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Survival strategies and characteristics of start-ups: an empirical study from the New Zealand IT industry

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Keywords

Survival strategies, Strategic choice, Start-up IT organizations

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Survival Strategies and Characteristics of Start-Ups: An Empirical Study from the New Zealand IT Industry

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Abstract

The purpose of this paper is to report the findings of an exploratory study on the characteristics of New Zealand start up IT firms that survived the dot.com collapse. The paper is based on the in-depth interviews of nine entrepreneurs of start-up IT firms in New Zealand. The findings reveal how moderate strategy types influence survival, and what core organizational characteristics influenced the realisation of these strategies. These findings indicate that the firms that survived projected characteristics of holistic strategic balance, mastering resources and unifying focus. Successful firms made purposeful choices on resource allocations and realized moderately simple strategies. In contrast, firms that failed projected a general lack of strategic balance, mastering and trade off. These firms' organizational themes realized excessively complex strategies with no distinct focus.

1. Introduction

Why did so many 'promising' start-up IT firms fall short of expectations? Did their downfall have anything to do with over diversification? The purpose of this paper is to report the findings of an exploratory study of the distinct characteristics of New Zealand start up IT firms that survived the dot.com collapse. To understand the characteristics of the surviving IT start-up firms, it is important to understand the firms' strategic scope and typical activities because they influence the strategies pursued by a firm.

The body of strategy making literature suggests that strategic scope includes three elements: product scope, market scope and industry scope. According to Grant (2002), product scope is based on the question "how broad a range of products should the firm supply" while the market scope is "the geographical scope that a firm serves" (Grant, 2002: 72). In relation to industry scope, economists define industry as "a group of firms that supplies a market" (in Grant, 2002a: 86). Accordingly, industry scope can be defined as "the range of related industries in which the firm competes with a co-ordinated strategy" (Porter, 1985: 54). For example, an IT firm may provide mobile data solutions to the telecommunication industry, fast moving consumer goods industry and the banking industry by adopting uniquely co-ordinated strategies within each industry to suit their individual industry product requirements. In this paper, strategic scope will be assumed to be a combination of product, industry and geographical and market scope.

A firm's activities provide an important clue to answer the question "where does the firm compete" (Grant, 2002). According to Porter (1985: 36), "every firm is a collection of activities that are performed to design, produce, market, deliver and support its products. All these activities can be represented using a value chain". The value chain consists of "the physically and technologically distinctive activities a firm performs" (Porter, 1985: 35). These can be divided into primary and support activities. Primary activities are "the activities involved in the physical creation of the product and its sale and transfer to the buyer as well as after sales assistance" (Porter, 1985: 38). The support activities are those activities that "support primary activities and each other by providing purchased inputs, technology, human resources and various firm-wide functions" (Porter, 1985: 38).

2. Strategies and performance implications

Based on the above two dimensions (strategic scope and activity configuration) the literature points to two distinctive realised strategy types. The first strategy type is when firms pursue an overall *broad* strategic scope with related broad activity configurations (resulting in realising complex strategies). In the second strategy type, firms pursue an overall *narrow* strategic scope with related narrow activity configuration (resulting in realising simple strategies). However, when firms pursue a combination of an extremely limited strategic scope with related activity configuration, these firms tend to realise excessively simple strategies. Miller (1993) indicates that firms pursuing such excessively simple strategies may "ultimately come to rely on too narrow a set of customers products, and issues" (Miller, 1992b: 28). Furthermore, these firms "risk fairly rapid extinction in the event of a major market shift [due to] its gambling on the continued viability of its limited set of products and markets" (Miles, Snow, Meyer, & Coleman, 1978: 39).

Similarly, firms can become too complex by attempting to serve an excessively broad strategic scope with an excessively broad activity configuration. For example, according to Ansoff (1965), when a firm pursues a broad strategic scope such as the "transportation business", these firms are unable to provide a "common thread" that is "a relationship between present and future product-markets which would enable outsiders to perceive where the firm is heading" (Ansoff, 1965:105). As a result, firms that "thrive by aggressively diversifying often become too complex, fragmented and thinly spread to be effective" (Miller, 1992b: 28).

