

**STRATEGY AS A DETERMINANT OF THE PERCEIVED  
VALUE OF OUTSIDER ASSISTANCE TO NEW VENTURES:  
AN EXPLORATORY STUDY<sup>1</sup>**

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**ABSTRACT**

*This study extends the research on outsider assistance by comparing a venture's strategy with the types of assistance it received. Results suggest that certain types of assistance are more highly valued by ventures following certain types of strategies. Unfortunately, results also show that most ventures do not receive the types of assistance that best support their strategies. Directions for entrepreneurs and outsider assistance programs are offered to address this problem.*

**INTRODUCTION**

Experts suggest that outsiders -- persons not associated with a business in terms of ownership or employment who provide it with advice or assistance (e.g., consultants, accountants, bankers, lawyers) -- can be a valuable resource for new and developing ventures (Robinson & Pearce, 1984; Stevenson & Sahlman, 1988). There is also a considerable amount of empirical evidence that outsider assistance can positively influence new venture performance (Long & Ohtani, 1986; McMullan, Long & Graham, 1986; Lussier & Corman, 1995; Pelham, 1985; Robinson, 1982). Unfortunately, previous studies have, for the most part, treated new ventures as a homogeneous population with similar assistance needs. However, contingency theory (Hofer, 1975) suggests that it is more likely that new ventures will differ in meaningful ways that lead to different business problems and outside assistance needs. Research on the problems of new ventures supports this conclusion (cf., Chrisman & Leslie, 1989).

Seeking to expand our knowledge of the issues facing new ventures and how outsiders can best assist in the new venture development process, this study explores the relationship between new venture strategy, outsider assistance, and the perceived value of outsider services. As suggested above, it has already been established that outsider assistance, in general, can be quite valuable (Chrisman, Hoy, & Robinson, 1987; Chrisman & Katrisha, 1994), especially if it involves strategic planning (Chrisman & Carsrud, 1989; Robinson, 1982). What has not

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been determined, however, is if different assistance needs are associated with different strategies. This study investigates this issue.

Drawing from mainstream strategic management thought, we apply business level strategy theory to develop hypotheses concerning the nature of the assistance that will add value to new ventures following different strategies. We then test these hypotheses on a large sample of ventures that received consulting assistance from a Small Business Development Center (SBDC) program in one state in the U.S. over a two year period (see Appendix). The remainder of this article discusses this study.

## **RESEARCH MODEL AND HYPOTHESES**

### **Venture Problems**

For the purpose of this study, three broad classes of business problems were identified. Ansoff (1965, pp. 5-6) states that the *strategic problem* is "deciding what businesses the firm is in and what kinds of businesses it will seek to enter." *Administrative problems*, on the other hand, concern the firm's organization (e.g., structuring of authority and responsibility relationships, work flows) and its acquisition and development of resources (e.g., personnel training and development, financing). Finally, *operating problems* involve functional decisions in areas such as marketing and production.

Although, all ventures could be expected to perceive each type of assistance to be valuable, the strategies they pursue should influence the nature of the dominant problems encountered. Indeed, a central tenet of the strategic management paradigm is that the implementation of different strategies lead to different problems and demand different management skills and organizational requirements (Chandler, 1962; Galbraith & Kazanjian, 1986; Porter, 1980). In general, it is proposed that the types of assistance that will have the greatest positive impact on the perceived value of outsider services will vary depending upon the competitive business strategy pursued.

### **The Importance of Strategy**

Simply put, business level strategy is concerned with competitive advantage (Hofer & Schendel, 1978; Porter, 1980). How a venture matches its resources with the factors critical to success in its chosen environment defines its strategy and determines whether a competitive advantage is forthcoming. Because few firms are able to command the resources necessary to dominate competitors in every area, and because the importance of key success factors tend to vary by market segment, there are a variety of different strategies that can lead to superior performance (Hofer, 1975).

Thus, firms following different strategies will need different resources and must focus their efforts on strengthening different functional areas. This is especially important for new ventures which are usually resource poor. Strategy assumes great importance during a firm's early years of development. A new venture's strategy is its primary lever for overcoming the "liability of newness" (Stinchcombe, 1965) as it attempts to gain control of essential resources

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and secure a position in the environment. Because of the complexity and importance of formulating and implementing strategy, entrepreneurs often turn to outsiders for assistance in making decisions concerning how to best utilize their limited resources. The central premise of this article is that outsider assistance is most valuable to new ventures when it is provided in areas that both strengthen the resources necessary to implement strategy, and results in a strategy more closely aligned with those resources.

