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VENTURE IDEA NEWNESS, RELATEDNESS AND PERFORMANCE IN NASCENT VENTURES

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ABSTRACT

The study of venture idea characteristics and their contextual fit are key research goals in entrepreneurship (Davidsson, 2004). In line with this, the present study investigated the importance of newness and relatedness in the venture idea on the venture creation process among nascent entrepreneurs. Progress in the venturing process is examined in terms of the pace of progress measured by the completion of gestation activities. Study hypothesized that venture idea newness slows down the venturing process and relatedness facilitates the venturing process. Results of 727 nascent entrepreneurs in Australia indicated that there is no support for the hypothesis that relatedness assists the gestation progress. Newness in terms of product/service is significant but, on the contrary to the expectation, has a positive impact on the venture creation progress.

INTRODUCTION

New venture creation is important because new ventures create significant job opportunities, innovation and economic growth to the economies (Van Praag & Versloot, 2008) . Consequently, efforts to flourishing entrepreneurial activities are evidenced around the globe. Entrepreneurship is defined as a process that involves the discovery and exploitation of venture ideas to introduce new goods and services, ways of organizing, markets, process and raw materials (Shane & Eckhardt, 2003; Shane & Venkataraman, 2000). This definition portrays that venture ideas (opportunities) are central in entrepreneurship. Bhave (1994) contend that the venture creation process begins with the identification of venture idea. Further, the identification of right venture idea is regarded as the most important skill of an entrepreneur (Ardichvili, Cardozo, & Ray, 2003). Venture idea refers to the core ideas of an entrepreneur about what to sell, how to sell, whom to sell and how an entrepreneur acquire or produce the product or service which he/she sells. More specifically venture ideas are related with products/services, methods of promotion, methods of producing or sources, and selection of customers and markets". Davidsson (2004) asserts that the study of characteristics of venture idea and their contextual fits are key research goals in entrepreneurship. Despite the importance of venture idea in the venture creation process and the research domain little scholarly attention has focused on the characteristics of venture idea and contextual fit. This study empirically investigates how venture idea newness (a main characteristic of venture idea) and the relatedness between individual and venture idea (contextual fit) affect the venture creation process. Since entrepreneurship focuses on the 'emergence" of new ventures, this study investigate these phenomena for the entrepreneurs who are in the process of venture creation (nascent entrepreneurs) in order to better understand the early process of venture creation.

According to Schumpeter (1934) entrepreneurs could destruct the existing market by introducing different combinations for example, new goods, services, processes, markets, ways of organizing and raw materials. Thus, Schumpeter (1934) portrays that entrepreneurs introduce different type of innovations (product, process, market, organizational innovation etc) to the market. However, Kirzner (1973) on the other hand argues that entrepreneurs could drive the market process either being a new entrant or entering as an existing entrant. New entrants launch new product/ service, new business

models, and new price value relationship while existing entrant could enter the market as a new competitor by providing imitative combinations (Davidsson, 2004). This clearly portrays that some entrepreneurs act as innovators while other entrepreneurs act as imitators in the market. Bhave (1994) identified that some ventures were based on business concepts familiar to respective customers while some part of the businesses were based on truly novel businesses. Aldrich (1999), distinguished between innovative and imitative foundlings, pointing out that the majority of new firms are mere reproducers of what has done before. Samuelson (2004) empirically verified the existence of innovative venture opportunities and reproducing venture opportunities. He found that the gestation process and its determinants were vastly different for innovative vs. imitative ventures. However, Samuelson (2004) used only a crude dichotomy in this connection. Dahlqvist (2007) made an attempt at more refined assessment of the newness of venture ideas. He developed a scale to measure venture idea newness which ranges from new to the firm to new to the world. According to Dahlqvist (2007) it is evident that newness has various dimensions. However the entrepreneurship literature is scant with the knowledge relating to different degrees of newness and how this venture idea newness affects the venture creation process. *Therefore, one objective of this study is to investigate the effect of newness of venture idea on the pace of progress of the venturing process.*