Then we can assume that when firms avoid overly excessive or restrictive strategic scope, these firms realise moderate strategies. Consequently, since overly excessive or simple strategy types are linked with poor organizational performance levels, then we can also assume that moderate strategies are more suited for survival. However, what is not clear is which characteristics cause IT start-up firms to pursue moderate strategies. Before we identify these, it is important to understand the research context, the New Zealand IT industry. It is to this that we now turn.

3. The information technology industry and entrepreneurship in New Zealand

According to Monsted and Jensen (2001), information technology (IT) is:

> "… an art and not a science. It is the combination of different skills and networks, which form the firm. You cannot in this field develop a prototype, and then try to sell. This is not possible. You have to be close to the market, and know the needs and the possible prices and avoid the linear thinking. You have to be able to live with uncertainty"
>
> *(Monsted and Jensen, 2001: 2)*

High-tech firms operate in uncertain and volatile environments, where technologies, competitive boundaries, and market conditions change continuously (Bahrami and Evans, 1989; Marksman, Balkin and Schjedt, 2001). Similarly, Eisenhardt and Sull state that (2001) high-tech industries portray characteristics of intense rivalries, constantly evolving strategies, instant imitators, and few barriers to entry. As such, the information technology industry can be considered as a segment of the high tech industry sharing similar characteristics. High-tech industry is faced with the concept of 'winner takes most' and therefore, these firms need to operate on a mission orientation rather than on a production orientation (Arthur, 1996). Typically, high tech firms rely on tacit knowledge-based resources such as employee talents, ideas and expertise rather than physical assets (Brush, Greene and Hardt, 2001).

There is also an observable trend of increasing returns to scale in high tech industries (Arthur, 1996). This is because, even though the up-front cost of operations is high initially, as sales increase, the unit cost tends to fall. Thus when a product gains prevalence, it is likely to emerge as an industry standard. This occurs when clients invest in training of that particular product and keep updating their skills on the new revisions of the product. In such an industry, it pays to be the first and to have the best technology (Arthur, 1996). At the same time, although the IT industry may have brought a few major success stories like Yahoo and Microsoft, the attractiveness, may be more long-term than generally considered. Typically, bankruptcies occur on sixty percent of the high tech companies that succeed in getting venture capital (Nesheim, 2000). The high-tech industry is also known to have the highest number of "landmines and goldmines" (Nesheim, 2000). These ‘landmines and goldmines’ have considerable economic and social consequences on the New Zealand economy.

New Zealand entrepreneurial firms employ fifty five percent of the full-time workforce (Statistics New Zealand, February 2001). This indicates the importance of entrepreneurial firms to the New Zealand economy. Due to the geographical isolation of New Zealand, these firms are well equipped with survival mechanisms (Campbell-Hunt, 2001). There is a strong sense of rugged individualism in the New Zealand culture that promotes self-employment and all-round management of their own businesses (McGregor and Gomes, 1999).

According to a study of successful entrepreneurial firms in New Zealand (Campbell-Hunt, 2001), entrepreneurial leaders are generally exposed to many overseas markets and cultures. These successful entrepreneurs have high levels of enthusiasm, energy and were resilient in the face of failure. They give their utmost priority to their employees and establish long-term relationships based on trust, goodwill, integrity and show core interdependence.

On the negative side, even though these entrepreneurs are technically well versed in their own field or trade, their entrepreneurial culture exhibits a lack of overall management skills that are necessary to run successful businesses (Bollard, 1998). This may be aggravated by the fact that small firm owner-managers are often responsible for all facets of firm operations (McGregor and Gomes, 1999). As a result, irrespective of whether these owner entrepreneurs possess adequate skills, they act as general managers, finance managers, human resource managers and production managers for their business. Similarly, there is an observable widespread reluctance in New Zealand to embrace the concept of world-class achievement and to pursue excellence (Birchfield, 2001).

4. Methodology

This study aims to examine the distinct characteristics of New Zealand start up IT firms that survived the dot.com collapse. It will examine how moderate versus excessive strategy types influence survival, and what core organizational characteristics influenced the realisation of these strategies. The research tactics used in this study is grounded on the case study methodology.