### Types of Strategies

To create a competitive advantage, strategy must first align scarce resources in ways that create value for customers. Value may be thought of as a function of the benefits a particular product or service provides to a customer relative to its cost or price (Willard & Cooper, 1985). Thus, there are three primary strategies firms can employ to create value (Chrisman, Hofer, & Boulton, 1988). A *cost* strategy adds value by lowering the cost of a given level of benefits. It is based on efficiency and attracts customers who are willing to forego additional benefits for a lower price. A *benefit* (differentiation) strategy, by contrast, adds value by increasing the benefits of a product or service at a given or higher cost. Such a strategy emphasizes effectiveness and appeals to customers who are willing to pay more to obtain greater satisfactions from the product or service. A *utility* strategy uses cost and benefit weapons simultaneously. Firms following this strategy seek both efficiency and effectiveness advantages by adding value through lower cost and prices as well as greater benefits. Nevertheless, while such a strategy offers the possibility of greater competitive advantage and hence greater returns, it also carries with it a greater element of risk, in that few firms are able to successfully differentiate on both cost and benefit dimensions. The danger of becoming stuck-in-the-middle without advantage in either costs or benefits has been well documented and is typically found to lead to low performance (Porter, 1980).

Some firms, however, do not seem to be aware of the consequences of being average and are content with merely filling imbalances between industry supply and demand. Thus, both unsuccessful attempts or lack of attempts to create competitive advantage are possible. We shall refer to the strategies of such misaligned firms as *shortage* (Vesper, 1980), because they create no advantage other than just "being there" (Chrisman, et al., 1988).

Strategies may be aimed at a whole industry or at a segment within an industry. The start-up ventures investigated in this study, however, generally employed their limited resources to address smaller clusters or segments of customers within an industry. For this reason, their strategies fall more accurately under the purview of what Porter referred to as focus strategies. Mindful of this distinction, we classified strategies as cost, benefit, utility, and shortage for the sake of simplicity.

Cost Strategies. Two keys of the cost strategy are low operating costs and low initial investment (Wright, 1987). Thus, tight cost control, detailed product cost reports, and efficient organizational design are required (Porter, 1980). In the case of new ventures, the means by which low operating costs can be achieved are limited by both size and stage of development. Unlike larger firms, few new ventures can be expected to obtain cost advantages from operational factors such as economies of scale or scope, learning effects, or high capacity

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utilization (Hofer & Sandberg, 1987). It is much more likely that new ventures will obtain low operating costs through administrative measures such as effective organization, supervision, and the improvement of nascent work flows. At the same time, cost data and historical accounting information are often nonexistent or woefully inadequate in new or small firms (Kennedy, Loutzenhiser, & Chaney, 1979; Khan & Rocha, 1982; Rocha & Khan, 1984). Even when accounting information does exist, such firms often require help with product cost allocation (Rocha & Khan, 1984). For example, Potts' (1977) found that small manufacturers that used outside accounting and finance services were more successful than those that did not.

Limiting the initial investment in a venture is principally a financial task. Barring a serendipitous event, such as the availability of cheap assets not available to competitors, holding down the amount of initial investment involves administrative issues such as whether to buy or lease assets (Block & MacMillan, 1985), how to arrange payments and credit (Khan & Rocha, 1982), how to maximize tax benefits, and how to minimize working capital and aggregate capital investment (Van Kirk & Noonan, 1982). After initial investments have been made, the key is to avoid additional borrowing and to minimize "fixed" commitments (Kennedy, et al., 1979).

Because administrative mechanisms to control costs and investments are essential to a successful cost strategy for new ventures, administrative assistance should be of critical importance to new ventures following a cost strategy, as noted below.

**H1: The value of outsider assistance will be greater when new ventures following cost strategies receive administrative assistance.**

Strategic assistance should also be very beneficial (Chrisman & Carsrud, 1989; Chrisman & Leslie, 1989). New ventures are often challenged with meeting substantial and varied demands with limited and sometimes inadequate resources. Competent strategic assistance can provide sorely needed direction to managers on how to focus and integrate whatever resources and capabilities are at their command. Because strategy is the critical lever for administrative activities, ventures with cost strategies that receive both types of assistance should perceive outsider assistance to be more valuable than those that receive either type alone.

**H2: The value of outsider assistance will be greatest when new ventures following cost strategies receive both administrative *and* strategic assistance.**

Benefit Strategies. Generally, the ability of a venture to achieve differentiation vis-à-vis competitors depends on the nature of the physical product, supporting services, or marketing activities (Porter, 1985). In the case of a product with unique functions or features, the transition from prototype development to systematic production is likely to present a greater number of engineering and production problems than would be the case with a less unique product.

However, the greatest assistance needs of new ventures following benefit strategies may be in the area of marketing (Porter, 1980). Accurate identification of the target market is

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especially important to avoid direct competition with larger, more established firms (Rocha & Khan, 1984). Equally important, a clear target market allows a venture to better focus its scarce resources on producing specialized goods or services for a specified market niche; in this way, more efficient and effective use of advertising and promotion is possible (Rocha & Khan, 1984). From a practical standpoint, many entrepreneurs lack knowledge and skills related to distribution, advertising, and pricing.

