Change in New Venture Development – A Configuration Perspective

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1. Introduction and theory

The development of startups is an important stream in entrepreneurship research (Sarasvathy, 2004). Key challenges in this research stream are the perceived heterogeneity of startup populations and the dynamics of the complexity of the early development process (Brown & Eisenhardt, 1997; Lichtenstein, Carter, Dooley, & Gartner, 2007; McKelvey, 2004). Starting conditions of ventures can have a lasting effect on an organization (Boeker, 1989; Schoonhoven, Burton, & Reynolds, 2009). These starting conditions do not work in isolation, but as complex interplay between factors from various levels of analysis (Gilbert, McDougall, & Audretsch, 2006). The configuration approach (Miller, Friesen, & Mintzberg, 1984) offers a promising perspective to deal and handle this multilevel complexity. A configuration is "any multidimensional constellation of conceptually distinct characteristics that commonly occur together" (Fiss, 2007, p.1). It contains variables from various levels of analysis (for example person, venture, and environment). Combinations of these variables are systematic and coalesce into a limited number of empirically observable "real types". Configurations exhibit a certain stability, but can also change radically (Miller et al., 1984).

This paper identifies startup and new venture configurations, and systematic development paths between them. The aim of this paper is to address the following research question: "*Are there systematic development paths from startup configurations to configurations of new ventures?*" Combining the ideas of influential startup conditions, their configurational nature, and the idea of configuration change, we investigate the development of configurations from startup to new venture with a longitudinal analysis. In doing so we build on previous configuration research (McKelvey, 1982; 1984; Short, Payne, & Ketchen, 2008), on research of complexity in startup development (Brown & Eisenhardt, 1997; Lichtenstein et al., 2007; McKelvey, 2004), and on literature on longitudinal analyses of the startup process (Ferreira, 2000; Hanks, Watson, Jansen, & Chandler, 1993; McMahon, 2001; Rotefoss & Kolvereid, 2005).

2. Method

The data for our longitudinal study was sampled from a population of 6.722 sole-proprietorships founded in Austrian during summer 2009. The first cross-section is based on 513 responses. The second cross-section (2012) yielded 208 responses. Tests reveal representativeness on major firm characteristics, no indication of nonresponse bias (Rogelberg & Stanton, 2007) and Common Method Bias (Podsakoff, MacKenzie, Podsakoff, & Lee, 2003).

Operationalizations of key variables in both cross sections were based on four configuration domains: person, firm structure and resources, strategy, and environment. To identify startup and new venture configurations we applied Latent Class Analysis (LCA). LCA is a model based clustering technique and was chosen because it has numerous advantages over traditional clustering methods (Vermunt & Magidson, 2005). Final "optimal" cluster solutions were scrutinized with stability and parsimony tests. Contingency analysis was used to assess the probability of developing from one startup to a certain new venture configuration.

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Results

We identified three startup configurations. Cluster 1-1 (n = 174; 45.02%) is termed "**ambitious startups**". *Entrepreneurs* have the highest need for achievement, locus of control, and management abilities, and are opportunity-driven. The strategic characteristics indicate a clearly defined *strategy*. These ventures operate in challenging *markets*. Cluster 1-2 (n = 170; 44,69%) is termed "**unambitious startups**". Cluster 1-3 (n = 378, 10,29%) are "**resource-intensive startups**". We identified three new venture configurations. Cluster 2-1 (n = 72; 42,53%) are "**cautious simple new ventures**". Cluster 2-2 (n = 59; 34.15%) are "**innovative professional new ventures**". Cluster 2-3 (n=39; 22.96%) are "**reluctantly learning new ventures**". In addition there are a certain number of startups which **exit** the market within the first four years.

The configurational transitions are non-random (Chi-Square= 38.103, df= 6, p-value < 0.001). An over-proportional share of "unambitious" startups becomes "cautious simple new ventures", and an over-proportional share of "ambitious startups" develops into "innovative professional new ventures".

3. Conclusion and implications

This question is relevant for entrepreneurship research as multilevel complexity and dynamism are elements of a valid theory of new venture development. It contributes to organization research and entrepreneurship research as we shed light on the very first developments of a business venture. Our study contributes to the heterogeneity discussion of entrepreneurship as a research field as it helps to define internally homogenous populations to be used for theorizing (McKelvey, 1978).

Implications for research are threefold. First, it may be inappropriate to investigate isolated, direct or simple contingency effects of personal, venture-based and environmental characteristics on new venture development (Fiss, 2007). Startups face multiple, complex contingencies that need to be addressed by appropriate models and research methods. The configuration approach addresses these complexities, while at the same time being complexity-reducing by identifying real types. Second, our venture types are somewhat more differentiated and empirically backed than the commonly used "opportunity" vs. "necessity" differentiation. Third, the analysis of development paths shows the relative weight of entrepreneurial agency and imprinting. Initial cluster membership shapes, but does not determine, the future development of startups.

Implications for practitioners are that nascent entrepreneurs can use the identified configurations as role models for their own startup activities and for configuration-specific advice (Unger & Frese, 2005). Particular attention should be given to entrepreneurs of unambitious startup configurations, as they tend to have a lower chance to develop their venture into more promising new venture types.

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