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RACE TO THE FRONTIER: STRATEGIC DIRECTION, STRATEGIC INTENSITY AND THE COMPETITIVE PERFORMANCE OF ENTREPRENEURIAL FIRMS IN TRANSITION ECONOMIES

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Abstract

Although competitive positioning is becoming increasingly important for the performance of entrepreneurial ventures in transition economies, not much is known about the types of strategies that are most likely to enhance their success in competition. In this study, we examine the role of strategic intensity and the impact of pure versus hybrid competitive strategies on entrepreneurial performance in transition economies, using survey data (N=333) from Bulgaria. We find that strategic intensity is positively related to performance, and firms that deviate from pure cost leadership or differentiation and achieve a balance on both dimensions report superior performance. In a post-hoc analysis of our data, we find preliminary evidence that strategic intensity may act to mediate the relationship between strategic type and performance.

Introduction

Entrepreneurial new ventures are key contributors to the continued growth of transition economies, i.e., the formerly centrally planned economies that since the late 1980's committed to market liberalization, stabilization, and the encouragement of private enterprise (Hoskisson et al., 2000). These countries in Central and Eastern Europe, the former Soviet Union, and Asia represent a significant proportion of the world's emerging economies, including two of the four BRIC countries—Russia and China (World Bank, 2002). According to the 2012 Global Entrepreneurship Monitor report (Xavier et al., 2012), between 4% (in Russia) and 14% (in Estonia) of the population aged 18-64 in these countries is currently involved in early stage entrepreneurial activity. The contribution of the private sector to GDP skyrocketed from as low as 5-10% in 1990 to over 60% (over 80% in most countries) in 2005 (Svejnar, 2006). Entrepreneurs add value to the economic growth and market transformation of transition economies by countervailing the loss of jobs in the state-owned sector, turning technological and market innovations into economic output, and enhancing the role of market-based economic exchange. That new ventures in transition economies perform to their potential is, therefore, a matter of great managerial and public policy concern.

Following the progress of economic and institutional reforms, entrepreneurial ventures in transition economies have gradually shifted from relationship-based to market-based sources of competitive advantage (Danis et al., 2010; Doern, 2009; Lyles et al., 2004; Peng, 2003). As the institutional environment stabilizes, it becomes relatively easier for managers to assess the competitive situation and implement appropriate strategies targeted at the long-term competitive standing of the firm (Danis et al., 2010). However, the question remains, what market-based strategies are most likely to afford competitive advantage to entrepreneurial ventures in transition economies?
economies? Currently, there is a dearth of empirical research on the role of strategy for new venture performance in the context of transition economies. This is the knowledge gap on which our paper focuses.

The dominant paradigm of mainstream strategy research, developed in the context of established businesses in advanced market economies, has coalesced around the argument that strategic purity, or the clear choice of one generic competitive strategy (either low cost or differentiation), contributes to better performance (Campbell-Hunt, 2000; Miller & Dess, 1993; Porter, 1980, 1996; Thornhill & White, 2007). The “pure” strategy argument is predicated on the assumption that the set of competitors are operating at the productivity frontier, constituting “the sum of all existing best practices at any given time” (Porter, 1996: 62). However, when firms are not operating at the productivity frontier, as the case is for most endogenous firms in transition economies (Deliktas & Balcilar, 2005; Sabirianova et al, 2005), it is not only possible, but appropriate, to improve on multiple fronts in order to “catch up”. Consequently, we utilize the concept of strategic intensity, defined as the commitment of resources towards a strategic imperative (Hamel & Prahalad, 1989; Reitsperger et al., 1993; Thornhill & White, 2007). The contribution of our study is threefold. In the first place, we demonstrate that strategic intensity in transitional economies is positively related to firms’ performance. Second, we find that the majority of small and new firms in a transitional economy context adopt hybrid strategies, and even more importantly, hybrid rather than pure strategies are associated with superior performance. And thirdly, we present an innovative and intriguing analysis that explores how strategic intensity may acts as a mediator in the relationship between strategy and performance.

Our paper proceeds as follows. After a review of the theoretical perspectives that guide the study, we formulate and test our hypotheses using survey data from 333 new and small Bulgarian private ventures. Our analysis draws on the theoretical approach and methods developed by Thornhill & White (2007), however our results are markedly different. We discuss these findings and interpret the differences in light of the different institutional and competitive conditions in transitional economy context. We conclude our paper with outlining the implications of this research for practice.