As a consequence, we expect that ventures following benefit strategies will require operating assistance, especially in the areas of marketing and production (Vozikis & Glueck, 1980). Furthermore, given the importance of strategy, the combination of operating and strategic assistance should be of greater value than assistance in either area alone. Thus:

**H3: The value of outsider assistance will be greater when new ventures following benefit strategies receive operating assistance.**

**H4: The value of outsider assistance will be greatest when new ventures following benefit strategies receive both operating *and* strategic assistance.**

Shortage Strategies. As explained above, shortage ventures have neither cost nor benefit weapons. Therefore, there is no a priori reason to suspect that such ventures will require a disproportionate amount of either administrative or operating assistance. The future profitability and indeed survival of shortage ventures are largely determined by external and uncontrollable factors such as the continued existence of excess demand or local monopoly conditions. As a consequence, these businesses are likely to face fundamental strategic problems. Lacking a clear business strategy, shortage ventures have many of the same strategic needs as ventures still in the precommercialization stage. Chrisman and Carsrud (1989) found that pre-ventures received significantly more strategic assistance than established businesses. We expect to find a similar relationship in the case of shortage ventures. Although shortage ventures are not expected to require disproportionate amounts of either administrative or operating assistance, the lack of advantage of such ventures suggests that their abilities in both areas are lacking. It is unlikely that many shortage businesses lack competitive weapons by preference. It is conceivable that many ventures that fall into this category are failed utility ventures that are now "stuck-in-the-middle" (Porter, 1980). The general lack of competitiveness of shortage ventures could force many to attempt strategic or operational turnarounds which would pose a variety of strategic, administrative, and operational problems (Hofer, 1980). As a consequence, such ventures are expected to need comprehensive assistance covering many areas since the problems causing the lack of competitive advantage are likely to be interrelated. Put differently, a shortage strategy is more likely to be caused by a combination of problems in strategic vision, inadequate functional skills, and improper execution rather than one of these problems alone. Therefore, ventures without a distinctive competitive strategy are expected to need comprehensive assistance; shortage ventures which receive such assistance should benefit more from the advice of outsiders than those that do not.

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**H5: The value of outsider assistance will be greatest when new ventures following shortage strategies receive comprehensive assistance.**

Utility Strategies. Similarly, there is no apparent reason why ventures pursuing a utility strategy should require a disproportionate amount of administrative, operating, or strategic assistance. However, such ventures could be expected to experience a broad array of problems due to their use of both cost and benefit weapons. However, these problems will be somewhat different in nature than the problems of shortage ventures. Ventures following a utility strategy need administrative skills and assistance to achieve a competitive cost structure. They will also need operational skills and assistance to maximize the real or perceived value of their products and services. Finally, ventures pursuing a utility strategy are likely to need strategic assistance to coordinate these disparate efforts to ensure, for example, that cost control measures are consistent with product quality and marketing requirements. Such ventures must not only maintain a clear definition of the business but also ensure that they obtain both the cost and benefit advantages that the utility strategy requires (Chrisman et al., 1988; Porter, 1980). On the whole, these ventures must have comprehensive assistance because implementation of a utility strategy demands comprehensive skills.

**H6: The value of outsider assistance will be greatest when new ventures following utility strategies receive comprehensive assistance.**

## METHODOLOGY

The relationships between strategy, outsider assistance, and its perceived value were investigated via two surveys of 1421 small businesses that received assistance from one SBDC state system over a two year period. The owner of each venture was contacted by mail and asked to complete a questionnaire concerning the areas of assistance sought, the competitive strategies employed, and the quality of the service received. Three mailings were conducted for both surveys yielding a total of 398 responses (28%). However, we confined our analysis to the 223 responses from owners of ventures that had been in operation eight years or less and whom provided usable strategy, assistance, and service rating data. An eight year cutoff point is consistent with other studies of startup ventures (Biggadike, 1979; Weiss, 1981).

Chi-square goodness-of-fit tests indicated that respondents were highly representative of the long-term client population in terms of their geographic location, gender, ethnic background, and type of business. To test for response bias, chi-square tests of independence compared respondents to the first, second, and third mailings; no evidence was found that the three groups differed along any of these dimensions. As Oppenheim (1966) argued, late respondents are very similar to nonrespondents and a comparison between the three groups provides reasonable assurance of the sample's representativeness. One-way ANOVAs, Chow tests (1960), and chi-square tests found no evidence that the relationships of interest were moderated by either the client's type of business or the SBDC site where assistance was received.