In their seminal work, Shane and Venkataraman (2000) introduced entrepreneurship as the nexus between individuals and opportunities. Accordingly, the study of relatedness between individuals and venture ideas (contextual fit) is important aspect of entrepreneurship research domain (Davidsson, 2004). A number of scholars have investigated entrepreneurial opportunities by linking certain individual characteristics. For example, Shane (2000) explored how entrepreneurs' prior knowledge affects the discovery of venture opportunities. Saraswathy's (2001) Effectuation Theory proposes high degree of relatedness with founders' knowledge, skills and means with the selection of venture opportunities. However, in spite of a growing amount of published work focusing on entrepreneurial opportunities there is by now have no empirical exploration or investigation about the relatedness by focusing of various dimensions of venture ideas as well as how this relatedness affect to the venturing process. *Therefore, the second purpose of this study is to investigate how this relatedness affects the progress of venturing process*.

This paper is structured as follows. In the section 2, we develop theoretical knowledge with regard to the type of venture idea and newness and develop the hypothesis highlighting the venturing progress is slow for innovative venture idea. Further, in this section we discuss the theoretical aspect related to the relatedness and develop the hypothesis. Section 3 demonstrates the methodology applied in this study which includes the data collection method, sample, the measures used. The results of the study are reported in the section 4. Section 5 is devoted for discussion and conclusion of the study.

THEORY AND HYPOTHESES

2.1 Venture Idea newness

The property of newness is a main characteristics of a venture idea (Baron & Shane 2008). However, there is no consensus among scholars about the meaning of the newness. Some define newness as innovation (Johannessen, Olsen, & Lumpkin, 2001), whereas others define newness as innovativeness (Danneels & Kleinschmidt, 2001). Rogers (1995) define newness as the degree to which a new product is perceived as a departure from the firm's present systems, resources, and capabilities from the firm perspective. Damanpour & Wischnevsky (2006) claim that "newness" is a property inherent in all definitions of innovation. According to the purpose of this study we define newness as the degree to which a venture idea is new to the market for which it is intended.

According to innovation literature newness of product is important for several reasons. Innovative products present great opportunities for firms in terms of growth and expansion into new areas. Significant innovations allow firms to establish competitively dominant positions, and afford new comer firms an opportunity to gain a foothold in the market (Danneels & Kleinschmidt, 2001). Choi & Shepherd (2004) asserted that newness represents something rare, which can help differentiate a firm from its competitors.

Some entrepreneurs introduce innovation to the market while others introduce imitation. Samuelson (2004) investigated process differences between innovators and imitators. However, innovation and imitation are two extreme poles of the newness continuum (Aldrich & Martinez, 2001). Schumpeter's

(1934) new combinations- new products, new services, opening/entering new markets, new method of production, new sources of supply and new ways of organizing represent the one pole of the innovation. This way of introduction of novel combination to the market is referred as the radical innovation. In contrast, the reproducers or imitators that drive the market process through imitation or re-production represent the other pole of the newness. This is generally referred as the incremental innovation. This implies that the continuum of newness ranges from the radical innovation to the incremental innovation. Fiet (2002) uses an innovation scale ranging from 'no apparent innovation' to 'new to the world product or service' to measure the innovativeness of opportunities identified. Thus, radical innovations (discontinuous innovations) and incremental new products represent opposite ends of the newness spectrum. Germain (1996) proposed that continuum of newness has three scales – incremental, intermediate and radical. Similarly, Mascitelli's (2000) newness continuum ranges from evolutionary to revolutionary. Gaglio (2004) proposed a newness or innovation continuum like to a Likert-type scale ranging from imitative (substitute), incremental, evolutionary, radical and revolutionary. Tushman & Anderson (1986), identified competence enhancing and competence destroying innovations, competence-enhancing innovation builds upon and reinforces existing competencies, skills, and know-how while competence-destroying innovation obsolesces and overturns existing competencies, skills, and know-how. According to Damanpour and Wischnevsky (2006) an innovation can be considered new to the individual adopter, to most people in the unit of adoption, to the organization as a whole, to most organizations in an organizational population, or to the entire world.

