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The origin and the evolution of strategy practices in entrepreneurial ventures

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Abstract

This paper contributes to strategic management research though exploring the origin and the evolution of strategy practices in entrepreneurial ventures. It is based on a case study of eight IT software and services firms in Finland. This paper demonstrates that strategy practices in new ventures are very different from each other and that their nature is dependent on the experience, education level and the personality of the CEO and the founding team members. However, as the entrepreneurial ventures grow, they all tend to initiate more formal strategy practices. This paper indicates that radical changes in strategy practices are rare, they only take place when the firm needs to completely renew its strategy. The radical change in strategy practices occurs typically through the firm hiring a new CEO or an external strategy consultant.

Keywords: strategy, microfoundations, organizational routines, change
Mona Roman – The origin and the evolution of strategy practices in entrepreneurial ventures

Background

During the last decade Strategy-As-Practice research has raised into an important part of strategic management research through in-depth case studies on how firms actually develop strategies. Strategy practices can be referred as “the routines and norms of strategy work” (Whittington, 2007). Routines in turn can be characterized as temporal structures that are often used as a way of accomplishing organizational work (Feldman, 2000). Routines consist of two related aspects. The ostensive aspect is “the ideal or schematic form of the routine. It is the abstract, generalized idea of the routine or the routine in principle” (Feldman and Pentland, 2003: 101). The other aspect, the performative, “consists of specific actions, by specific people, in specific times and places. It is the routine in practice” (Feldman and Pentland, 2003: 101). This research investigates the performative part of the routine, the actual actions that have contributed to the development of the firm strategy. Focusing on action, instead of an actor, has recently been suggested to provide a useful and important for understanding the foundation of organizational routines (Pentland et al., 2012). This paper explores the actions and events that have actually influenced the strategy of the firm, even those that have occurred informally, outside the formal strategic planning process of the firm.

Prior research has called for further research to trace the origins of strategic planning routines and norms through a microfoundations approach (Abell et al., 2008; Wolf and Floyd, 2013). This paper responds to this call through investigating how entrepreneurs develop strategy practices in new ventures, and how these practise evolve over time. This paper is based on a case study of eight entrepreneurial ventures in Finnish IT software and services sector during 2001-2014.

This paper is organized as follows. First, I present a brief overview of the prior research on the topic. Then, I describe the chosen research method and the findings from the empirical study. Finally, I conclude the paper with a discussion section.
Strategy practices in entrepreneurial ventures

Strategy practices in entrepreneurial firms are different from large firms due to several reasons. First, defining strategy in an entrepreneurial firm is the sole responsibility of the entrepreneur, who is often also an owner and the leader of the firm (Mintzberg and Waters, 1982). Second, the entrepreneur has in-depth knowledge of the business as he/she controls typically also the day-to-day operations of a firm (Mintzberg and Waters, 1982). Thus, strategy practices in entrepreneurial ventures are both planned and practically implemented under the sole control of the CEO. This is different from large firms who typically have a dedicated group of strategy professionals in charge of defining and coordinating strategy practices. Furthermore, small companies tend to adopt informal strategic planning techniques stressing ongoing management discussion (Berry, 1998). This is due to them having limited resources and time and often scarce knowledge of strategic management techniques. Strategic planning process in small start-ups is typically highly iterative based on trial-and-error (Blank and Dorf, 2012), while large firms use a linear strategy process. All the previous factors make small firms quicker and more flexible than large firms in adapting to changes in the marketplace.

Prior research has emphasized that the role of the entrepreneur and top management team is critical for small firm performance (Berry, 1998; Gelderen et al., 2000). The heuristics, habits and routines of the CEO and the founding team influence the development of new organizational routines (Aldrich and Young, 2014). It is the CEO who ultimately develop and define the strategy practices used. Prior research has indicated that strategy-making style of the firm is also dependent on the industry life-cycle stage – introduction, growth, maturity and decline (Verreynne and Meyer, 2010).

The evolution of strategy practices in entrepreneurial ventures

Recent literature has indicated that organizational routines has potential to change, even though change is not the dominant aspect of routines (Feldman, 2000; Feldman and Pentland, 2003). The change may be provoked by a crisis or external shock such as new ideas and
innovation in the industry or it may occur as a result of participants’ reflections and responds to outcomes of previous iterations of the routine (Feldman, 2000).