The case study methodology is a useful research framework to overcome problems of resistance to survey methods and smallness of the sample size (Chetty, 1998). The case study method enabled us to assess holistic patterns of social phenomena in real life situations (Numagami, 1998). In addition, we also considered that "the evidence from multiple cases is often considered more compelling and the overall study is therefore regarded as being more robust" (Yin, 1984: 52). As such, multiple-case study method enabled us to gain a better understanding of the research issues. Similarly, a multiple case study approach helped us to study patterns common to cases avoiding chance associations (Chetty, 1998). Each case was treated individually, yet patterns were analysed through cross-case comparisons.

In addition, we used secondary data such as newspaper articles, web site information, brochures and other public records relating to the firm to supplement the in-depth interviews. This form of triangulation "reflects an attempt to secure an in depth understanding of the phenomenon in question" (Denzin and Lincoln, 1994: 2).

4.1 Data collection

The primary method of data collection was in-depth interviews. These were conducted with founders of firms and/or their senior management. Each interview lasted about one and half-hours. During a two-year period, we maintained contact with the founders and management team. The participant selection was based on the first author's personal networks within the IT industry in New Zealand. Her IT work experience helped us to establish a good rapport with the senior management of the selected IT firms. Some of the key data gathered from the interviews are outlined in Table I.

Insert Table I

4.2 Data analysis

Tolich and Davidson (1999) highlight how qualitative research data collection and analysis are inextricably interwoven in a reiterative cycle of data collection, reduction, firm and data interpretation. We conducted a multiple case study analysis to identify similarities and differences between strategic scope, activity configurations, business philosophies and organizational performance levels. This in turn helped to generate a common set of characteristics that influence the realised strategies.

After transcribing the interviews, we extracted significant statements, phrases, and sentences that are directly related to organizational scope, activity configuration and performance. Thereafter, we clustered these statements into a common set of characteristics that influence the realisation of strategy types. Thus, the study was analysed at three levels.

First, we analysed the strategy dimensions (strategic scope and activity configurations) at individual firms. There were three logical combinations of strategic scope and activity configurations: i) firms that pursue a very broad strategic scope and activity configuration—realising excessively complex strategies; ii) firms that pursue a moderate scope and activity configuration—realising moderately simple or complex strategies; and iii) firms that pursue a very narrow scope and activity configuration-––realising excessively simple strategies. However, we were unable to find any firms that realised excessively simple strategies. Based on the individual strategy dimension analysis and the grouping of firms, we then analysed the characteristics that influenced realisation of each strategy grouping. The second stage of the data analysis was on identifying the characteristics that influenced the realisation of each strategy grouping. Finally, we analysed the link between the characteristics that influence the realisation of strategy types and the relationship between different realised strategy groups and survival.

In the next section, we present the findings based on a comparative case study analysis. Due to confidentiality reasons, we created pseudo names for entrepreneurs and firms. The nine firms were named after nine planets. There is no relationship between the size of the planet and the firm.

5. Findings

5.1 Strategic scope and activity configuration

Jupiter and Pluto exhibit the narrowest strategic scope and activity configurations. Both Jupiter and Pluto offer their product to a selective market/geographic scope. These two firms purposefully make choices on the market/ industry and product scope opportunities pursued. However, Jupiter and Pluto both did not exhibit signs of excessive simplicity and as such, they engaged in a simple strategy that offers a specialised product range to a niche market.

Uranus exhibits a broader product scope and a resulting activity configuration than Pluto and Jupiter. However, Uranus offers its products to a selective market/industry scope and realise a simple strategy. Saturn exhibits the broadest strategic scope within the firms that realise simple strategies. It offers its core product to a flexible geographic market. Its geographic scope varies and is dependent on the industry network and relationships. Saturn excels in its strategic scope and activity configuration by focussing on few activities within their resource capabilities. However, within the next few years, due to its gradual expansion of its strategic scope, it is possible that the company may realise a moderately complex strategy.

