

A Study on Effects of Internet Venture Business Strategies on Venture Business Performance

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Abstract

Recently an interest has been put on the technology-intensive industry, and above all things, on the venture firms, which try to achieve high profits largely through technological development and innovation. In order to escape from the large corporation-centered rigid industrial structure now, the high value-added on the basis of knowledge and technology should be an important prerequisite, and thus the role of venture firms which include knowledge and technology intensiveness is more urgently required than ever.

This study will examine what influences the strategies carried out by the internet venture business have on the performance and identify what differences appear according to venture type and growth stage, respectively.

The purposes of this study are as follows;

First, classify the type of Internet venture business and identify the difference of strategy type in priority according to type and growth stage so that a new strategy type of Internet industry might be drawn. Second, in examining lots of theoretical studies, which mentioned the strategy as a major influencing factor on performance, find out, in truth, what effects the strategy type drawn from this study has on the venture performance. Third, examine the relevance between strategy and performance per industrial trait by identifying what differences the influencing degree of venture strategy on the performance shows according to the venture type and growth stage.

These results of study may be helpful to the venture firms in choosing a business strategy, which is suitable for their internal and external environments and provide a guide to pursue continual growth and profits.

1. Introduction

Recently, as a need for structural transition of domestic economy has increased, an interest has been put on the technology-intensive industry, and above all things, on the venture firms, which try to achieve high profits largely through technological development and innovation. In order to escape from the large corporation-centered rigid industrial structure now, the high value-added on the basis of knowledge and technology should be an important prerequisite, and thus the role of venture firms which include knowledge and technology intensiveness is more urgently required than ever.

But even the venture firms, which own up-to-date technology and excellent human resources get faced with various difficulties and unexpected obstacles such as spending of much expenses and time until they manufacture products and succeed in the market. The venture firms which showed high growth potentiality only one or two years ago are failing

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because they could not realize profits or maintaining status quo by a narrow margin.

In particular, since the venture firms in the field of Internet business have distinct characteristics differentiated from the industrial structure, business type, and revenue source of the existing industry, a new evaluation paradigm is required to estimate possible growth and profitability and to judge the future value of the firms.

The earlier studies suggested entrepreneur, industrial structure, venture strategy, venture type, and interaction between venture strategy and industrial structure as the influencing factors on the performance of venture firms[1][2]. Besides, there have been a variety of studies on environmental factors, competitive intensity, market factors, and organizational structure[3][4][5]. Early new venture performance brought up a mathematical model, NVP(New Venture Performance = $f(E)$) mainly with emphasis on Entrepreneur. Sandberg & Hofer(1987), however, presented the performance in relation to industrial structure, venture strategy, entrepreneur's traits, and correlation between industrial structure and strategy from the multi-dimensional aspect due to the single-dimensional study's limitation of explanation for performance[1], while McDougall(1992) et al. added Origin of venture to these factors to suggest a relevance with performance[2]. William(1991) identified the differences of performance according to the type of venture strategy in an article about the venture performance and classified the compositional factors of this venture strategy in accordance with scope, competitive weapon, intensity of investment, and time[6].

Zahra(1996) defined that venture performance would appear differently according to the growth stage of venture, so the performance index according to the growth stage should be applied differently[7].

Though some domestic studies related with the venture performance are carried out nowadays, they are little removed from the inquisitive study such as major success factors, performance effect factors, fund procurement and nurture and backup strategy for the venture firms by chiefly employing a case study method. The reason can be analyzed that the domestic venture firms are still in an insufficient growth and development stage and now is the time when revitalization is required. In particular, as the internet develops, the internet venture businesses which jump into the internet-based business area(on-line business) are intending to create the value added of firms which use a new business model rather than a profits creation method from the existing off-line business. Thus, a new business type appears according to the revenue source and the transaction agents, so a relevance between the strategy performed according to each business type and venture performance needs to be identified.

So, this study will examine what influences the strategies carried out by the internet venture business have on the performance and identify what differences appear according to venture type and growth stage, respectively.

The concrete purposes of this study are as follows;

First, classify the type of internet venture business and identify the difference of strategy type in priority according to type and growth stage so that a new strategy type of internet industry might be drawn.

Second, in examining lots of theoretical studies, which mentioned the strategy as a major influencing factor on performance, find out, in truth, what effects the strategy type drawn from this study has on the venture performance.