In regard to strategy practices, prior research has argued that practices change as firms grow through distinct stages (Verreynne and Meyer, 2008). In the growth stage, firms typically use participative strategy-making style that involves internal stakeholders such as employees, managers, shareholders or corporate boards (Verreynne and Meyer, 2010). It is considered as less formal process, which contribute to the development of knowledge and skills of the firm (Hart, 1992). In the maturity stage, firms typically use adaptive strategy-making style that involves external stakeholders such as customers and suppliers (Verreynne and Meyer, 2010). The thirds strategy-making style - simplistic - is driven by top management and focused on single goal, which is typical of small firms that do not have the time or other resources to spend on more complicated strategy-making styles (Verreynne and Meyer, 2010). Although some strategy-making styles are found to be more beneficial than others in certain stages, prior research has demonstrated that the firms with multiple strategy-making styles outperform those that use single strategy-making style (Hart and Banbury, 1994). Furthermore, while many small companies do not use strategic planning, prior research has shown that it pays off also in small firms (Shea-Fossen et al., 2006).

In general, it can be concluded that the strategic planning in small firms tend to become more formal and sophisticated over the life cycle of the business (Berry, 1998; Robinson and Pierce, 1984) and the industry (Verraynne and Meyer, 2008). This is because organization becomes more complex as firm grows (Berry, 1998). Moreover, the increasing size of the company requires that the strategy is articulated to drive others and gain their support (Lampel et al., 2014). As the firm grows strategy making in general becomes more decentralized, more analytic, in some ways more careful, but at the same time less visionary, less integrated, less flexible, and ironically less deliberate (Mintzberg and Waters, 1982). When entrepreneur stays as CEO through different stages of firm evolution, it may require crisis such as cost escalation due to uncontrolled R&D activities, diminishing profits and severe liquidity problems in order for entrepreneur to realize the importance of formal strategic management and control techniques (Berry, 1998).
Research methods and data

This research takes an inductive, multiple case study approach. This is to be able to openly explore the topic through the lenses of entrepreneurs and others management. Prior research has called for a microfoundations view to study the origins of routines in organizations (Wolf and Floyd, 2013). I have chosen multiple cases in order to be able to cover the variety of strategy practices in entrepreneurial ventures. Multiple cases allow cross-case comparison and thus result in a more accurate, generalizable theory than single cases (Eisenhardt, 1989).

I studied eight entrepreneurial ventures in Finnish IT Software and Services. The industry was selected as it offers young, growth companies for which it is possible to track the evolution of strategy practices from the beginning to current state and the founders are readily available for interview. I utilized ORBIS database to extract the research sample based on the following criteria: Industry code (62), year of incorporation (on and after 2000), number of employees (50-250) and the headquarters and top management location (Helsinki capital region, Finland). Helsinki region was chosen, as I wanted to be able to easily conduct face-to-face interviews with the persons responsible of strategy practices.

The initial list covered 27 firms, which was used as the basis for sample. I then excluded firms that were majority-owned by external stakeholders as these firms were not independent in their choice of strategy. After this, I had 10 firms matching the search criteria. I contacted the CEOs of these companies first by e-mail and then if needed by phone. Eight out of ten CEOs accepted the invitation to interview. The basic information of case companies and their informants are presented in Table 1.
Table 1 – Basic information of case companies

<table>
<thead>
<tr>
<th>Case</th>
<th>Year founded</th>
<th>Revenue (MEUR) 2012</th>
<th>Revenue Growth 2012</th>
<th>Employees 2012</th>
<th>Location</th>
<th>Informant(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT 1</td>
<td>2005</td>
<td>16</td>
<td>22 %</td>
<td>149</td>
<td>Finland</td>
<td>CEO, CTO (started in 2007)</td>
</tr>
<tr>
<td>IT 2</td>
<td>2006</td>
<td>12</td>
<td>18 %</td>
<td>151</td>
<td>Finland, India</td>
<td>CEO (founder)</td>
</tr>
<tr>
<td>IT 3</td>
<td>2005</td>
<td>12</td>
<td>32 %</td>
<td>71</td>
<td>Finland, