Should new ventures stick to their knitting once they start commercialising or should they engage in frequent changes of their business idea? In this paper we argue that new ventures still need to learn their way in the early phases of commercialisation and that changes are good, but subject to two important contingencies. First is that changes should be aimed at enhancing uniqueness, which in turn enhances new venture performance. Second is that our results show that changes have limited affect on uniqueness and performance for entrepreneurs aiming at maximising opportunities, but that changing the business idea has a significant positive impact for entrepreneurs focusing on minimising losses. Our findings indicate that entrepreneurs aiming at minimising losses may offset their initial disadvantages by engaging in a series of adaptations of the business idea to gain higher performance and a more unique product offering.

INTRODUCTION

How to enhance new venture performance has kept many researchers occupied. Traditionally many studies suggest a design then execute approach (Baker et al., 2003). Ventures go through a certain set of discovery, creation or gestation activities before they start exploiting the venture idea (Choi et al., 2008; Ardichvili et al., 2003; Lichtenstein et al., 2006; Liao et al., 2005). Yet, a venture’s business idea may be far from perfect once the venture starts exploitation (Burgers et al., 2008). Ventures need frequent tweaking of the business idea to enhance and secure their performance (McGrath et al., 2006; Nicholls-Nixon et al., 2000; Baker et al., 2003).

This strategic adaptation of the business idea in new ventures is an important addition to understanding new venture performance, but we argue the current literature on this topic has two caveats. First, it assumes that change leads to a better venture idea and hence enhances performance, but this is not explicitly measured. Porter (1980) suggests that firms should have something unique to be able to generate above average performance. We will draw on this literature to develop a measure of uniqueness and will argue that uniqueness is an important mediating variable between business idea change and new venture performance. Second, not in all cases may adapting the business model have a positive effect on creating uniqueness and performance. Nicholls-Nixon et al (2000) argued that it depends on environmental hostility. We take an internal perspective by addressing the role of the venture’s dispositions in terms of minimising their losses or maximising opportunities. We draw on regulatory focus theory (Higgins, 1989) to come to a more nuanced understanding of how business idea changes affect uniqueness and performance.

We test our hypotheses on a random, longitudinal sample of 472 young firms (new ventures that are actively trading and less than 5 years old) utilising the CAUSEE dataset (Davidsson et al., 2008). By doing so, we make at least two important contributions to the literature. First, we argue that concepts such as uniqueness are dynamic concepts and studies should focus on how the business idea evolves over time rather than taking a snapshot. Research on gestation activities in nascent ventures is also evolving into the dynamics of the gestation process instead of the activities per se (Liao and Welsch,
2005; Lichtenstein et al., 2007). We extend that dynamics to new ventures that are actively trading and suggest that changes can have significant positive influences on uniqueness and venture performance.

Second, we bring in the role of uniqueness and regulatory focus as important mediating and moderating variables in the business change and performance relation in new ventures. This may further extend the nascent literature on business idea adaptations and venture performance (cf. Baker et al., 2003; Hmieleski and Baron, 2008; Nicholls-Nixon et al., 2000).

LITERATURE REVIEW

There has been a wealth of research on the human and social capital needs of entrepreneurs in successfully discovering and exploiting opportunities (Davidsson and Honig, 2003; Ucbasaran et al., 2008; Shane, 2000). Yet, there is far less insight in the role of learning in new ventures (Corbett, 2005; Dutta and Crossan, 2005). There is no doubt that entrepreneurs have to learn how to successfully exploit their business opportunities in a new venture. Even when opportunities are already out there, waiting to be discovered by an alert entrepreneur (Shane and Venkataraman, 2000; Kirzner, 1997), entrepreneurs still need to learn in order to reduce uncertainty (Choi et al., 2008) and develop a successful business model to exploit the opportunity (Ardichvili et al., 2003; Lumpkin et al., 2004).