Of the firms that realised a complex strategy, Mercury displays the narrowest strategic scope and activity configuration. Although it has the narrowest strategic scope and activity configuration within this group, the company did not realise a moderately complex strategy or a moderately simple strategy because it was trapped in a strategic scope and activity configuration that was beyond its resource capabilities. Consequently, Mercury reveals signs of excessive complexity.

Mercury acted as resellers of software products, application developers, and managed maintenance for its clients. The firm focussed on New Zealand, UK, USA and Australian markets. The company engaged in marketing, sales, product development, and technical maintenance activities to cater to the strategic scope choices. During the second year, Mercury decided to focus on the development aspect of its product scope and manage within their resource capabilities. However, even with the product scope trade off and mastering, the company did not have the necessary resources to fund the operations in the four geographical markets. Consequently, the company has now decided to engage in a narrower geographic scope (New Zealand and Australia), offering only a specialised product scope (software development).

Mars, Neptune and Venus all realised excessively complex strategies exhibiting a similar level of excessively broad strategic scope and a resulting set of excessively broad activities (similar to Mercury). All three companies developed software, engaged in a broad geographic scope and were reliant on investor funding. Consequently, these firms engaged in a broad set of activities encompassing product customisation, establishing distributor networks within the diverse geographical markets, investor funding generation activities, and sales distribution activities.

Earth realised the most complex strategy encompassing an excessive strategic scope and activity configuration compared to all the other firms. Earth engaged in a broader geographic scope and yet was unable to generate the necessary level of investor funding to sustain the range of activities. As a result, the company was not able to specialise within any product or market/industry scope. Earth showed a lack of trade off, lack of mastering of strategic scope and activity configuration.

5.2 Organizational goals

There were three distinct organizational goals observed in the firms. One was a balanced and enjoyable life style. All the firms that focused on providing the entrepreneur and its team an enjoyable and a balanced life style realised a simple strategy. Generally, these firms also wanted to sustain business expansion through an incremental increase in its capabilities to sustain a manageable level of work and business risk taking. List on the stock exchange and create shareholder wealth was another distinct goal. Generally, listing in the stock exchange and creating wealth for its shareholders were the key organizational goals at all the sample firms that realised an excessively complex strategy (other than Mercury).

Other firms followed a combination of the first two goals. Pluto exhibited an organizational goal that combined both achieving a balanced and enjoyable life style and listing in the stock exchange or selling the company in the long term for a profit.

5.3 Business models

There were four distinct types of business models adopted by the participating firms. See Exhibit below:

Insert Exhibit I

Generally, all firms that realised a moderately simple strategy adopted a self-funding and self-sustaining business model. They funded their organizational operations and expansion from internal funding; mainly from the entrepreneur and managers' personal capital, and sales revenue. These firms were not dependent on external funding and reinvested most of the profits back into the firms. As such these firms followed the philosophy of "only spending what they earn" and being profitable at all times except during times of expansion. Similarly, these firms ensured that they engaged in a strategic scope and a set of activities that are within their skills and financial resources. Mercury was the only participating organisation realising an excessively complex strategy to adopt a self-sustaining business model. However, it is important to note that although they used internal funding for their operations, the company did not engage in a strategic scope and activity configuration that was within their skills and financial resource levels. Consequently the company was unable to sustain any form of business expansion.

All the firms that realised an excessively complex strategy adopted an external funding based business model. These firms were dependent on external investor funding to sustain its operations and expansion. The rationale was to use investor funding to establish the necessary infrastructure and recruit key people. These firms generally desired large-scale global expansion and wealth creation for its shareholders within the first three to five years. As a consequence, the firms that pursued this type of a business model generally undertook a range of activities and operations that were beyond their existing resource capabilities.

Neptune adopted a business model to develop and specialise a very specific strategic scope and activity configuration that creates a sustainable revenue generation. Thereafter, it systematically expanded into a global software firm with a strategic scope and activities to increase revenue generation. Pluto on the other hand adopted a two-phase business model. During the first phase of business, the company sustained a low fixed cost and a self-sustaining business model. It out sourced most of its operations to reduce its fixed costs and increased the chances of survival during the early stages. In addition, Pluto acquired skills such as financial planning, business planning, project management, and IT support through its own shareholders. These further reduced the cost of hiring personnel to perform these activities. After achieving the level of expansion possible from its internal funding, Pluto gained a selective level of investor funding to further expand the business.