In the first year in which the survey was conducted we had also asked respondents whether they were the founders of their business and a variety of questions concerning their

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experience in management. Of the eighty-five clients who responded to the first of these questions, 72 (84.7%) were founders; the rest were senior level managers. However, no significant relationship was found between founder status and the perceived value of outsider assistance, types of assistance received, or strategy followed. The average management experience of the 63 respondents who provided such information was 8.9 years, a figure consistent with that found in a study on entrepreneurial success and failure (Lussier & Cornman, 1995). Again, ANOVAs and t-tests indicated that management experience had no significant relationship to the value or types of assistance received, or the strategies followed by the ventures in this subsample.

Table 1. provides a breakdown of the sample in terms of business age, size, and industry sector. ANOVAs were conducted to determine whether the sample was suitably homogeneous, in terms of age and size, for pooling. Results indicated that the mean age and total sales did not differ based upon strategy pursued. T-tests also provided evidence that neither age nor size influenced the type of assistance received.

### **Classification of Strategies**

A venture's strategy was classified as cost, benefit, utility, or shortage based upon the extent to which it used cost and/or benefit competitive weapons (see Figure 1). Clients were asked to compare their prices, non-price benefits of products or services, and uniqueness or newness of products or services with those of their competitors on a seven-point scale ranging from 'significantly lower' (1) to 'significantly higher' (7). A midpoint response of (4) indicated the client was 'about the same' as competitors on the factor of interest. Measurements of venture strategy via comparisons with competitors has been used in other studies (Chaganti & Schneer, 1994; Gartner, Mitchell, & Vesper, 1989).

Use of a cost weapon was measured by client responses concerning relative prices; a response of "3" or lower indicated the use of a cost weapon. Such a response indicated that the venture competed on price and suggested the need for careful cost control. Use of a benefit weapon was determined by examining clients' ratings of relative nonprice benefits and uniqueness of products or services; a response of "5" or greater on either scale indicated use of a benefit weapon. Such responses suggested that the venture sought to differentiate its products or services based on some attribute other than prices or costs. Using the breakpoints discussed above, shortage ventures were those that did not indicate the use of either a cost or benefit weapon; those that employed both weapons were classified as following a utility strategy.

Because 16 clients provided strategy data in both of the yearly surveys, we were able to make a rough assessment of the reliability of the strategy measure. Clients' responses to relative price, non-price benefits, and uniqueness or newness of product were correlated at 0.84, 0.74, and 0.77, respectively. Using the scheme described above, 13 of the 16 clients reported strategies (81.3%) remained unchanged. Of the three clients whose strategy responses differed, two changed from shortage to benefit strategies, and one client moved from a benefit to a utility strategy. The difference in strategies reported by these three clients may indicate response error or reflect a true change in competitive position. In all three cases, the client's

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response indicated the venture had obtained a competitive weapon which it did not possess the year before. In particular, we might expect shortage ventures to attempt to develop a basis on which to compete as a result of the SBDC's counseling efforts. Nevertheless, these three clients were dropped from the analysis leaving a sample of 220 ventures.

### **Independent Variables**

Managers were asked to indicate the areas in which outsider assistance was received. Following the distinctions made by Ansoff (1965), each area of assistance was classified by the researchers as pertaining to strategic (strategic planning, feasibility analysis, pro-forma financial analysis, and business planning), administrative (finance, accounting, personnel, and general management), or operating problems (marketing, production, inventory control and purchasing, and operations) to measure the types of assistance received. A panel of five judges, familiar with the entrepreneurship and strategic management independently classified each of the assistance areas. The level of agreement between their classifications and those of the researchers was 73 percent. To assess reliability, the areas of assistance reported were compared with those documented in 17 available SBDC case files. The level of agreement between the case file data and the survey responses was 94 percent (16 of 17 cases), indicating that the assistance measure was reliable.

We used the types of assistance each client received (strategic, administrative, or operating) as our independent variables. Ventures that received all three types of assistance were said to have received comprehensive assistance; those with less than three types were considered to have received limited assistance.

### **Dependent Variable**

The dependent variable used was clients' perceptions of the value of SBDC assistance. Clients were asked to rate the SBDC's counseling services on a seven point scale ranging from 'worthless' (1) to 'vital to success' (7). In general, the 220 clients who provided responses rated the services favorably; the average rating was 5.23. The use of this measure is consistent with both previous research on outsider assistance to entrepreneurs (Chrisman & Carsrud, 1989) and studies that evaluate the effectiveness of consulting efforts in the organizational development literature (Armenakis & Burd, 1988).

To assess reliability, clients were also asked if the services received from the SBDC were beneficial. Responses to this question were significantly correlated with perceived service value ( $r = .68$ ;  $p = .000$ ).

## **RESULTS**

One-tailed t-tests were used to test all the hypotheses excepting H4. Because only two cost ventures received both administrative and strategic assistance, a Mann-Whitney test was used to test that hypothesis. Variable means and standard deviations are provided, by strategy, in Table 2.