Third, examine the relevance between strategy and performance per industrial trait by identifying what differences the influencing degree of venture strategy on the performance shows according to the venture type and growth stage.

These results of study may be helpful to the venture firms in choosing a business strategy, which is suitable for their internal and external environments and provide a guide to pursue continual growth and profits.

This study comprises as follows:

In the first chapter, introduction, the necessity and purpose of this study was discussed. In the second chapter, the relevant literatures centering around the variables such as venture strategy, performance, venture type, and growth stage

were examined and some variables for verification were presented. In the third chapter, the model and hypothesis of study and manipulative definition of variables were established. In the fourth chapter, the results of empirical analysis were suggested after defining by hypothesis, and in the fifth chapter, this study was summarized through the implication by means of some implications from the empirical study and theoretical study, together with the suggestions for the limitation of study and future study.

2. Model and Hypothesis of Study

2.1 Model of Study

This study aimed at drawing the strategic types of internet venture business and identifying how the strategies in priority according to the venture type and growth stage would differ. Additionally, it presented a model of study as in Fig. 1 in order to inquire into what influences the strategic type had on the venture performance and to verify what differences the degree of influences among them showed according to the venture type and the growth stage, respectively.

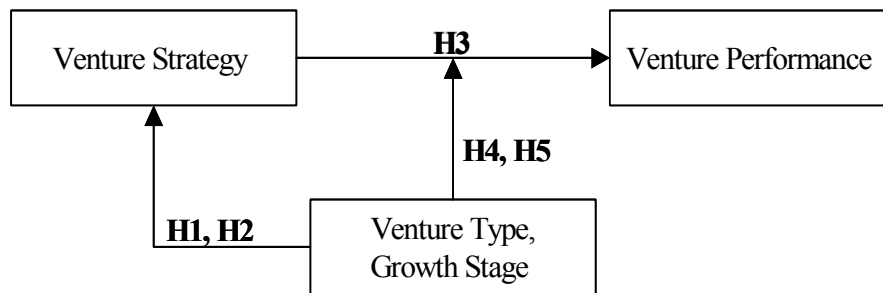


Fig. 1 Research Model

2.2 Hypothesis of Study

Sandberg & Hofer(1987) presented industrial structure, venture strategy, entrepreneurial trait, correlation between industrial structure and strategy as the influencing factors on the performance of venture firms, while McDougall(1989) added Origin to them to present a relevance with performance. William(1991) explained that the performance would differ according to the venture strategy type in his thesis on the venture performance, classifying the components of venture strategy into scope, competitive weapon, intensity of investment, and time. Besides, Zahra(1994) indicated that the venture performance might appear differently in accordance with the growth stage of venture firms, so the performance indices should be applied differently according to the growth stage.

Thus, the hypotheses which this study intended to verify are as follows:

- H1 : The strategy in priority would differ according to the type of internet venture business.
- H2 : The strategy in priority would differ according to the growth stage of internet venture business.
- H3 : The venture performance would differ according to the strategy pursued by the venture firm.
- H4 : The effect of venture strategy on the venture performance would differ according to the venture type.
- H5 : The effect of venture strategy on the venture performance would differ according to the growth stage.

3. Empirical Analysis

3.1 System of Empirical Analysis

(1) Questionnaire System

The items of this questionnaire were composed on the basis of the model of study and measured by use of 7-point scale in order to measure the effect of the internet venture business on the venture performance.

The questionnaire of this study comprised questions as follows:

First, the type of internet venture business was classified through a questionnaire about the type of internet venture business, the questionnaire survey was conducted by dividing the venture growth stage into start-up, growth, and maturity, and the importance level was measured per 13 items of the strategic factors.

Next, the questions about the investment performance were asked by the subjective index and the objective index. In other words, the subjective index asked current success of venture firms, while the objective one was composed to answer the extent of perceived performance according to 8 items including market share, sales amount scale, ROE, assets scale, profits scale, net profits rate, management participant rate, and rate of returns on investment.

(2) Manipulative definition of variables

The manipulative definition of each measurement variable was as in Table 1 below.