The literature in entrepreneurship and innovation reveals that the venture creation process is complex or difficult for novel business ideas. Since entrepreneurship deals with uncertainty, the introduction of a higher degree of novelty combinations involves greater uncertainty and risk. The empirical literature is consistent in demonstrating that radical innovations are riskier and have more profound organizational effects than incremental innovation (Damanpour, 1996). In a similar vein Brentani (2001) states that radical or discontinuous innovations entail a much higher degree of risk, require greater company effort and resource commitment. Incremental new products, on the other hand, are seen as involving lower levels of uncertainty, risk and development effort. Danneels and Kleinschmidt (2001) claim that more innovative products require more firm resources and a different development approach to be successful. According to Bhave (1994) when higher business concept novelty exists, it potentially raises serious marketing challenges as there are neither precedents nor any customer feedback to guide the entrepreneurs. Kotler et al. (2003) state that, when introducing a new product, be it consumer or industrial, the marketer should implement heavy promotional activities rather than when introducing an existing product familiar to customers. This implies that, it needs more efforts and resources to build product awareness among customers and dealers about the new product, its features and uses. Another consequence will of course be the relatively longer timeframe needed to realize sales of novel products when compared to those which are familiar to customers.

As regards the production technique (method of production) some firms use complex and advanced technology relative to other firms in the production process. This difference would create some differences in the firm creation process. For example, Liao & Welsh (2003) found that compared to Non Technology Based Entrepreneurs (N-TBEs), Technology Based Entrepreneurs (TBEs) engage in more start-up activities in planning, legitimacy establishment and resource acquisition. If a firm uses a new technology, the firm will have to learn more about the new technology and spend more resources training employees in order to adopt the new technology.

The selection of target market or customer is another aspect of the venture idea newness. The target market is composed of a set of buyers sharing common needs or characteristics that the firm decides to serve. When a firm decides to serve a new market, the practices, routines and competencies need to change considerably. This implies that when entrepreneurs enter a new market, they need more time, efforts and resources. These arguments lead to derive the following hypotheses:

H1a*: The higher the degree of product newness the slower the progress in the venture creation process.*
H1b: The higher the degree of process newness, *the slower the progress in the venture creation process.*
H1c: *The higher the degree of promotion/selling newness, the slower the progress in the venture creation process.*

H1d: *The Higher the degree of customer/target market newness, the slower the progress in the venture creation process*

2.2 Relatedness

Hayek (1945) asserted that markets are composed of people who possess different information (dispersed knowledge). This dispersion of knowledge among people gives rise to uncertainty. This uncertainty combined with heterogeneous expectations of individuals give rise to the nexus between enterprising individuals and opportunity (Dew , Velamuri, & Venkataraman, 2004). Thus, entrepreneurship is the nexus between individuals and opportunity (Shane & Venkataraman, 2000). Number of studies has investigated this fit between individual and venture idea. For example Bhave's (1994) internally stimulated opportunity recognition emphasises the high relatedness between venture idea and individuals. According to Bhave (1994) some portion of entrepreneurs start their businesses as a problem related to their work and a solution for their problems. Therefore opportunity recognition is preceded to starting business. This is contrasted with the idea that some entrepreneurs' decision to start venture preceded opportunity recognition (externally stimulated opportunity recognition). Moreover, Sarasvathy's (2001) Effectuation Theory proposes a high degree of relatedness with founders' knowledge and means (human physical and financial resources). Saraswathy (2001) states that all entrepreneurs begin with three categories of means: (1) Who they are – their traits, tastes and abilities; (2) What they know – their education, training, expertise, and experience; and, (3) Whom they know – their social and professional networks. Using these means, the entrepreneur begins to imagine and implement possible effects that can be created with them. In the firm level, these means are its physical resources, human resources and organizational resources.

Shane (2000) demonstrated that individuals' prior knowledge is an important factor in venture development. Also Shepherd and DeTienne (2005) demonstrated that individuals with greater knowledge of customer problems are more likely to discover innovative opportunities. Cliff, Jennings and Greenwood (2006) asserted that individuals' knowledge corridors shape their cognitive ability to recognize opportunities for innovation. Entrepreneurial opportunities exist primarily because different agents have different beliefs about the relative value of resources when they are converted from inputs into outputs (Shane & Venkataraman, 2000). Founders' knowledge and experience influence their ability to recognize certain opportunities but not others (Ardichvili et al., 2003). Cliff, Jennings and Greenwood (2005) found that entrepreneurs' prior knowledge and experience affect the identification of innovative opportunities. However, prior research have not assessed and estimated the effects of the degree of alignment of the venture ideas with the prior knowledge and skills of the founders, and financial, physical and other resources they had access to.