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### Cost Strategies

It was expected that ventures with cost strategies that received administrative assistance would perceive the value of the assistance received to be greater than those that did not. As Table 3 shows, a one-tailed t-test failed to support H1; the service value ratings of those that received administrative assistance were not significantly greater than those that did not ( $p = 0.46$ ). H2 was supported, however. As reported in Table 3, a Mann-Whitney test detected a significant difference in service value when ventures that received *both* administrative *and* strategic assistance were compared to those that received *either* strategic *or* administrative assistance ( $p = 0.034$ ).

While we did not develop hypotheses regarding the types of assistance the ventures would be most likely to receive from the SBDC, we thought it useful to investigate this issue in order to gain further insight. Although one might expect that the assistance received would conform to the assistance that we hypothesized would be needed, this did not turn out to be the case. Thus, only 30 percent of the ventures with cost strategies received administrative assistance, and exactly half received strategic assistance.

### Benefit Strategies

As shown in Table 3, ventures following benefit strategies that received operating assistance perceived the value of outsider assistance to be greater than those that did not receive such assistance, supporting H3 ( $p = 0.011$ ).<sup>2</sup> Support was also found for H4. Benefit ventures receiving both operating *and* strategic assistance reported significantly higher service value ratings than those that received only one type of assistance ( $p = 0.002$ ).

In spite of the support for our hypotheses it is interesting to note that only 28 percent of the ventures with benefit strategies received operating assistance. On the other hand, 69 percent did receive strategic assistance. Again, a large number of ventures do not seem to receive the types of outsider assistance that appear to be valued most.

### Shortage Strategies

Our results indicate that shortage ventures that received comprehensive assistance perceived the value of outsider assistance to be greater than those that did not ( $p = 0.027$ ). Thus, H5 was supported (Table 3). Unfortunately, though comprehensive assistance appears to be valued by shortage ventures, only 13 percent received this sort of help. This is not altogether surprising, however. While we argued that these ventures should seek comprehensive assistance, it is reasonable to expect that they lack a strategy based on competitive advantage, in part, because they understand neither the value of strategy nor the value of the operating and administrative arrangements necessary to make strategy work.

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<sup>2</sup> Interestingly, ventures following benefit strategies did not perceive administrative assistance to be of significant value, as evidenced by a lack of statistical difference between those that did and those that did not receive that sort of help. A similar lack of association was found between perceptions of service value for ventures following cost strategies that received operating assistance.

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Unfortunately, these results also suggest that the consultants were either unable to diagnose this need or unwilling to press the issue with these clients.

### **Utility Strategies**

Strong support was found for H6 (Table 3). As anticipated, utility businesses that received comprehensive assistance rated the value of outsider services significantly higher than those that did not ( $p = 0.009$ ). However, consistent with our other analyses, only a small number of ventures with utility strategies (18%) actually got this sort of assistance.

## **CONCLUSIONS**

This exploratory study examined the relationship between new venture strategy, outsider assistance, and the perceived value of assistance. The results provided support for all but one of the hypotheses. Our contention that ventures following a cost strategy would value administrative assistance was not supported. However cost ventures that received both strategic and administrative assistance perceived the value of that assistance to be significantly greater than those that received one or the other alone. In addition, the perceived value of assistance was significantly higher for benefit ventures that received operating assistance, but was higher still when such clients received both together. Finally, shortage and utility ventures that received comprehensive assistance perceived the SBDC's services to be significantly more valuable than those that did not, although probably for different reasons.

Thus, for all but one of the hypotheses linking strategy, types of assistance, and perceived value of assistance, the results were statistically significant. However, the results also showed that, with one exception, the proportion of businesses that received the assistance that was posited to be most beneficial was lower or no greater than the proportion of ventures that did not receive that sort of assistance.

### **Limitations of the Study**

This study has important implications for entrepreneurs, consultants, and future research. However, it also has a number of limitations. First, this study investigated one source of outsider assistance, the SBDC, in one state among clients that received counseling over a two year period. Therefore, it may not be generalizable to other settings. Although our research design may have limited the study's generalizability, it also increased the homogeneity of the population, and this we consider to be a strength. Thus:

Narrower, more homogeneous populations would limit the generalizability of any single study, but this would be offset by gains in the definitiveness of the findings, the levels of variance explained, and the applicability of the results to the population. In short, solid findings about a narrower population are better than marginal findings of questionable generalizability to a broadly defined population (McKelvey, 1978: 1438).

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Second, the small number of cost ventures in the sample restricted our ability to test the relationships of interest. Hence, we could not ascertain the value of administrative assistance to cost ventures with as high a level of confidence as we would have wished.

Third, the study focused exclusively upon the types of assistance received rather than the depth of assistance in specific areas. It is possible that a measurement of depth would have yielded new insights or different conclusions.