**Theory Development And Hypotheses**

In his theory of generic strategies, M. Porter (1980, 1996) postulates that competitive strategy involves the choice of clear positioning in the product-market space based on either low cost or differentiation. While Porter (1980) states neither approach is inherently superior or inferior, he does argue that failing to make a choice, or trying to achieve a competitive advantage through every means, renders a firm “stuck in the middle”, which is usually a recipe for below-average performance. In other words, the Porterian view is that a “pure” strategic approach is competitively superior to an integrated, or “hybrid” strategic approach. Other researchers, however, have offered alternative views on the performance implications of a “pure” versus “hybrid” competitive positioning (e.g. Jones & Butler, 1988; Hill, 1988; Kim & Mauborgne, 2005; Grant, 2010). In sum, theoretical work has developed several counterarguments to the “strategic purity” hypothesis and has identified some of the structural contingencies that enable integrated, or “hybrid” strategies.
Beginning with Hambrick (1983), a series of studies have explored the conflicting paradigms’ empirical validity. Considering a wide variety of contexts, some studies have found support for the strategic purity argument (e.g. Dess & Davis, 1984; Green et al., 1993; Thornhill & White, 2007; Lechner & Gudmundsson, 2014). However, many other studies have found hybrid strategies to be associated with superior performance in relation to pure strategies (e.g. Miller & Friesen, 1986a; 1986b; Miller & Dess, 1993; Reitsperger et al. 1993; Proff, 2000). In sum, empirical results have been largely inconsistent, leading Campbell-Hunt (2000: 149), in his meta-analysis of empirical work on generic competitive strategies, to conclude that “there is no clear evidence that no-emphasis designs are any more or less capable of above-average performance than other archetypes.” Within entrepreneurial ventures, some theorists have argued that strategies that require substantial economies of scale or experience curve effects are beyond the means of new and small ventures, while focus differentiation strategies involving product innovation, creative design, or high quality are more viable (Miller & Touloise, 1986; Rugman & Verbeke, 1987/1988). Empirical evidence, however, presents the same mixed results present in studies based around larger firms (e.g. Carter et al., 1994; Baum et al., 2001; Ebben & Johnson, 2005; Lechner & Gudmundsson, 2014). The lack of conclusive empirical evidence calls for further attention to the context.

In the following sections, we build the case for the optimal competitive strategy particularly in the case of entrepreneurial ventures in transition economies. We argue that a pure low cost or differentiation approach may not be the optimal approach and bring forward a two-stage argument in support of our proposition. First, companies in transition economies need to move towards the productivity frontier, or “catch up” with capable competitors, making the intensity of strategic commitment an important factor in explaining new venture performance. Second, a hybrid strategy, or a combination of low cost and differentiation, is most likely to maximize new venture performance in transitional economies.

The Productivity Frontier

The concept of a productivity (or efficiency) frontier is similar to the concept of production possibility frontier applied in macroeconomics. The productivity frontier (commonly represented visually as a curve in a two dimensional space) represents “the maximum value that a company delivering a particular product or service can create at a given cost, using the best available technologies, skills, management techniques, and purchased inputs” (Porter, 1996: 62). Firms that are operationally effective are said to exist on the frontier, based on their pursuit of strategies that utilize state of the art operational best practices and technologies. Firms that are not optimally effective exist within, or below the frontier to the degree they do not utilize existing best practices and technologies. This is clearly the case in emerging economies, where firms are hampered by high transaction costs, inefficient capital flows, opaque regulation, and weak property rights (Foss & Foss, 2008; Narayanan & Fahey, 2005), all of which act as barriers to creating value. Not surprisingly, empirical research has established that firms in transition economies generally operate below the productivity frontier (e.g. Sabirianova et al., 2005) (Figure 1)

Firms move towards the productivity frontier by choosing a strategic orientation (represented by the direction of the strategy vector) and committing resources towards the implementation of the chosen strategy. We illustrate different strategic positions as they relate to the productivity frontier in Figure 1 which situate firm strategies in a two-dimensional space defined by cost leadership and differentiation, an approach similar to that used by Reitsperger et al. (1994) and
Thornhill and White (2007). The level of resource commitment to the chosen strategic orientation (represented by the length of the strategy vector) indicates the firm's strategic intensity. In the following sections, we hypothesize two relationships. First, that strategic intensity (represented by the length of the strategy vector) is positively associated with performance, i.e., the further away the strategy is from the “no strategy” origin, the higher firm performance. Second, that a combination of a low cost and differentiation approach (represented by the direction of the strategy vector) will be positively associated with new venture performance.