Most of the research has focused on learning, adaptation and development in the more nascent stages of the venturing process through for example addressing gestation dynamics (Liao et al., 2005; Lichtenstein et al., 2007) or experiential learning processes (Corbett, 2005). Yet, there has been considerable debate on the use of strategic adaptation and learning in the commercialisation phase of new ventures. March (1991) argued that exploration precedes exploitation, so entrepreneurs should expedite exploitation until they have developed a fool-proof business model (Choi et al., 2008). Levinthal and March (1993) argued that too much change and adaptation of the business idea leads to failure, as the venture is never able to capitalise on the opportunity and wastes valuable resources (Ciborra, 2002). This is in particular problematic for new ventures due to their inherent resource constraints. Moreover, new ventures suffer from liabilities of newness (Stinchcombe, 1965). As such, new ventures should stick to their knitting once they started commercialising (Hannan and Freeman, 1984).

Such a design then execute approach does not preclude adaptation in the commercialisation phase, but those adaptations are often of a more incremental, exploitative, operational/ tactical nature instead of explorative changes on a strategic level (Baker et al., 2003). There are strong analogies with dominant views on product development processes, where learning and exploration is also thought to be in the development process preceding commercialisation (Burgers et al., 2008). Yet, there is increasing recognition that a winning business model is often not there yet once commercialisation starts of new business opportunities (Burgers et al., 2008; McGrath et al., 2006; Baker et al., 2003; Nicholls-Nixon et al., 2000). New ventures may need various changes to their business idea to increase venture performance, yet this link and potential contingencies is still rather unclear.

Business Idea Change, Performance and Uniqueness

Despite recent insights that strategic adaptation of business models may lead to better performance (cf. Nicholls-Nixon et al., 2000), there is limited understanding of how that link works. Adaptation on itself will not lead to higher performance, but there should be something in the organisation that is causing higher performance after undergoing change. One such factor is the uniqueness of the offering of the venture relative to competition. Porter’s (1980) work on generic strategies suggests that firms need to be unique in some form to succeed. Uniqueness can be achieved in being the lowest cost producer, by offering more differentiated products, or by having a better customer focus than competitors.

Drawing on learning and cognition theories, we argue that the venture will not have achieved its highest level of differentiation right from inception. A main difference with strategic change in new ventures relative to established firms is that new ventures work towards their first “steady-state”, whereas firms change from one dominant state to the next (Nicholls-Nixon et al., 2000). Thus new ventures need to learn an experiment which involves frequent changes to the emerging business model to shape a more unique offering. From a cognitive perspective, this learning is progressive so the more
changes to the business model, the higher we expect the venture’s unique differentiation advantage to be.

Hypothesis 1: More changes to the business model will lead to more unique offerings in new ventures.

Porter’s contention that uniqueness leads to higher performance and more sustainable competitive advantage has led to a plethora of research that confirmed his theory (cf. Dess and Davis, 1984, Mosakowski, 1993). McGee et al. (1995) found evidence that new ventures which are better able to differentiate themselves from competitors achieve higher performance. Others have investigated uniqueness in resource configurations and came to similar conclusions that it is beneficial for new ventures (Borch et al., 1999). As such, we suggest the following hypothesis.

Hypothesis 2: More unique offerings will lead to higher new venture performance.

Business idea change in new ventures may lead to higher performance of new ventures (McDougall and Oviatt, 1996; Nicholls-Nixon et al., 2000). Yet a compelling theoretical logic is often lacking and initial results have shown that there may be other factors influencing this relationship. Following a cognitive logic of learning as a way of progressing the venture’s core business ideas and its uniqueness we argue that uniqueness is mediating the relationship between business idea change and performance. Because not all change is for the better, but only the change that leads to more unique offerings that allow the venture to differentiate itself from competitors and achieve substantial higher performance.

Hypothesis 3: Uniqueness fully mediates the relation between business model change and performance.

The Moderating Role of Regulatory Focus

The effect of changes might be strongly influenced by the cognitions of entrepreneurs, as it provides insight which light the entrepreneurs see the changes. A particular promising theory in that respect is regulatory focus theory (Higgins, 1989; 2001). Regulatory focus theory suggests that individuals engage in change to align the situation with their goals. Entrepreneurs can have two different foci: a prevention focus or a promotion focus. Entrepreneurs with a prevention focus aim to minimise losses and risks, whereas entrepreneurs with a promotion focus aim to maximise opportunities (Brockner et al., 2004). Both foci embrace change but they do so from a different starting point and with different aims. As such, the regulatory focus of an entrepreneur is likely to strongly influence the effect of business idea changes on new venture performance (Hmieleski and Baron, 2008).