Above description demonstrates that founders' prior knowledge, experience, physical, human and financial resource facilitate the venture creation process. This portrays that high degree of relatedness should make it easier to successfully launch the venture. These lead us to derive the following hypotheses;

H2a: *The higher the relatedness between individuals' prior knowledge and the venture idea, the faster the progress of venturing process.*
H2b: *The higher the relatedness between individuals' resources and the venture idea, the faster the progress of venturing process.*

METHODOLOGY

3.1 Data

The data for the study comes from the Comprehensive Australian Study of Entrepreneurial Emergence (CAUSEE). The CAUSEE is a longitudinal study whose primary objective is to uncover the factors that initiate, hinder and facilitate the process of emergence and development of new, independent firms. CAUSEE is aimed to study on the adult individuals who are in the process of starting businesses in Australia. Individuals are identified from a Random Digit Dialling (RDD) telephone survey. The unit of the analysis is the emerging venture, with the respondent acting as its spokesperson. Using a prepared questionnaire interviews were conducted. This sampling strategy allowed to identify ventures in the early stage of venture creation processes.) This study uses the data of the first wave of data collection.

3.2 Sample

Data is collected from a representative sample of some 30,430 households in Australia using telephone survey interviews. Telephone screening is used to identify nascent entrepreneurs. Through the first round of the data collection, 727 nascent entrepreneurs were identified who are currently involving in the business start-up process.

Nascent entrepreneurs are individuals who are in the process of taking steps to start a new business but have not yet succeeded in making the transition to new business ownership (Carter et al, 1996). Since entrepreneurship deals with the "emergence of business ventures" (Gartner, 1988) its focus should be on early stage behaviours and outcomes. Early entrepreneurship research, however, was mainly based on samples of established firms which have created serious questions like selection bias, memory decay and hindsight bias that are commonly demonstrated by retrospective studies. The answer for these ex-post sufferings is studying on nascent entrepreneurship (Davidsson, 2006) that manifests the actual and current behaviours of entrepreneurs who are in the process of creating ventures.
In this study, nascent entrepreneurs are identified using the following two questions. The respondent was considered as nascent entrepreneur if s/he answered affirmatively to the two questions.
1) Are you, alone or with others, currently trying to start a new business, including any self-employment or selling any goods or services to others?

2) Are you, alone or with others, currently trying to start a new business or a new venture for your employer, an effort that is part of your normal work?

If they answered as "yes", they are also asked "over the past twelve months, have you done anything to help start a new business, such as looking for equipment or a location, organizing a start-up team, working on a business plan, beginning to save money, or any other activity that would help launch a business?" In addition, for the individuals to be considered as nascent entrepreneurs, respondents should meet following criteria; (1) they should be owners or part owners of the new venture, (2) their monthly revenue should not be greater than the expenses occurred during the first 12 months.

3.3 Measures

3.3.1 Newness

Various indicators have been used by researchers to measure the innovativeness. For example, total expenditure on R&D, share of the labor force accounted for by employees involved in R&D activities, number of patents, number of new product and service introductions etc. These measures often have had limited validity and tended to foster a narrow view of innovation. Dahlqvist (2007) recently developed a scale based on the typology of market newness to measure the newness of venture idea. Based on Dahlqvist's (2007) scale, we use a 4 item scale to measure the newness of venture idea. This scale allows identifying four categories of the venture idea newness: (1) venture ideas are entirely new to the world or (2) venture ideas are new to the market or (3) ideas substantially improved and or (4) imitative venture ideas. Each category of this scale corresponds to the each of four types of venture ideas; (1) product or service,) (2) method of production, (3) method of promotion and (4) target market/customer. Accordingly scales are coded as 3, 2, 1, and 0 representing new to the world as, new to the market, substantially improved and imitation respectively. Updated version of questionnaire was developed through the two rounds of pre-testing with 80 participants.