**Strategic Intensity and New Venture Performance**

The concept of strategic intensity and its association with performance was suggested by Lawless et al. (1989) and Reitsperger et al. (1994), but has so far received only limited attention in the literature, as acknowledged by Thornhill and White (2007: 555). Drawing on Reitsperger et al. (1994), we conceptualize intensity as the level of resource commitment to a chosen strategy. When a firm commits resources to a particular strategic direction that are built to take advantage of its idiosyncratic resource stocks in an effort to optimize its position relative to the productivity frontier and the demands of the market, it should perform better (Reitsperger et al., 1993). In the limited empirical work which examines the association of strategic intensity and firm performance, results have been generally found a positive relationship (e.g. Reitsperger et al., 1993; Kim & Choi, 1994). Recently, Thornhill and White (2007), in their large panel data study of Canadian firms, however, found no significant relationship between strategic intensity and performance. In the context of emerging markets, empirical research has documented an association between what we call strategic intensity and performance (e.g. Spanos et al., 2004; Acquaah & Yasai-Ardekani, 2008).

As explained in the previous section, in transition economies, the majority of endogenous firms operate below the productivity frontier. Given that entrepreneurial ventures are most likely to have to engage in market based sources of advantage in transition economies, we argue that they are also most likely to benefit from strategic intensity. For entrepreneurial firms, identifying a strategy and committing resources to it are important for achieving a better competitive position and improving performance. Thus greater strategy intensity would be associated with superior performance. Formally:

**Hypothesis 1:** In a transition economy, there is a positive relationship between strategy intensity and performance.

**Hybrid Strategies and New Venture Performance**

In the following section, we further argue that in their progress towards the productivity frontier, entrepreneurial ventures in transition economies will benefit most from pursuing a hybrid strategy, or a combination of low cost and differentiation. While extant theory prescribes that entrepreneurial firms would be better off if they follow a focused differentiation strategy (Baum et al., 2001), the transition context makes that difficult and calls for a combination strategy instead.

We start with the challenges of establishing a “pure” strategic positioning in a transition economy. On the cost dimension, achieving low costs in transition economies is critical because of the price sensitivity driven by relatively low disposable incomes. Unfortunately, entrepreneurial ventures in transition economies face significant cost disadvantages vis-à-vis established
domestic and foreign competitors because, similarly to their counterparts from developed market economies, they cannot generate either learning curve economies (because of their young age) or economies of scale (because of their relatively small scale of operations). Neither can they wield significant market power because of their lack of recognition or reputation. Additionally, the institutional and infrastructure imperfections in transition economies include a lack of well-established political and legal institutions, often opportunistic government officials, as well as inadequate communications and manufacturing infrastructure that can lead to costly distribution and production problems (Baack & Boggs, 2007).

On the differentiation dimension, entrepreneurial ventures in transition economies face another set of challenges. As Murray (1988: 396) noted, a product differentiation strategy will be viable only if customers attach weight to product attributes other than price. Unfortunately, transition economies’ markets are still relatively underdeveloped, thereby not yet deep (or segmented) enough to allow meaningful targeted differentiation, especially for products directed to affluent or sophisticated consumers (Cui & Liu, 2001; Manrai et al., 2001). In addition, new and small players in transition economies are less resource endowed relative to their counterparts from developed market economies (Aulakh et al., 2000), and have few internally generated sources of competitive advantage (Uhlenbruck et al., 2003).