The cross-case study analysis indicated that generally, all the firms that realised a moderately simple strategy were profitable, enjoyed incremental revenue growth and maintained or increased their employee numbers. On the contrary, all the participating firms that realised an excessively complex strategy experienced negative cash-flow problems, experienced downsizing, resulting in receiverships, and being sold. Mercury was the only firm that realised an excessively complex strategy to realise a marginal profit. This may be because the company had a different organizational goal and pursued a different business model than the other firms that realised excessively complex strategy.

6. Discussion

The above findings seem to indicate two common characteristics; strategic particularity and holistic strategic balance (see Exhibit II). These in turn influenced the realised strategies of these firms. Next, these two common characteristics are discussed.

Insert Exhibit II

6.1 Strategic particularity: Mastering, organizational theme and trade-off

The analysis of strategic scope and activity configuration seem to indicate that, the firms exhibiting moderate levels of strategic scope and activities tend to portray the qualities of mastering, cohesive organizational theme, and make purposeful choices. Mastering occurs when firms develop a distinctive competence, requiring dedication and passionate single mindedness (Peters and Waterman, 1982; Porter, 1980). The mastering component may contain 'employee knowledge and skills, technical systems, managerial systems, values and norms' which could be the core capabilities (Leonard-Barton, 1992) or what are called distinctive competencies (Hitt and Ireland, 1985) of a firm.

Jupiter, Uranus, Pluto and Saturn all illustrated the distinctive quality of mastering. All of these firms formulated and brought together their employee knowledge/skills, technical systems, managerial systems, and values/norms with dedication to enable their individual companies to become masters in their core offering. Consequently, these firms seem to have a core offering that is valuable, rare, inimitable and organizational specific (Barney, 1997).

However, the firms that did not show the existence of mastering appear to have faced negative consequences. For example, Miller indicated that "middle of the road strategies may be anathema to competitive advantage – the jack-of-all-trades is too often master of none" (1992b: 49). Similarly, Porter (1985:16) agreed by saying that "a firm that engages in each generic strategy but fails to achieve any of them is stuck in the middle". This lack of mastering is visible in firms that had realised an excessively complex strategy. For example, firms like Venus and Earth were engaged in a broad geographic scope, a broad product scope, and a related broad set of activities, which resulted in them not being able to cultivate the quality of mastering within any product offering/market.

This quality of mastering appears to be a core concept highlighted in the book – 'Crossing the Chasm' by Moore (1991). Accordingly, Moore (1991: 66) prescribes IT firms to,

> "…cross the chasm by targeting a very specific niche market where you can dominate from the outset, force your competitors out of that market niche, and then use it as a base for broader operations"

Moore (1991:68) says that generally sales driven firms are not willing to "adopt any discipline that would ever require a firm to stop pursuing any sale at any time for any reason". When this occurs, the firms can become less market driven and decrease its survival chances in the long run (Moore, 1991).

Although Neptune 's founder initially based the company business formula around the philosophy prescribed by Moore (1991), it actually realised what Moore (1991) prescribed firms not to do; pursuing any sale at any time for any reason. As a result, Neptune is engaged in a broad strategic scope (catering to a diverse range of industries such as gaming, telecommunication, finance, retail, Internet and healthcare) requiring a broad set of activities. Neptune as indicated by Moore (1991) operated in diverse industries by "chasing all possible sales opportunities" in the market. However, as a result, the company has reduced its mastering in the strategic approach by diluting their resource capabilities.

The quality of organizational theme can be defined as consciously developing and articulating (seeks consensus on) an internal organizational image (Miles, Snow, Meyer & Coleman, 1978: 28). This can be achieved at firms through developing "powerful, ideologically embedded priorities that pervade an organization, impelling its people to embrace consistent values and purposes" (Miller and Whitney, 1999: 7). It is this form of theme that is prevalent in Jupiter , Pluto , Saturn and Uranus . These firms portray a set of priorities that illustrate a self-sustaining value system, a need to specialise in a core offering, prioritising on relationship marketing, making work enjoyable, and the desire for balance in their personal life.