Table 1 Manipulative definition of variables

Unit	Variable	Measurement Items	Researcher
Independent variable	Venture strategy (13)	Rapid coping with the market change Rapid reflection of consumer's needs to the products Forecast of consumer's needs/taste Use of effective marketing technique (ad) Development of new and innovative technology Continual development of new product Endeavor to acquire patent or intellectual property right Development of a product to attract consumer at present Provision of differentiated product Broadened width of product line Provision of excellent consumer service Provision of excellent product service Pursuit of low price	Carter et al.(1994)
Dependent variable	Venture performance (8)	Market share Sales amount scale ROE Assets scale Profits scale Net profits rate Management participation rate Rate of returns on investment	Stuart & Abetti(1987) Zahra(1996) Han Sang-sul (1998) Interviews with venture capitalists
Control variable	Venture type(4)	B2B brokerage & advertizement type B2B self-production marketing type B2C brokerage & advertizement type B2C self-production marketing type	Rappa(1999) Information com- munication strategy researcher (2000)
	Growth stage(3)	Start-up, Growth, Maturity	Kim Young- bae(1998) Interviews with venture capitalists

4. Conclusion

This study drew the strategic type of internet venture business, identified the difference of strategy in priority according to the venture type and the growth stage, inquired into what influences the strategic type had on the venture performance, and verified what differences the influencing degree between them showed according to the venture type and the growth stage.

Thus, the hypotheses of this study were presented as in Table 2:

Table 2 Result of the research

Hypotheses		
H1	The strategy in priority would differ according to the type of internet venture business	Partial Accept
H2	The strategy in priority would differ according to the growth stage of internet venture business	Reject
H3	The venture performance would differ according to the strategy pursued by the venture firm	Accept
H4	The effect of venture strategy on the venture performance would differ according to the venture type	Accept
H5	The effect of venture strategy on the venture performance would differ according to the growth stage	Accept

In case of hypothesis 1, the fact that the technology innovation strategy appeared different among groups resulted in a conclusion that the strategy in priority would differ according to the venture type. The post-verification showed that self-production marketing types of B2B and B2C, and brokerage & advertisement types of B2B and B2C pursued different strategies.

In case of hypothesis 2, the strategies which were pursued according to the growth stage showed no difference among groups, so it was rejected. This result could be analyzed that the internet business industry at home was yet unvitalized and that the number of venture firms which approached the Maturity stage were relatively small.

In case of hypothesis 3, net profits rate, profits scale, market scale, assets scale, rate of returns on investment, ROE and market sensitivity strategies were in a positive relation. Now the internet venture businesses at home were recognizing that they could obtain the financial performance such as profits and market share and occupy a competitive edge by rapidly pursuing the strategies to cope with the market change and to reflect consumer's needs into the products.

In case of hypothesis 4, the result showed that the strategic type on the venture performance according to the venture type differed; for example, the advertisement & brokerage type and self-production marketing type of B2B appeared to pursue market sensitivity in general, while the advertisement & brokerage type of B2C pursued service strategy, only assets scale in the self-production marketing type of B2C appearing to have a significant effect on the strategy.

In case of hypothesis 5, the influencing degree of strategy on the venture performance appeared different according to the growth stage. The strategic factors such as service and market sensitivity appeared to have a significant effect on the venture performance, and considering each performance variable, ROE, net profits rate, profits scale, anticipated assets, and rate of returns on investment had a significant relation with the market sensitivity strategy during the Start-up stage. Specifically, profits scale appeared to be extracted as a performance variable influenced by the strategy, for example, the technology innovation strategy during the Growth stage.

This study is expected to help the venture firms choose a proper business strategy for the firms' internal and external environments, providing a guideline to pursue continual growth and profits on the basis of these results of this study..

In carrying out this study, however, some limitations were found; first, it was more or less problematic to embody the definite characteristics and dynamic venture strategies because they were classified by a post-verification method through grouping analysis among the venture firm subjects with some particular strategic components. Second, since a perceived performance value was used to measure the venture performance, a financial and highly objective index was

not utilized. Third, since it conducted a questionnaire survey to the venture capitalists who had invested in the venture firms, subjectivity was thought insufficient by measuring the strategies of venture firms with the perceived importance degree per each factor.

Further study should not only complete the limitations of this study, but also present some directions as follows;

First, because the venture strategy has a very close relevance with the environmental characteristics, more synthetic approach would be required from the co-relational aspect with the environment by adding the environmental characteristics to which the industry belongs.

Second, more elaborate analysis should be conducted according to the strategic type drawn through the grouping analysis so that the trait of venture firms in the group might be identified.

Third, a comparative study and approach is required in inquiring into the performance of the venture firms. That is, the influencing factors on the performance can be analyzed by classifying them into a success/failure venture firm group or by classifying them according to the business type.

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