

**BOOK REVIEW**

**THE ORIGIN AND EVOLUTION OF NEW BUSINESSES**

**By Amar V. Bhidé**  
Oxford University Press, 2000, 412 pages

**Reviewed by**  
**Ron Cook, Rider University**

*The Origin and Evolution of New Businesses* uses inductive research in an exploratory study of 100 founders of Inc. 500 firms to help conceptualize the field of entrepreneurship. It compares the new venture creation environment with large company circumstances. The author also incorporates findings from a mail survey of Harvard alumni and from research conducted by his students.

The author poses three general sets of questions that drove his research:

1. Why do most entrepreneurs face capital shortages? Why do individual entrepreneurs do less research on initiatives than larger firms? What problems does this create, and how are they solved?
2. What changes are needed so entrepreneurial startups can grow into large firms? What individual traits are needed for growth? What problems are faced in growing a firm that were not present in the startup phase?
3. How do economic conditions affect startups versus larger companies? What are economic consequences of the transition from a startup to a mature corporation?

It is important to note that the main focus of the author's research is on what he terms "promising startups." These are firms that have growth potential and may evolve into large, mature companies. These firms are also known as gazelles (Longenecker, Moore & Petty, 2003), or entrepreneurial ventures (Hodgetts & Kuratko, 1998). Regardless of the term, they constitute a small percentage of all startups since most small firms have low growth potential. Hence, his book is a study of a subset of startups, as exemplified by the Inc. 500 firms, and is not indicative of the majority of companies.

The author introduces a new concept – the investment requirements, irreducible uncertainty, and likely profit framework- and uses it to explain the behavior differences that occur when comparing startups versus evolving businesses versus large corporations (different levels of uncertainty, investments and profit potential). The book describes how moving from a promising startup to a transitional business to a large business requires different skill sets. For example, founders of new ventures face significant capital constraints and great uncertainty.

They rely on opportunistic adaptation to unexpected events to prosper. This adaptation is described as the ability to be agile and to shift focus as the marketplace changes. As a result, the firm grows, it commits more resources to less uncertain initiatives and, therefore, the opportunism strategy evolves towards more systematic planning for the future.

By describing the reliance on adaptation in the early stages of startups (instead of formal planning), the author helps answer the question of why don't many startups plan. In doing so, Bhidé provides a blueprint for when planning begins to make sense.

His rationale is that entrepreneurs starting an uncertain business with limited funds can't afford to devote much time or money on research as the modest profit potential and high uncertainty of the venture limits the expected value of the research. He also found that entrepreneurs often have lower cost structure (than larger firms) and less opportunity costs relating to failure. Hence, they tend to think, "heads I win, tails I don't lose much," and simply plunge in.

The author then compares promising startups with large corporate initiatives, marginal startups (which have little chance of gaining significant size or profitability), venture capital-backed start-ups, and revolutionary ventures (which utilize a large-scale innovation). These archetypes were chosen for their distinctive pattern and, by the author's admission, are not a comprehensive taxonomy. One value of this work is in understanding the process in which promising startups can become growth ventures and then ultimately, large mature companies. Part of this value is understanding the parameters of each stage, and also understanding what is needed to move forward to the next stage.

Given that there are about 12 million fulltime ventures in the U.S., with the vast majority of them being very small, and with over 750,000 new ventures started each year (Dennis, 2000), what is so different about the promising startups, as represented by the Inc. 500 firms? Especially when compared to marginal startups? Part of the answer is the hospitable markets promising startups pursue. The most popular businesses for all startups are construction, restaurant, and retail, and they are not generally found on Inc. 500 lists.

The next reason is the uncertainty factor of future profits. Marginal ventures and promising startups tend to have a similar low value payoff initially, but the uncertainty in promising startups' profit potential creates a small chance that profitability will be much greater. In mature, highly competitive industries where marginal ventures are often found, competition has removed much of the profit uncertainty and reduced the profit potential to a relatively stable, but low level. Promising startups also tend to work in turbulent or new markets where they can exploit a lack of information.

In summary, promising startups tend to:

1. Start ventures in adhoc way, without any systematic effort to find the best possible opportunity.
2. Through adaptation, some entrepreneurs find larger opportunities but not systematically.
3. Overtime, a firm gains a distinctive bundle of assets that help define their market choices.
4. As a firm grows, it develops a strategic approach.

The author argues that turning a promising startup into a large, long-lived corporation entails a radical transformation, not a simple scaling up. Generally, he found an inverse relationship between the investment requirements and uncertainty of new initiatives. Inexperienced, little

to lose entrepreneurs are on one end of the spectrum, and large, mature corporations are on the other end, and there are a variety of firms in between. Occasionally, there are outliers (the revolutionary concepts like Federal Express) but they are the exception rather than the rule. He also explains how VC-backed startups tend to be more systematic in their research than promising startups.

Bhidé ends his book with suggestions as to new research approaches that his exploratory study has revealed. My enjoyment with this book is based on the conceptual framework developed by the author to shed some light on a segment of the startup universe, i.e., the promising startup. Based on his research, he offers an explanation as to the behavior/process that these firms go through as they grow.

My main problem with his book is the treatment of the "marginal firms." I believe that because a firm does not grow into a larger firm is not always a bad thing. These firms, often called lifestyle or income substitutor companies, can provide a good living for the owner, a satisfying way of life, and can do very well while in their niche. Finally, since the author focused on one segment of the startup world (promising startups), a better title for *Origin and Evolution of New Businesses* would be *Origin and Evolution of High-Growth Potential New Firms*, since he is really talking about less than 15% of the new ventures out there. However, the conceptual clarity of his research on this target group is excellent and it is worth reading for that alone.

#### REFERENCES

- Dennis Jr., W. J. (2000). *NFIB small business policy guide*. Washington, DC: NFIB Foundation.
- Longenecker, J. G., Moore, C. W., & Petty, J. W. (2003). *Small business management: An entrepreneurial emphasis*, (12<sup>th</sup> ed). Mason, OH: South-Western Publishing.
- Hodgetts, R. M., & Kuratko, D. F. (1998). *Effective Small Business Management*, (6<sup>th</sup> ed). Fort Worth, TX: The Dryden Press.

*Ronald G. Cook is a professor of small business/entrepreneurship at the College of Business, Rider University, a Certified Small Business Counselor (CSBC) and the director of Rider's Small Business Institute™. His student consulting projects have won national titles, and he has extensive consulting experience with small firms. His current research interests are business plans, and micro-enterprise training.*