Firms that "have no powerful unifying focus that gives them uniqueness, spirit and direction" lack profound character (Miller and Whitney, 1999: 5). For example at AT&T, "the absence of a core theme or a clear set of priorities seems to have prevented the corporation from excelling at any one business or function" (Miller and Whitney, 1999: 6). This lack of core theme may be because, "AT&T has pursued too many paths, none with great conviction or distinction" (Miller and Whitney, 1999: 6). Similarly, Earth pursued too many paths without much conviction and consequently over stretched itself and went into receivership.

Neptune, on the other hand, had a value system that did not suit current market needs. For example, up until recently the company was managed by its original software developers/founders. They were very "product and sales oriented" and did not understand the mass-market needs and competition. Consequently, the founders created a "crisis oriented management culture" where the company attempted to gain any sale to survive in the short term. It expended high levels of resources on product development and customisation of products to suit individual clients. As a result, the company was unable to attain a suitable return on their investment. According to Moore (1991: 68), "the consequences of being sales-driven during the chasm period are put it simply, fatal". This seems to indicate that not only should an organization have a core value system that binds the company together, but the theme should also be market driven and evolved to match the market development needs.

The quality of trade off can be best illustrated by Porter who notes, "becoming stuck in the middle is often a manifestation of a firm's unwillingness to make choices" (1985: 17). Therefore, firms need to "deliberately choose a different set of activities to deliver a unique mix of value" (Porter, 1996: 64). When firms do not make such a deliberate choice, such firms may pursue "diverse range of activities and a broad scope that may result in loosing sight of what business they are in" (Baden-Fuller & Stopford, 1994: 175). This is further emphasised when Miller (1992b: 31) says "To do any thing really well requires giving some thing up. Because there is within us only so much talent and energy, it must be focussed for maximum effect".

Firms such as Earth, Venus and Mars showed unwillingness to make choices and as a result got into a diverse range of activities and a broad strategic scope blurring their core business offering. On the other hand, Jupiter, Saturn, Pluto and Uranus continue to make clear choices on strategic scope and activity configuration and manage to evolve their core offering to suit the changing market needs. Similarly, with time all these firms took steps to increase their strategic scope (either product or market/industry) to suit their enhanced skills and resource levels.

In sum, the above analyses indicate that the firms that realised a moderately simple strategy realised moderate strategic particularity, while firms that realised an excessively complex strategy showed lack of strategic particularity. Although the findings did not identify any firm that realised excessive levels of strategic particularity, it is possible that some other group of firms may realise excessive levels of strategic particularity. Next we examine this aspect.

6.2 Holistic strategic balance

The findings suggest that the presence of strategic particularity appears to have an impact on a firm's overall strategic balance. The element of mastering, purposeful trade-offs and organizational themes in firms like Jupiter, Saturn, Pluto and Uranus enabled them to ensure that they do not enter into excessive scope levels and pursue an excessively complex set of activities that cannot be supported by their existing resource and skill levels. Miller (1992b: 26) says that outstanding corporations "are a bit like beautiful poems or sonatas - their parts or elements fit together harmoniously to express a theme". He (*ibid)* identified such a balance at ITT where their cast of players (human, ideological strategic and structural) "complemented each other and were essential to the enactment of the play". Tichy highlights a similar internal perspective (1983: 55), when pointing out that strategic balance is a result of a "high level of interdependence and integration between the technical, political and cultural systems at work".

This form of strategic balance was present in four of the nine firms. Saturn had a consistent theme of self-sustaining philosophy running through the firm. It purposely made a choice on what activities and scope they wanted to engage in. As a result, the company was able to balance the level of scope and activities with organizational resource capabilities to realise holistic strategic balance. Jupiter purposely wanted to maintain a limit in the strategic scope and activities it engaged in to retain a manageable level of risk. As such, there was an apparent coherence between the strategic scope and activity configuration in relation to its organizational financial and human resource capabilities. Pluto managed to maintain a low-cost operational structure and a complementary self-sustaining business philosophy. Consequently, it has been able to create a balance between its internal resource capabilities and realised strategy strategic scope/activity configuration. Lastly, Uranus is another firm where its "parts or elements fit together harmoniously to express a theme". It engages in a strategic scope and a set of activities that complement each other to realise a holistic strategic balance.