A balanced positioning may also be more realistically obtainable in view of the predominant types of entrepreneurial ventures in transition economies. As reported in the 2012 Global Entrepreneurship Monitor report, up to 58% (in Bosnia and Herzegovina) of the total entrepreneurship activity in transition economies is necessity-based, compared to only 7-8% in developed market economies such as Sweden, Denmark or the Netherlands (Xavier et al., 2012). Given the heritage of opportunistic, exploratory, or “guerrilla” strategizing (Peng, 2003; Wright et al., 2005) of these players, a transition to a hybrid strategy may appear to be a more natural step to make compared to a commitment to a “pure” strategic positioning of either low cost or differentiation as these firms work toward the productivity frontier. Empirical research in the context of transition economies, albeit still sparse, offers initial support for the “hybrid” hypothesis (e.g. Hlavacka et al., 2001; Acquaah & Yasai-Ardekani, 2008; Pertusa-Ortega et al., 2009) For all of the above studies, however, the population of studied firms was mostly, if not exclusively larger enterprises. Given the very important differences between large and small firms, empirical study of the strategic positioning of entrepreneurial ventures is still very much needed.

Hypothesis 2: In a transition economy, there is a positive relationship between hybrid strategy and new venture performance. Specifically, we expect a curvilinear, inverted U-shaped relationship between strategic purity and performance, in which firms with hybrid strategies have stronger performance than firms with pure strategies of cost leadership or differentiation.

**Methods**

We tested the theoretical model with data from a broad study of entrepreneurship in Bulgaria, a lower-middle income country in Eastern Europe. Socialist central planning virtually eliminated the private sector of the economy for more than 40 years (from the late 1940’s to 1989). Large-scale institutional and economic reforms started after the fall of the Berlin Wall (1989), and the country set on a road of democratization and market liberalization.
The number of private businesses in Bulgaria has grown rapidly since they became legal in 1989 and today accounts for around 99% of all enterprises in the country. In 2007, SMEs contributed 37.8% of the total gross value added and 38% of the total employment in the economy (Ministry of Economy, Energy, and Tourism, 2008). The country has demonstrated average macroeconomic efficiency compared to other transition economies. As such, it offers the opportunity for broader generalizations of the study’s findings.

**Data Collection**

Data were collected in September 2006, using a quota sampling approach. Graduate students in a research-methods course at a local university were trained to administer the survey to entrepreneurs who satisfied the following two conditions: the businesses had to be started in the preceding 6 years and they had to have not more than 250 employees, the cutoff for small businesses in the EU. More than 99% of private businesses in the country are classified as small businesses with not more than 250 employees, indeed, about 88.5% of them are microbusinesses, with not more than 9 employees (Ministry of Economy, Energy and Tourism, 2008). Respondents were founders and CEOs of the firms, and each of them described a single business. We obtained a usable sample of 333 surveys.

The survey instrument was based on published research and included sections on the enterprise, owner's background, firm strategy and resources, performance, and the entrepreneurial environment. The final instrument was forward and backward translated to ensure semantic consistency.

**Measures**

We measured *performance*, the dependent variable, by self-reported evaluations of firm cash flow, market share, and sales growth. We chose a perceptual index over objective data for two reasons. First, small firms are often reluctant to provide financial data (Fiorito & LaForge, 1996). Second, financial data on small privately held businesses were not publicly available for Bulgaria, which would have made a cross-validation with published data impossible. The three items (firm cash flow, market share, and sales growth) loaded on a single factor whose scores we used for the analysis (Cronbach alpha=.82).

To measure the effect of *strategy intensity* we measured the length of the strategy vector while our measure of *strategic purity* was measured as the angle of the vector as it deviated from a pure cost leadership or pure differentiation strategy; following Thornhill and White’s (2007) To measure the generic strategies of cost leadership and differentiation, we used an adapted Chandler and Hanks’ (1994) instrument. Cost leadership was measured by two questions about emphasizing improvement in productivity and operations efficiency and lowering production cost through process innovation (Cronbach alpha .71). Differentiation was measured by three items: emphasizing strict quality control, meeting customer requirements and tastes, and emphasizing that customer needs come first (Cronbach alpha .72). In a principal components analysis with varimax rotation, these items produced satisfactory loadings (between .74 and .91; highest crossloading .31) on two factors.
We controlled for the effect of the entrepreneur's personal background, characteristics of the firm, and industry. At the level of the individual entrepreneur, we used age (in years), gender (0 male, 1 female), and education (in years). At the firm level, we controlled for firm size (natural logarithm of the number of employees) and firm age (in years). At the industry level, we included a dummy variable for manufacturing as well as wholesale.