Brockner et al. (2004) provided a theoretical framework suggesting that a promotion-focus is more important in the discovery phase of a venture. In those early phases of the venture development process, a promotion focus will have entrepreneurs be more open to opportunities. These opportunities are also more likely to be more unique, as they have the opportunity to generate more value, something promotion-focused entrepreneurs stress more than prevention-focused entrepreneurs (Brockner et al., 2004). This higher degree of uniqueness will also be associated with higher degrees of uncertainty, but entrepreneurs with a promotion focus have a higher tolerance to deal with uncertainty (Hmieleski and Baron, 2008).

Hypothesis 4a: Promotion-focused ventures will generally have a higher degree of uniqueness than prevention-focused ventures.

Despite promotion-focused ventures exhibiting a higher degree of uniqueness, it does not take into account the effect of business idea change. Whereas promotion-focused ventures already start out with a relatively high degree of uniqueness, we expect the amount of changes to the business idea to have a very limited additional effect on uniqueness. Prevention-focused ventures may however achieve significantly higher levels of uniqueness when frequently changing the business idea. Over time, the risk and uncertainty associated with a new opportunity will diminish as a result of more information becoming available (Choi and Shepherd, 2004; Fiet, 1996). Prevention-focused ventures may therefore be more likely to increase the uniqueness of the venture’s offering. Thus, the effect of business idea changes on uniqueness is expected to be much stronger for prevention-focused ventures than for a promotion focus.
Hypothesis 4b: Changing the business model will have a higher impact on uniqueness in case of prevention-focused ventures; it will have little to no effect on uniqueness for promotion-focused ventures.

Figure 1 is about here

METHOD

Sample

The data for this research was drawn from the Comprehensive Australian Study of Entrepreneurial Emergence (CAUSEE) database (Davidsson, Steffens, Gordon, & Reynolds, 2008) which was administered through telephone surveys. This study builds on the general empirical approach, some contents and lessons learned from the Panel Study of Entrepreneurial Dynamics (PSED) studies in the US (Gartner, Shaver, Carter, & Reynolds, 2004; Reynolds & Curtin, 2008).

This study employed the two-year longitudinal database, targeting young companies (firms that started trading in the market doing the type of business they are currently doing in 2004 or later). Year 1 data collection (2008) yielded 599 young firms from the total of 1058 firms (56.61% response rate). The follow up year 2 data collection (2009) consisted of 472 young firms (21.20% mortality rate) which were used for our analysis. Majority of respondents were male (60%). Main business of our sample was service (70%), product (23%) and both (7%). Fifty percent of our samples were a sole trader while 19% were a partnership and 26% were a limited liability company.

Procedures

The data which was used for this study was a part of the CAUSEE research project. There were 28,383 adults (with equal male/female representation) from randomly selected households who completed a screening interview for eligibility via computer assisted telephone interviewing (CATI). Like the PSED, in order to qualify for inclusion as nascent and young firm in the survey. To test our hypothesis we employed young firms’ data. Young firm respondents had to confirm that (1) They were owners or part owners of the young firm and (2) They confirmed that they started trading in the market doing the type of business they are currently doing in 2004 or later. The total eligible sample in year 1 was 1,058 respondents, of these there were 599 respondents representing young firms. The follow up in year two, there were 472 young firms remained in our data.

Measures

We reviewed the relevant literature and developed the survey questions. After preliminary questions had been developed, we discussed with academic experts and practitioners drawn from three different areas: management, entrepreneurship and business strategy to ensure content validity. Our independent variables (business model change and regulatory focus) were collected in Time 1 and dependent variables (uniqueness and business performance) were collected in Time 2. The consequence of changes are often considered as a lag measures, therefore it is appropriate to collect the DVs in Time 2. The approach also minimized the common method variance.

Business model change (Time 1). This construct refers to the important changes since the business first started trading in core ideas about business such as what to sell, who to sell to, how to sell it and how to acquire what to sell. We employed four items measuring the business model change (see Appendix). The scale ranged from 1 = a single change to 5 = more than five changes and Cronbach’s Alpha was .69.

Uniqueness (Time 2). Business owners were asked to compare to other businesses in the same industry (direct competitors) how exclusive their products or services differ from their competitors. We employed three items measuring the uniqueness (see Appendix). The scale ranged from 1 = major disadvantage to 5 = major advantage and Cronbach’s Alpha was .78.

Business performance (Time 2). Business owners were asked to compare to other businesses in the same industry (direct competitors) how well they performed in the four areas (net profits, sales growth,
cash flow and growth of the company value). The scale ranged from 1 = much worse to 5 = much better and Cronbach’s Alpha was .76.

**Regulatory focus (Time 1).** This construct assessed business owners’ disposition toward regulating their behaviour through a promotion focus and a prevention focus (Hmieleski & Baron, 2008). The business owners were asked to identify their regulatory focus either (1) promotion: targeting the highest possible profits or (2) prevention: making the losses as small as possible.

**Control variables.** Based on Mcgee, Dowlig and Megginson’s (1995) study, it indicated that the market and technology capabilities may influence the uniqueness and business performance among young firms. Therefore, those capabilities were controlled as well the respondents’ educational level. Business owners’ education, company’s market and technology perceived capabilities were controlled. Perceived market capability refers to what extend business owners perceive that they are being an expert and innovator in marketing. Perceived technology capability refers to what extend business owners perceive that they are being an expert and innovator in product/service technology.

**RESULTS**

**Construct validity**

An exploratory factor analysis was conducted to identify latent factors and assess how well the specified model matches the data. Principal-axis factoring in SPSS 17.0 was used for initial factor extraction. Both Kaiser’s criterion (eigenvalues over one) and the percentage of variance criterion (66% of variance extracted) suggest retaining the five factors (Table 1). The result of the factor analysis was sixteen items loading on five factors, as shown in Table 1. Factor 1 (labelled ‘Business Performance’), Factor 2 (labelled ‘Business model change’), Factor 3 (labelled ‘Uniqueness’), Factor 4 (labelled ‘Technology capability’) and Factor 5 (labelled ‘Market capability’). For factor loading interpretation, Raubenheimer (2004) suggests a minimum cut off as .40, and above .60 is considered high loading (Hair, Anderson, Tatham, & Black, 1998). The factor loadings as displayed in Table 1 indicated that all items well loaded onto their construct. The internal reliabilities were acceptable, ranging from .68 to .88.

**Table 1 is about here**

Table 2 exhibits correlation coefficients that indicated a positive relationship between business change and uniqueness ($r = .16, p < .01$) and uniqueness and business performance ($r = .23, p < .001$). Regulatory focus positively influenced the business performance ($r = .13, p < .05$).

**Table 2 is about here**

**Hypotheses Testing**

To assess our proposed hypotheses, we performed the path analysis via AMOS 17.0. e employed both absolute fit statistics and incremental fit statistics to evaluate the model fit (Hu & Bentler, 1995). The absolute fit statistics included the chi-square ($\chi^2$) test of exact model fit, and the root-mean-square error of approximation (RMSEA; Browne & Cudeck, 1993). The incremental fit statistics included the Comparative Fit Index (CFI; Bentler, 1990) and the Tucker-Lewis Index (TLI; Tucker & Lewis, 1973). The Akaike Information Criterion (AIC) was also utilized to test for significant model improvement.

As shown in Figure 2, goodness of fit results indicated that the proposed model represented a good fit to the data ($\chi^2(15) = 41.12, p < .05$; GFI = .96; TLI = .92; CFI = .96; AIC = 83.11; RMSEA = .07). Our control variables, market ($\beta = .24, p < .001$) and technology ($\beta = .38, p < .001$) capabilities positively influence the uniqueness within companies. Market capability also positively influenced business performance ($\beta = .19, p < .01$). However, respondents’ education level had no impact on the
uniqueness or business performance. Similarly, technology capability had no influence on business performance.