Fourth, because both the independent and dependent variables were measured via the same survey instrument, this study may have been vulnerable to problems associated with common method variance (Campbell & Fiske, 1959; Fiske, 1982). When our survey measures are evaluated in terms of the potential causes of artifactual covariance described by Podsakoff and Organ (1986), however, we did not find evidence of effects that would invalidate our results.

Our strategy measures may also be criticized on several grounds. First, they were somewhat simplistic for the purpose of capturing a complex construct. However, the scales employed were direct, highly consistent with our conceptual framework, and understandable to clients regardless of their business sophistication. Nonetheless, this must be still be considered a limitation of this study.

It is also possible that respondents' assessments of their competitive positions were inflated with regard to price, non-price benefits, and uniqueness. If such bias was present, however, one would expect to find a disproportionate number of utility ventures to shortage ventures as the former strategy indicates a strong position on both cost and benefit dimensions and the latter a weak position in both areas. Since the numbers of utility ( $N = 44$ ) and shortage ventures ( $N = 39$ ) in our sample were very similar, the probability of this sort of bias seems remote, although still greater than zero.

Furthermore, our methodology did not permit measurement of the appropriateness of the strategies followed by the ventures. It is possible that some ventures followed an inappropriate strategy. If this is true, the accuracy of our conclusions would be open to doubt. However, given the attention to problem diagnosis by SBDC consultants, we do not believe that this possibility was great, or that the few occasions where it might have occurred caused serious bias to the results of the study. If it had, we would have expected to see lower evaluations of the SBDC's services than were obtained. Since there was a lag of one year between when the assistance was provided and when the survey was conducted, such serious strategic errors would have undoubtedly affected performance and been reflected in client evaluations.

Finally, the study is also limited by our use of subjective measures of the value of outsider assistance. Although subjective measures are useful, they can not replace hard data on profitability, sales growth, productivity, and so forth. While studies have shown subjective

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measures to be correlated with objective performance measures (Dess & Robinson, 1984), the evidence is not conclusive (Sapienza, Smith, & Gannon, 1988).

### **Implications for Entrepreneurs and New Venture Managers**

Because this study involved only clients of one outsider assistance program in one state over a relatively short period of time, its findings should be considered tentative. Nonetheless, it offers important implications for entrepreneurs and new venture managers.

First, this study emphasizes the importance of strategy as well as its linkage to the administration and functional operations of a venture. Although this message is not new its importance indicates it is worth repeating. Thus, the principal implication of this study is that entrepreneurs can benefit most from outside assistance that helps build or enhance the critical functional skills and competencies required to competitively implement a strategy. Furthermore, when this is accompanied by strategic assistance, the potential value is greater still. Specifically, ventures following cost strategies seem to obtain the most value from a combination of administrative and strategic assistance. For ventures following benefit strategies, assistance in operations and strategy seem to provide the greatest value. Finally, ventures that employ utility strategies, or that are stuck-in-the-middle with a shortage strategy, appear to gain the most when comprehensive assistance in strategic, administrative, and operating areas is received.

These are particularly important findings since it appears that many entrepreneurs do not seek assistance in areas that are consistent with the strategic requirements of their ventures. Since strategy should be built upon strength, it is likely that these entrepreneurs seek assistance based not upon strategy, but upon other criteria such as perceived weaknesses or most pressing needs. If so, many new businesses are either failing to recognize, or ineffectually addressing, the competitive forces in their environments. This is not to say that assistance in improving areas of weakness is not valuable or necessary. However, using outsider assistance to simply prop up or strengthen weak functional areas may result in inefficient deployment of scarce resources to areas that are less critical to a venture's strategy. It may also result in a strategy that is not adequately supported by the skills and resources required to meet the key success factors in the environment. Therefore, strategy should become a driving force in the search for effective outsider assistance. Entrepreneurs and new venture managers should be as willing to seek or accept advice in areas that are perceived as strengths as in areas that are perceived as weaknesses if the full value of outsider assistance is to be obtained.

This also suggests that entrepreneurs should more actively evaluate and manage their outside advisors (Stevenson & Sahlman, 1988). Entrepreneurs should seek outside consultants who possess the skills and experience necessary to aid in the formulation of strategy and in tying specific functional assistance to the venture's present or future source(s) of competitive advantage. However, the fundamental linkage between strategy and outsider assistance suggested in this article indicates that care must be taken to ensure that advisors also possess the requisite skills needed to diagnose the true needs of the venture.

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Finally, this study provides further evidence that entrepreneurs can obtain useful assistance from the Small Business Development Center program in both formulating and implementing a strategy. The value of this resource to new venture development should not be overlooked by aspiring entrepreneurs.