3.3.2 Relatedness

Relatedness between prior knowledge and resources at hand and venture ideas is measured using the five point Likert scale ranging from 1 to 5 (1 = completely disagree, 2 = partly disagree, 3 = neutral, 4 = partly agree and 5 = completely agree). Four questions will be asked corresponding to the each aspect of four venture ideas: for example, as regards to the relatedness between prior knowledge and venture idea selection, following survey items are used ; (1) product/service offerings are selected so that they are very closely matched with the knowledge and skills that you already had , (2) The customers or target markets are selected so that they are very closely matched with the knowledge and skills that you already had, (3) The methods for producing or sourcing are selected so that they are very closely matched with the knowledge and skills that you already had, (4) The methods for promotion and selling are selected so that they are very closely matched with the knowledge and skills that you already had. Similar pattern is applied to the other variable- resources. The measures of relatedness were developed through two rounds of pre-testing in the CAUSEE questionnaire. The

Cronbach alphas for the relatedness variables were calculated. Accordingly, prior knowledge and resources scales were 0.619 and 0.580 respectively. The scales meet the recommended reliability level.

3.3.3 Venture Performance

The number of gestation activities completed in subsequent period was the indicator for in measuring the pace of progress in nascent venturing process. The progress of gestation process was captured with a summation of start-up activities. Nascent entrepreneurs that interviewed were asked about a list of 35 start up activities. For each of activity, two questions were mainly asked; (1) has or has not an activity been started, will it be undertaken in future, or is this activity not relevant to the business? (2) in what month and year did the activity occur? For example, as regards the activity of "marketing and promotional efforts" following two questions are asked; (1) Have marketing or promotional efforts being started, will marketing or promotional efforts be undertaken in the future, or is this not relevant to the new business? If the respondent answered "yes" for this question he/she is asked the second question (2) in what month and year did marketing or promotional efforts begun? Thus, for each activity, there was a time stamp, including the year and month when the event occurred and consequently a count has made of the total number of activities initiated. The progress of start-up process was determined as the number of activities completed.

3.4 Control variables

Several control variables which would affect the gestation process were included in data analysis. Accordingly, eight control variables were considered. Most of these variables were related to the human capital. Respondents' industry experience, management experience, entrepreneurship experience, education, parallel businesses, and effort invested, teams and services were included as control variables.

RESULTS

Table 1 shows the means, standard deviations and correlations for all variables. The average of the gestation activities completed was 14.25 for 727 nascent entrepreneurs. Result of the correlation analysis shows that the correlation coefficients range from -.20 to .52, so multicollinearity is not likely to exist in the models.

The result of hierarchical regression analysis is presented in Table 2. Model 1 in table 2 includes only the control variables and model 2 includes both the control variables and independent variables - product newness, promotion/selling newness, production/sourcing newness, customer/market newness, and resource and knowledge relatedness variables as independent variables. Given the nature of the dependent variable and independent variables hierarchical linear regression was selected to test the hypotheses

The first model reported in Table 2 represents the baseline model of controlling for alternative explanations. Some control variables are significantly related to gestation performance. For example, efforts invested are strongly associated with the gestation process. Educational level of nascent entrepreneurs was also significantly related to the completion of gestation activities and the coefficient of entrepreneurship experience was marginally significant. As a whole, the base model accounted for 25.8% of the variance in the completion of gestation activities.

Model 2, which includes the control variables and main effect variables, shows that product/service newness has a significant and positive impact on the gestation performance. Table 2 indicates that Model 2 explains 27.1% of variance in the completion of gestation activities. Model 2 explains only 1.3% more of the variance than Model 1, and this increase in amount of variance explained is not statistically significant (p=.129). Therefore, the inclusion of these independent variables (newness and relatedness) does not improve the predictability of the model substantially. In sum, several control variables, including efforts invested, entrepreneur's education level and entrepreneurship experience, are more powerful predictors in explaining the venture creation performance than independent variables.

According to the results in the model 2, contrary to the expectation venture idea newness in terms of product and service are positively related to the completion of gestation activities. The regression coefficient of product newness is significant but is the opposite sign to what hypothesized. Results

further indicate that other types of newness (promotion, method of production, customer/target market) have no significant effect on the completion of gestation activities. As contrary to the prediction in the hypotheses, they do not restrict the completion of gestation activities. Therefore, all hypotheses regarding the idea newness are not supported. Thus, our hypotheses which predicted that higher degree of newness in terms of product, production, market, and promotion will slower the completion of gestation activities have been rejected. As regards the relatedness variables knowledge is positively related with completion of gestation activities while resources are negatively related with the pace of progress. However, results disclose that relatedness has no significant effect on the facilitating and expediting the venturing process.