A path from business model change to uniqueness was positively significant ($\beta = .35, p < .001$), such that the hypothesis 1 was supported. The path from uniqueness to business venture performance was positively significant ($\beta = .17, p < .01$), such that the hypothesis 2 was supported. The interaction\(^1\) between business model change and regulatory focus was positively significant therefore changing the business model had a higher impact on uniqueness in case of preventive focus than promotion focus (hypothesis 4 was supported). To confirm that the hypothesis 3 that the relationship between business model change and business venture performance was fully mediated by uniqueness, we compared fully mediated model (the proposed model) with a rival, non-mediated model (including additional path business model change to business performance). Comparisons between the rival non-mediated model $[\chi^2(14) = 41.11, p < .05]$ and the proposed fully mediated model $[\chi^2(15) = 41.12, p < .05]$ indicated no significant differences $[\Delta \chi^2(1) = .01, \text{ ns}]$ suggesting that the more parsimonious mediated model be kept (hypothesis 4 was supported). To examine direct and indirect effects, we used a bootstrapping procedure with 95% confidence intervals on 10,000 bootstrap estimates (Efron & Tibshirani, 1993; Yung & Bentler, 1996). We found that business model change had a nonsignificant direct effect on business performance ($\beta = .00, \text{ ns}$).

**DISCUSSION**

When investigating the role of strategic change dynamics on new venture performance, the focus has traditionally been on the more nascent, development stages. With this paper we built on this literature by addressing the effect of business idea change on new venture performance in the commercialisation phase. We extended the existing body of literature by introducing uniqueness and regulatory focus as important mediator and moderator regarding the business idea change and new venture performance relation. Our findings confirm the significance of uniqueness and regulatory focus in understanding the role of business idea change in outperforming competitors. These findings have several important contributions to theory and implications for practice.

First, our study extended literature on change and new venture performance by introducing the mediating role of uniqueness. Some recent studies have shown that strategic change in the commercialisation phase of new ventures can have positive outcomes on new ventures (Baker et al., 2003; Nicholls-Nixon et al., 2000), but deviations from the original business ideas could be for the better or the worse (Hmieleski and Baron, 2008). Our results show that changes tend to be for the better when aimed at increasing the uniqueness of the offerings. This finding provides important links to literatures studying strategic differentiation and resource configurations in new ventures (cf. McGee et al., 1995; Borch et al., 1999). It provides a dynamic aspect to the mostly static studies on resource configurations. It strengthens similar results on strategic improvisation and bricolage (Baker et al., 2003; Baker and Nelson, 2005).

Second, we brought regulatory focus in as a moderating variable. This builds on an emerging stream of literature that has recognised the significance of an entrepreneur’s dispositions towards maximising opportunities or minimising risks when addressing the effect of change on new venture performance (Brockner et al., 2004; Hmieleski and Baron, 2008). Our results showed that a promotion focus leads to a higher degree of uniqueness, but entrepreneurs with a prevention focus can offset the lower initial degree of uniqueness through engaging in a series of adaptations of the business idea. This is a significant new perspective on the literature, as traditional perspectives such as a risk-taking propensity or proactiveness have been seen as universally good for entrepreneurs and not having these aspects as a serious constraint. Regulatory focus theories have argued that a promotion or prevention focus are both relevant, but in different phases of the venture development process (Brockner et al., 2004) and in different types of environment (Hmieleski and Baron, 2008). Our results show that prevention-focused

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\(^1\) The interaction term of regulatory focus (dichotomous) was multiplied by the centred business model change.
entrepreneurs may be able to overcome some of these deficiencies in certain situations by engaging in a series of adaptations of the business idea. It contributes to studies focusing on the reduction of risk and uncertainty over time (Choi and Shepherd, 2004; Fiet, 1996), by showing that more risk-avoidant entrepreneurs may catch up with opportunity-driven entrepreneurs over time if they take action on new information and update their venture.

Implications, Limitations and Future Research Issues

Our findings have some important implications for theory and practice, suggesting future research issues. First, our findings show that concepts such as venture newness are dynamic concepts and studies should focus on how the business idea evolves over time rather than taking a snapshot. Research on gestation activities is also evolving into the dynamics of the gestation process instead of the activities per se (Liao and Welsch, 2005; Lichtenstein et al., 2007). Future research may want to investigate the dynamics of business idea evolution in new ventures, in particular in young ventures that started commercialising their ideas. Although our research measured business change and separated the measurements of the independent and dependent variables, it is not a true, event-driven, longitudinal study. We suggest Van de Ven and Engleman’s (2004) recommendations may be particularly valid for future studies on business change. Capturing such dynamics real-time will be a challenge for researchers, as studies such as CAUSEE and PSED (II) have shown that random selection to capture those nascent entrepreneurs is a costly procedure, and real-time following as well. New technologies such as twitter may bring this type of research design into a more feasible reality.