### **Implications for Outside Consultants and Assistance Programs**

Outside consultants should not assume that entrepreneurs will always accurately perceive their assistance needs in terms of developing a long-term source of competitiveness. Few entrepreneurs received assistance in areas most pivotal to their long-term success. Directors of outside assistance programs, such as the SBDC, should therefore consider these findings with the aim of optimizing the impact of their limited resources. An analysis of a venture's strategy can identify critical areas in which outside assistance should be primarily targeted. In particular, strategic assistance is clearly beneficial as strategy is the principle lever by which other critical competitive needs are identified. Without a clearly formulated strategy, the new venture's most critical assistance needs may not be understood or identified.

Consultants should be instructed to ask questions during the initial client meeting that will allow them to discern the strategy of the venture. Once the strategy is identified consultants should probe for information concerning the key functional skills used by the venture to support that strategy. Such a proactive stance in the client-consultant relationship must of course be handled with tact and patience. However, the potential benefits from such an approach appears to outweigh inconvenience in time or effort as well as any risk of alienating a recalcitrant client.

A related implication is that SBDCs and other assistance programs would do well to evaluate their capability to integrate assistance in strategy formulation with that of implementation (Nahavandi & Chesteen, 1988). This would entail more detailed environmental analysis in areas such as customer needs, competitors' strengths, and the target market's key success factors. The firm's specific resources and capabilities should be evaluated in light of those required to compete successfully. In turn, assistance should be targeted at functional areas that best address the gap between what the venture is capable of doing and what it needs to do to compete effectively. To accomplish this, it may be necessary to utilize a team approach to consulting because the skills of any one consultant are limited. Traditionally, the SBDC has assigned clients to a consultant who has expertise in their area of most pressing need. Given the widely diverse assistance needs of the new venture, however, a further division of labor among consultants by task, rather than solely by client, may lead to more effective assistance.

### **Directions for Future Research**

This study and its conceptual foundation offer rich opportunities for further research. For example, the small number of cost ventures identified in this study highlights a relatively untapped need for large sample research that investigates new ventures that strive for low cost advantages. Because entrepreneurship tends to be associated with product innovation, we know less about the nature and feasibility of ventures following cost strategies.

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In addition, research to determine how the strategic and nonstrategic assistance needs of new ventures are identified, and how and by whom such assistance is best provided is needed. Do entrepreneurs seek to build and enhance appropriate competitive strengths or do they, as this study suggests, simply look to remedy perceived weaknesses and short-term exigencies? What part do consultants play, if any, in the identification of assistance needs? It is also possible, if not likely, that entrepreneurs seek out different types of assistance from different sources. If this is so, research is needed to determine the sources of assistance that are most effective and when. While SBDCs and other assistance programs are comparatively inexpensive and provide competent basic assistance, industry experts and other specialists may be more capable of guiding ventures in certain situations (Stevenson & Sahlman, 1988).

Future studies would also benefit if the background, experience, and skills of entrepreneurs were taken into consideration. Preliminary analysis suggested no relationship between management experience, value of assistance, strategy, or type of assistance received. However, more in-depth analysis may yield additional insights. Some entrepreneurs may perceive, and perhaps rightly so, that their own specialized expertise in critical areas is greater than that available from certain programs or consultants. For example, we might expect seasoned managers that spinoff ventures from established corporations to rely heavily on their own expertise and resources in critical areas, and to seek solutions to less important concerns through, for example, the SBDC.

In conclusion, if the economic benefits of entrepreneurial activity are as extensive as many experts and observers believe, we should look to discover better ways to efficiently link new ventures to the limited resources available to them. As this and other studies have demonstrated, one important resource is outsider assistance. Our conceptual approach and findings, tentative as they are, suggest that new venture strategy may explain why certain types or combinations of assistance may be more valuable in one case than in another.

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## **Appendix: The Small Business Development Center Program\***

Started in 1978, the Small Business Development Center program in United States provides free, in-depth management assistance to resource-poor individuals who are seeking either to launch a new venture or to learn how to manage their existing business more effectively. Although most of the SBDC's clients compete in the retail or service sectors of the economy, these businesses remain vital to the framework of regional economies.

The SBDC provides a wide range of strategic, administrative, and operating assistance to its clients in areas such as business and strategic planning, feasibility analysis, general management, finance, accounting, personnel, marketing, production operations, and inventory control. It also offers a variety of tailored programs for exporting, government procurement, minority assistance, computer assistance, and inventor assistance. Its distinctive competencies, however, are in the areas of business planning and financial analysis. Because of a large and ever expanding client base, and because many of its clients lack sophisticated management skills, the philosophical approach of the SBDC is to guide and train its clientele rather than do the work for them as a for-fee consultant might. Thus, the SBDC concentrates on problem diagnosis, developing a client's management skills, and providing advice, information, and assistance. It does not prepare a client's business plans, formulate its strategy, give loans, etc.