We performed Harman’s (1967) single-factor test to check for common method bias. All self-reported measures were entered into a principal components factor analysis with varimax rotation, which showed that there was no single or general factor that would account for most of the covariance in the variables. Thus common method variance did not appear to be present.

**Results**

**Hypotheses Testing**

The mean angle from pure cost leadership $\theta$ is .96 radians or 54.8 degrees, and the standard deviation is .19 radians or 11.1 degrees (descriptive statistics are available from the authors by request). This means that the majority of the business in the sample emphasize differentiation somewhat more than cost leadership (i.e., $\theta > 45$ degrees), but their strategies are best described as hybrid.

We tested the two hypotheses through OLS regressions of new venture performance (Table 1). Model 1 presents the regression on the control variables only. Model 2 adds strategy intensity. Model 3 reports the results for the control variables plus the deviation angle from cost leadership $\theta$, and Model 4 adds the squared term $\theta^2$. Similarly, Models 5 and 6 report the results for the deviation angles from differentiation $\phi$ and the squared term $\phi^2$. Finally, Models 7 and 8 report the regression results for strategy intensity with the deviation angles and squared terms.

In our sample, younger entrepreneurs, younger firms, and larger firms were more likely to report higher performance. So were firms in wholesale or otherwise outside manufacturing though these industry effects were not always statistically significant. Hypothesis 1, which focuses on strategic intensity, was supported (betas .20, $p < .001$ in Model 2 and twice .17, $p < .01$ in Models 7 and 8). Hypothesis 2, which focuses on the relative benefit of a hybrid strategy versus a “pure” strategy, was supported too: the squared terms in Models 4, 6, 7, and 8 are all statistically significant and negative (-.71, $p < .01$, -.47, $p < .01$, -.49, $p < .05$, and -.34, $p < .05$, respectively). These coefficients denote an inverted U-shaped relationship between a pure strategy and performance, with firms with hybrid strategies near the maximum for performance. More precisely, the maximum for performance is reached for an angle $\theta$ from pure cost leadership equal to .89 radians or 51 degrees (please see Appendix 2 for calculations on estimating the quadratic function). (Table 1)

**Post-hoc Analysis**

A scatterplot of strategies of firms in our sample along the cost leadership and differentiation dimensions is shown in Figure 2. Firms with performance in the upper quartile of the sample are shown with stars. Most high performing firms tend to be farthest away from the origin, i.e., have high strategy intensity, and a cluster of them have clearly hybrid strategies. That prompted additional post-hoc analyses. First, as shown in Figure 3, we divided the sample in three segments
on the basis of the deviation angle $\theta$ from pure cost leadership, each of which spans 30 degrees. Second, we ran an ANOVA of firms’ performance on these three strategic groups. The analysis indicated that the hybrid group had the highest mean on performance, though the F-test was only marginally statistically significant ($p<.065$). Third, as most high performing firms appeared to be closer to the productivity frontier, we ran an ANOVA of firms’ strategic intensity on the three strategic groups. This analysis showed clear differences between the three groups: the F-ratio of 11.848 was statistically significant at $p<.001$, and post-hoc tests showed statistically significant (at least at $p<.05$) differences between the means of all three groups: hybrids (highest strategic intensity), differentiators, and cost leaders (lowest). (Figure 2)

Taken together, these post-hoc tests pointed to a possible mediating effect of intended strategic intensity between strategy and performance. This is not a relationship that we could deduce on the basis of extant theory. Investigating further, we repeated the regression analyses from Table 1 with a binary variable for hybrid strategy instead of the quadratic term for deviation from pure strategy group. In addition, we ran OLS regressions with intended strategic intensity both as a DV and as predictor of performance. These analyses are shown in Table 2.