DISCUSSION

The introduction of new venture idea is important phenomena in entrepreneurship. Accordingly entrepreneurs introduce new products/ services, new methods of production/sourcing, new methods of promotion/selling and new markets/customers. We investigated the impact of these four categories of venture idea newness on the pace of progress of 727 nascent ventures interviewed through random digit dialling. We hypothesized higher degree of venture idea newness affect the less completion of gestation activities. Contrary to the expectation, results indicate that idea newness does not have negative effect on the pace of venture creation process. The second objective of our study was to how relatedness in terms of individuals' knowledge and resources affect the pace of venture creation process. We hypothesized that relatedness would facilitates the venture creation process. However, results indicate that relatedness has no significant effect on the venture performance

Table 1: Means, Standard Deviations and Correlations

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14
1 Gestation Activities Completed	14.25	6.66														
2 Relatedness - Knowledge	4.19	.80	.01													
3 Relatedness - Resources	4.25	.86	-.01	.41**												
4 Newness - Product/Service	.67	.90	.23**	-.03	-.06											
5 Newness - Promotion/Selling	1.41	.99	.09*	-.05	-.02	.16**										
6 Newness - Production/Sourcing	.61	.92	.12**	.01	-.06	.29**	.35**									
7 Newness - Customers/Markets	1.31	1.08	.01	.06	.01	.10**	.21**	.12**								
8 Services (or Products	.48	.50	-.11**	.15**	.05	-.20**	-.07	-.09*	.02							
9 Industry Experience	1.08	.46	.15**	.05	-.06	.16**	-.05	.12**	-.04	-.08*						
10 General Management Experience	1.14	.46	.19**	-.10**	-.04	.09*	-.07	.10**	-.15**	-.19**	.46**					
11 Effort invested	1.37	.46	.49**	.02	-.02	.16**	.11**	.17**	-.01	-.09*	.23**	.22**				
12 Entrepreneurship Experience (or Novice)	.60	.48	.21**	-.04	-.02	.10**	.04	.11**	-.05	-.14**	.25**	.34**	.13**			
13 Parallel/Concurrent (or Serial) Businesses	.38	.48	.20**	-.01**	-.07*	.15**	.01	.06	-.03	-.18**	.27**	.37**	.14**	.52**		
14 Education Level	3.06	1.39	.11**	-.01	.01	.04	-.01	.02	-.05	.04	.05	.08	-.02	.07*	.13**	
15 Team (or Solo)	.51	.50	.13**	-.05	-.01	.06	-.01	.06	-.08*	-.17**	.33**	.33**	.20**	.23**	.33**	.09*

** Correlation is significant at the 0.01 level (2-tailed).

* Correlation is significant at the 0.05 level (2-tailed).

Table 2: The relationship between newness and relatedness and the completion of gestation activities.

	Model 1			Model 2		
	Unstandardized Coefficients		sig	Unstandardized Coefficients		sig
	B	Std. Error		B	Std. Error	
(Constant)	3.975	1.208	.001	3.075	2.186	.160
Services (or Products) Dummy Variable	-.555	.526	.292	-.297	.539	.581
LOG Industry Experience	-.245	.633	.699	-.334	.643	.604
LOG General Management Experience	.525	.651	.421	.623	.663	.348
LOG Effort	6.418	.579	.000	6.281	.587	.000
Entrepreneurship Experience (or Novice) Dummy Variable	1.026	.620	.099	.924	.622	.138
Parallel/Concurrent (or Serial) Businesses Dummy Variable	.491	.632	.437	.346	.635	.586
Education Level	.409	.187	.029	.399	.187	.033
Team (or Solo) Dummy Variable	-.045	.576	.937	.040	.578	.945
Relatedness - Knowledge				-.118	.399	.768
Relatedness - Resources				.105	.331	.752
Newness - Product/Service				.784	.275	.005
Newness - Promotion/Selling				.335	.303	.269
Newness- Production/sourcing				-.337	.298	.259
Newness - Customers/Markets				-.015	.242	.951
F	21.626***			14.065***		
d.f.	8, 498			13, 493		
R square	.258			.271		
R square change	.258***			.013 (n.s. p=.129)		

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