible for use in exploitation. Furthermore, this research has implications for practitioners. Much normative strategic advice is contingent on a number of industry controls and characteristics. We provide guidance as to what industry factors are important to take into consideration in determining how entrepreneurs manage and grow their firm.

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