The South Carolina SBDC, the site of this study, employs 60 persons in 14 offices around the state. Employees include 30 full-time consultants and 10 part-time consultants. The remaining 20 employees are involved in administrative tasks (e.g., information systems) and special assignments (e.g., procurement assistance). Because of the importance of providing high quality assistance in a relatively short period of time (consultants spend an average of 6-7 hours per client in face-to-face counseling and preparations), the hiring and training policies for both full- and part-time consultants are rigorous.

Part-time consultants are typically MBA students who possess highly developed skills in financial analysis and marketing. Once hired, part-time staff are closely mentored for the first six weeks of their employment and this mentoring process continues as needed for a period of 18 months. The mentoring process involves meeting with experienced consultants before and after client contacts; furthermore, no new employee is permitted to work with a client without a mentor present. The purpose of this mentoring is to supplement the consultant's quantitative skills with skills in problem diagnosis and human relations.

Full-time consultants hired by the SBDC must also possess skills in finance, marketing and general management, as well as hold a graduate degree or have previous experience as a consultant or small business manager. These employees must also be mentored although the length of the process is shorter than for part-time employees. In addition, all full-time consultants must obtain professional certification from the National Development Council. The certification process consists of four one-week training courses over a 6-12 month period followed by the successful completion of a multi-part examination.

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\* This information was obtained in an interview with John Lenti, Director of the South Carolina Small Business Development Center, January 5, 1994.

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**FIGURE 1**  
**CLASSIFICATION OF NEW VENTURE STRATEGIES**

**COST/PRICES**

		Low	Average	High
<b>BENEFITS</b>	High	Utility (N=44)	Benefit (N=117)	
	Average	Cost (N=20)	Shortage (N=39)	
	Low			

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**Table 1**

*Breakdown of Sample of New Ventures by Age, Annual Sales Volume, and Type of Business: Frequency Distributions*

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Variable	Frequency	Proportion of Sample
AGE		
0-1 years	75	34.1%
2-4	124	56.4%
5-8	21	9.5%
ANNUAL SALES (\$000)		
0-250	195	83.8%
251-500	11	7.1%
501-750	7	4.7%
751-1000	7	4.7%
TYPE OF BUSINESS		
Retail	71	32.2%
Service	75	34.3%
Manufacturing	46	20.9%
Other	28	12.6%

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**Table 2**

*Descriptive Statistics of the Independent and Dependent Variables  
for New Ventures by Strategy*

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	COST VENTURES (N=20)		BENEFIT VENTURES (N=117)		SHORTAGE VENTURES (N=39)		UTILITY VENTURES (N=44)	
	Mean	S.D.	Mean	S.D.	Mean	S.D.	Mean	S.D.
ADMINISTRATIVE ASSISTANCE	0.30	0.47	0.51	0.50	0.59	0.50	0.45	0.50
STRATEGIC ASSISTANCE	0.50	0.51	0.69	0.46	0.41	0.50	0.55	0.50
OPERATING ASSISTANCE	0.20	0.41	0.28	0.45	0.38	0.49	0.41	0.50
COMPREHENSIVE ASSISTANCE	0.05	0.22	0.12	0.33	0.13	0.34	0.18	0.39
SERVICE VALUE RATING	5.60	0.99	5.33	1.30	5.05	1.62	4.93	1.56
VENTURE AGE	2.45	2.04	2.99	2.16	2.77	2.23	2.34	1.45
VENTURE SIZE	182.94	294.19	132.83	259.69	110.78	229.39	73.89	134.80

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**Table 3**

*Relationship Between Types of Outsider Assistance  
and Perceived Value of Outsider Assistance*

Assistance	N	Mean	S.D.	Test Statistic	Significance	Hypotheses
<b>FIRMS WITH COST STRATEGIES</b>						
Administrative	6	5.67	1.21	t = 0.17	p = 0.426	H1. Not supported
No Administrative	14	5.57	0.94			
<b>FIRMS WITH BENEFIT STRATEGIES</b>						
Administrative and Strategic	2	7.00	0.00	z = 1.83*	p = 0.034	H2. Supported
Administrative or Strategic	12	5.67	0.89			
<b>FIRMS WITH SHORTAGE STRATEGIES</b>						
Operating	33	5.73	1.04	t = 2.34	p = 0.011	H3. Supported
No operating	84	5.18	1.36			
Operating and Strategic	25	5.96	0.79	t = 2.42	p = 0.002	H4. Supported
Operating or Strategic	64	5.24	1.41			
<b>FIRMS WITH SHORTAGE STRATEGIES</b>						
Comprehensive	5	6.20	1.10	t = 2.34	p = 0.027	H5. Supported
Limited	34	4.88	1.63			
<b>FIRMS WITH UTILITY STRATEGIES</b>						
Comprehensive	8	5.88	0.99	t = 2.62	p = 0.009	H6. Supported
Limited	36	4.72	1.61			

\* Mann-Whitney U-test.