Second, our results show that business idea adaptations have positive outcomes for ventures. This suggests that venture capitalists and other financial resource providers may want to focus less on the initial quality of the business idea, but more on the adaptive and learning capacity of the entrepreneurial team. Our findings suggest that the most successful entrepreneurs frequently tweak their business ideas, even when they are already in the commercialisation phase. Our results suggest those venture capitalists should also take into account the regulatory focus of the entrepreneur, as it has important implications for the effectiveness of those changes. Future research may want to investigate the effects of venture management teams’ learning and absorptive capacity in understanding and realising changes that are for the better instead of for the worse. In particular bricolage (Baker and Nelson, 2005) may be a promising theory in this respect, as entrepreneurs with a prevention focus versus an promotion focus may engage in bricolage for different reasons.

Third, we investigated the effects of new ventures differentiating themselves by creating unique products or services. Our findings show that entrepreneurs interested in increasing the performance of their ventures should focus changes in their business idea on creating more unique offerings. The basic argument we drew on is that new ventures have to offer something unique to achieve sustainable competitive advantage (cf. Porter, 1980; McGee et al., 1995). Future research may want to investigate if creating a cost leadership or focus strategy advantages are also mediating the relation between business idea changes and new venture performance. A promotion or prevention focus may have different effects on these strategies.

The study of new ventures and how they change their businesses is an important one. Yet, relatively few studies have addressed change in the commercialisation phase of new ventures and the effects on new venture performance. More research is needed and drawing on existing change paradigms focused on existing firms may not always be possible, as existing firms change from one steady state to another, whereas new ventures are still in the process of developing their first steady state (Nicholls-Nixon et al., 2000). With this paper, we have provided some important insights in the phenomenon of strategic change in new ventures by addressing its relation with uniqueness and regulatory focus and hope it will serve as an important stimulus to future research in this area.
REFERENCES


Table 1: Exploratory factor analysis results (N=472)

<table>
<thead>
<tr>
<th>Factor</th>
<th>Factor loadings</th>
<th>% Variance</th>
<th>Cronbach Alpha</th>
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<td>Growth of the company value</td>
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<td>Net profit</td>
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<td>Cash flow</td>
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<td></td>
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<tr>
<td>sell or intend to sell</td>
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<td></td>
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<tr>
<td>The method for producing or</td>
<td>0.77</td>
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<td></td>
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<td>sourcing</td>
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<tr>
<td>The method for promoting or</td>
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<td></td>
</tr>
<tr>
<td>selling</td>
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</tr>
<tr>
<td>What customers you sell to</td>
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<td><strong>Uniqueness</strong></td>
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<td><strong>Market capability</strong></td>
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Table 2: Intercorrelations and descriptive statistics (N =472)

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<th>5</th>
<th>6</th>
<th>7</th>
<th>Mean</th>
<th>SD</th>
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<td>.03</td>
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<td>.15</td>
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<td>.05</td>
<td>.13 *</td>
<td>.15 **</td>
<td>.11</td>
<td>.14</td>
<td>--</td>
<td>--</td>
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<tr>
<td>3. Uniqueness (.78)</td>
<td></td>
<td>.23 **</td>
<td>.02</td>
<td>.14</td>
<td>.32 **</td>
<td>4.11</td>
<td>.69</td>
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<td>4. Venture performance</td>
<td>(.76)</td>
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<td>-.02</td>
<td>.23 **</td>
<td>.14</td>
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<td>6. Market capability</td>
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<td>.30 **</td>
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<td>3.30</td>
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<td>7. Technology capability</td>
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<td>3.95</td>
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</table>

Note: **p < .01; *p < .05. Alpha coefficients are depicted in parentheses along the diagonal. Regulatory focus is dummy coded 0 = prevention, 1 = promotion.
**Figure 1**: Proposed research model

**Figure 2**: Path analysis testing our proposed model

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1 Regulatory focus is dummy coded 0 = prevention, 1 = promotion