These results are generally indicative of a likely mediating effect of strategic intensity in the relationship between strategy and performance. Firms with hybrid strategy were more likely to have greater strategic intensity (beta .16, $p<.01$ in Model 1). In turn, firms with greater strategic intensity tended to report better performance (beta .20, $p<.001$ in Model 3). The direct effect of hybrid strategy on performance was marginally significant (beta .10, $p<.09$ in Model 2) and dropped below statistical significance (.07, n.s. in Model 4) when controlling for strategy intensity, which in itself was statistically significant (beta .19, $p<.001$, again in Model 4). (Table 2)

**Discussion**

In this paper we set out to explore the effect of competitive positioning on new venture performance in the context of transition economies. Our analysis suggests three main findings. In the first place, the strategic intensity with which firms in transitional economies pursue a chosen strategy is positively related to their performance. As Porter (1996) suggests, when companies have not reached the productivity frontier, they benefit from any effort to move toward the frontier, regardless of direction. In the second place, our results demonstrate that a majority of small and new firms in a transitional economy context adopt hybrid strategies, and even more importantly, hybrid rather than pure strategies are associated with superior performance. This supports a long-held view in entrepreneurship research in general that new and small firms usually follow mixed or multifaceted strategies (Carter et al., 1994).

Finally, our post-hoc analysis suggests fruitful new ground for research on strategic types, by finding that strategic intensity acts as a likely mediator in the relationship between strategic type and performance. This indicates that a complex relationship may be in play in which hybrid firms are more likely to pursue their strategies intensely and that intensity rather than positioning is most closely associated with performance. While some research in the context of transition economies (e.g. Spanos et al., 2004; Acquaah & Yasai-Ardekani, 2008) and newly industrialized countries (e.g. Kim & Choi, 1994) has found that firms pursuing more intense strategies outperform firms “stuck in the middle”, to our knowledge this is the first time that strategic intensity has been evaluated as a potential mediator. This finding, though preliminary, suggests that while there may be
performance differences among firms based on their strategic type, the reason for the inconsistent results from prior work may be a function of not taking strategic intensity into account when considering the effects of type on performance.

While at first glance our results that hybrid rather than pure strategies are associated with superior performance appear to be at odds with the mainstream Porterian view, they are, to the contrary, actually consistent with it. As discussed at the beginning, the call for “pure” strategy argument is grounded in an assumption that most competitors are operating at the productivity frontier. However, in an institutional context characterized by high transaction costs, slow capital flows, and opaque business regulations, which is typical for the transitional economies and emerging economies in general, most firms are operating within the frontier, with suboptimal efficiency (Sabirianova et al., 2005; Deliktas & Balcilar, 2005; Narayanan & Fahey, 2005). In such conditions, it is not only possible, but appropriate to pursue both cost leadership and differentiation as firms try to “catch up” (Raynor, 2007).

Our research invites at least two questions for further research. In the first place, transition economies have certain characteristics that are common for most emerging economies, such as underdeveloped institutions, incomplete and inefficient factor markets (Hoskisson et al., 2000), and a large number of firms operating below the productivity frontier (Minniti & Lévesque, 2010). The setting of our study invites the question of how generalizable the findings are in the broader context of emerging markets. We contend that to the extent firms in emerging markets operate below the productivity frontier, the strategic intensity will be positively associated with their performance. We call for future research to extend and generalize the findings from our study in other emerging economy contexts.

And second, how did the hybrid strategies of small and new firms evolve? Did they evolve in an incremental, “muddling through” manner, as day-to-day responses to evolving strategic challenges, or are they a result of a firm starting with one strategy and then gradually adopting elements of another (for example, starting with cost leadership and then differentiating because economies of scale cannot be attained given the small size of the firm)? For example, recent case-based work on “emerging economy copycats” (Luo et al, 2011) documents the evolution of emerging economy enterprises from low cost imitators to novel innovators. Further research can shed light on these questions.

**Limitations**

Our paper is not without limitations, which need to be considered when interpreting the results from hypothesis testing and their implications. First, we studied new and small ventures in a single country in transition, a small efficiency-driven lower-middle income economy. It is likely that competitive positioning may affect new venture performance differently in a different institutional and cultural setting. A second limitation is the cross-sectional design which does not definitively prove causality. Third, we could only study those new businesses that survived the perilous years of their initial histories, which can create survivor bias. In addition, we used perceptual measures of performance. While performance measurement presents a challenge for all entrepreneurship research, multiple measures of performance, including actual accounting and financial results, would be preferable. Finally, while quota sampling rendered a preset number of cases in each of several predetermined categories (new venture size and age, and industry distribution) that reflect the diversity of the population, it can introduce some selection bias.
Conclusions

Our study has implications for future research, managerial practice, and managerial training. We demonstrate that the development of a more intense strategy is beneficial for small and new firms in the context of transition economies. Consistent with a number of recent studies that emphasize the need for strategic flexibility, we find strong support for the role of hybrid strategies for entrepreneurial performance. Further research can look into the boundaries for the Porterian notion of strategic purity, which may be less appropriate for small and new ventures as well as in the uncertainty of a transition economy.