As such, it is evident that the realised strategic scope and activities of the individual firms complemented each other at Jupiter, Uranus, Pluto and Saturn. Similarly, the value systems and activities of these firms were all essential to the overall strategic performance. All of these firms showed a high level of integration and interdependence amongst the organizational activities. In contrast, there was a visible lack of interdependence and integration between the internal elements, activities, and value systems at Venus, Mars, and Earth. Consequently, these firms indicated the non-existence of holistic strategic balance as elaborated below.

Neptune is unable to achieve a balance between its strategic scope, activity configuration and its organizational capabilities. This is because it engages in a high level of customisation within a broad geographic/industry scope resulting in high overseas operational costs that is beyond its existing financial resource capabilities. As such, the company is still struggling to create integration between the technical, political and cultural systems that would be essential to realise holistic strategic balance.

Venus is still pursuing an excessively complex strategy, even though it had attempted to reduce its level of complexity in the activities and the strategic scope. Consequently, the company has not yet managed to fit its activities and strategic scope together harmoniously to express a theme and achieve an organizational balance between the existing resource capabilities, and the strategic scope and activity configuration. As a result, Venus continues to struggle for its survival and is still a long way from achieving its organizational goal – listing in the stock exchange as a profitable IT firm.

Earth continued to cater to a broad market/industry scope that required a broad range of activities. Three years after re-launching, Earth was liquidated, as it was unable to achieve a balance between the organizational strategic scope/activity configuration and its resource capabilities.

Mercury was the only firm that followed a self-sustaining business philosophy to realise an excessively complex strategy. This may be because the company pursued an excessively broad geographic scope and a set of activities that was beyond their resource capabilities. As such, the company was unable to complement its internal activities to realise holistic strategic balance. Nevertheless, the company has now shifted to pursue a moderately simple strategy that encompasses a geographic scope and a set of activities that is within their resource capabilities and thus continue to be a profitable entity.

Mars did portray some form of mastering and purposeful focus on product scope. However, it seemed to have pursued a geographic scope that was beyond its organizational capabilities. Therefore, the company was not able to achieve an organizational balance between the available resource capabilities (investor funding), and the pursued product and market/geographic scope strategy. After Mars was bought out, the Australian principal refocused to cater only to Australian/New Zealand geographic scope. Thereby, the Australian principals intentionally created a balance between the pursued strategy (market/industry and product scope) and financial resource capabilities. Today, the company continues to operate successfully within this business model.

7. Conclusion

Any implications drawn from this research should be accompanied with caution. Drawing conclusions about the characteristics of IT start-up firms based only on nine New Zealand start up IT firms is a process fraught with potential hazards. The present study was based from a leaders' perspective. There is a need for a similar study on a larger sample of business leaders from start up IT companies. These leaders could be drawn from different cultural settings, industry segments and at differing levels of market, product and organizational life stages. Future research could compare the findings of this study from other stakeholders' perspectives—such as non-executive employees, shareholders, customers and suppliers.

Despite these limitations, the findings of this study indicate the importance of balancing strategic capabilities with the realised organizational strategy (strategic scope and activity configuration). Jupiter, Uranus, Pluto and Saturn all followed the principle "spend only what you earn" and "engaged in activities and a strategic scope that is within its skill and resource capability levels". However, all four firms built their resource capability and skill levels, and subsequently expanded their strategic scope and activity levels to create evolving levels of holistic balance that indicated consistent, self-sustaining organizational growth levels.

In contrast, Earth, Venus, Neptune and Mars adopted the opposite business philosophy. They pursued a strategic scope and a set of activities that was beyond their resource capabilities. These firms failed to realise the need for balancing actual resource and skill capabilities with their strategy (strategic scope and activity configuration). Instead, these firms based their strategic scope and activity decisions on forecasted external financial funding. Therefore, these firms struggled to create a balance in their overall strategy and faced negative or fluctuating performance repercussions.

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Exhibit I: Organizational Performance and Business Model Adopted by IT start up Organizations

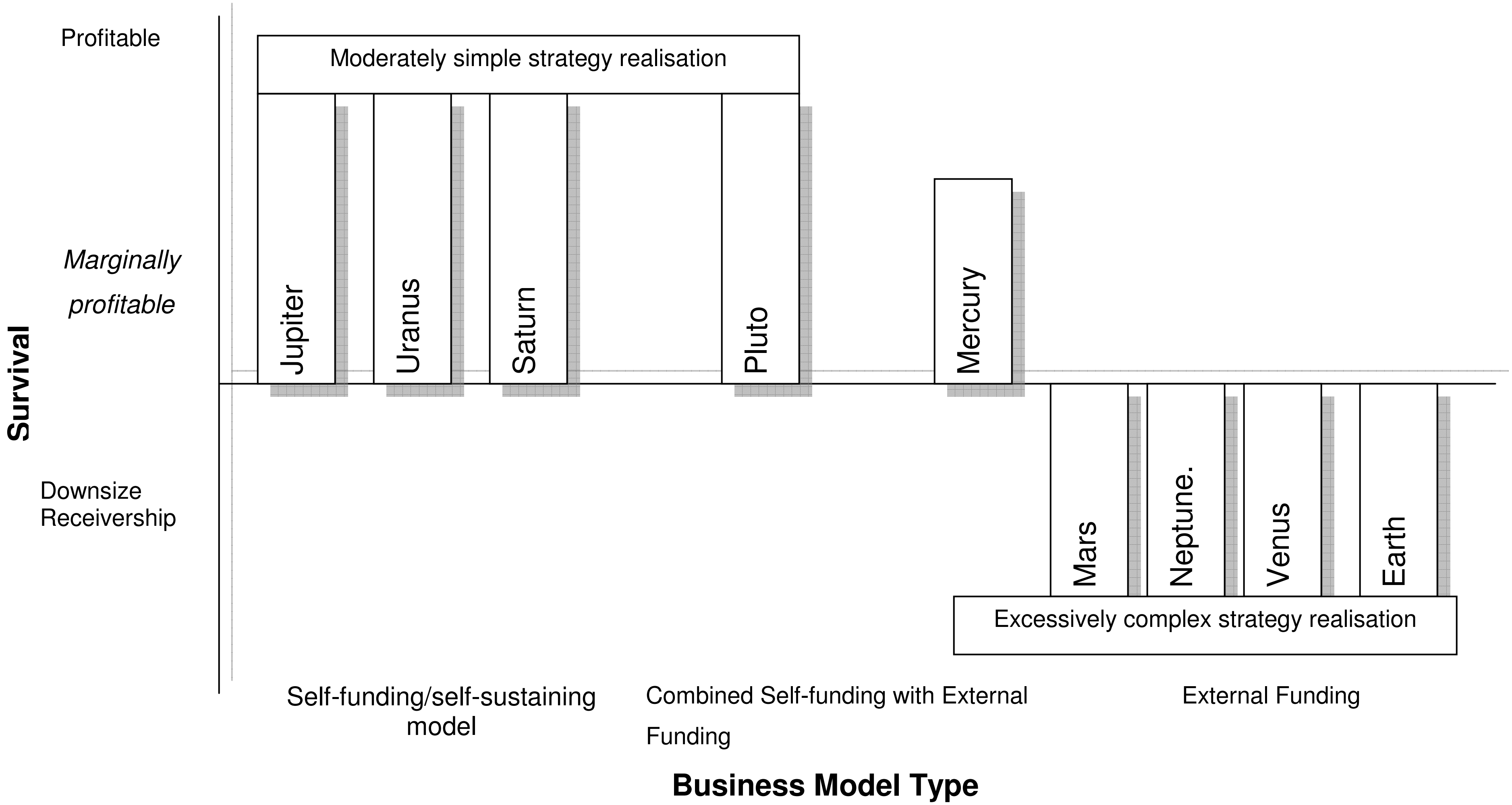

Exhibit II: Strategic Dimensions and Characteristics of Strategy groupings