Our advice to entrepreneurs and managers in transition economies, therefore, would be to develop strategy so that they reach the productivity frontier in the first place. For that, the pursuit of a hybrid strategy may be fully adequate and likely even preferable to a pure strategy. Entrepreneurs and managers in transition economies would be well advised to seek ways to meet the seemingly divergent pressures for cost reduction and differentiation into an integrated strategy that carefully calibrates and aligns with their firms’ resources and activities.

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Notes

1. Following Pertusa-Ortega et al. (2009), Proff (2000), Spanos et al. (2004), and Thornhill and White (2007), we explore the role of the source of competitive advantage (low cost-differentiation) rather than the scope of operations (narrow-broad).

2. Deliktash and Balciar (2005) used stochastic frontier analysis to examine the macroeconomic performance of twenty-five transition economies over the 1991-2000 period and estimated the average annual efficiency level of the economies to be 0.548 (where 1 indicates full efficiency and zero indicates full inefficiency for a country). The average efficiency index for the ten-year period ranged from 0.965 (Slovenia) to 0.326 (Uzbekistan). Bulgaria was slightly below average at 0.519

References


<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>Predictors of New Venture Performance</th>
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<tr>
<td>Variable</td>
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<tr>
<td>Owner’s Gender</td>
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</tr>
<tr>
<td>Owner’s Age</td>
<td>-.16**</td>
</tr>
<tr>
<td>Owner’s Education</td>
<td>-.01</td>
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<tr>
<td>Firm Age</td>
<td>-.15*</td>
</tr>
<tr>
<td>Firm Size (ln)</td>
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<td>Manufacturing</td>
<td>-.10</td>
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<td>Wholesale</td>
<td>.07</td>
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<td>Strategic Intensity</td>
<td>.20***</td>
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<tr>
<td>Deviation from Pure Cost Leadership</td>
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<tr>
<td>( \theta^2 )</td>
<td>.71**</td>
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<td>Deviation from Pure Differentiation</td>
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<td>Rectangular (( \varphi^2 ))</td>
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<tr>
<td>Adj. R2</td>
<td>.08</td>
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<tr>
<td>F Change</td>
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Notes:
*** p<.001
**  p<.01
*   p<.05
### TABLE 2
Post-hoc tests for Possible Mediation of Intended Strategic Intensity in the Relationship between Strategy and Performance

<table>
<thead>
<tr>
<th>Independent Variables</th>
<th>Strategy intensity</th>
<th>Performance 1</th>
<th>Performance 2</th>
<th>Performance 3</th>
<th>Performance 4</th>
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<td>Owner's gender</td>
<td>-.13*</td>
<td>-.02</td>
<td>.01</td>
<td>.01</td>
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<tr>
<td>Owner's age</td>
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<td>-.15**</td>
<td>-.16**</td>
<td>-.16**</td>
<td></td>
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<tr>
<td>Owner's education</td>
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<td>-.01</td>
<td>.00</td>
<td>.00</td>
<td></td>
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<tr>
<td>Firm age</td>
<td>-.11†</td>
<td>-.15*</td>
<td>-.13*</td>
<td>-.13*</td>
<td></td>
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<tr>
<td>Firm size (ln)</td>
<td>.12†</td>
<td>.21***</td>
<td>.19**</td>
<td>.18**</td>
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<tr>
<td>Manufacturing</td>
<td>.18**</td>
<td>-.11†</td>
<td>-.14*</td>
<td>-.14*</td>
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<tr>
<td>Wholesale</td>
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<td>.06</td>
<td>.10†</td>
<td>.10†</td>
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Notes:
*** p<.001  
** p<.01  
* p<.05  
† p<.1

### FIGURE 1
Strategy Intensity and Productivity Frontier
FIGURE 2
Scatterplot of Firms’ Strategies

[Image of Scatterplot]

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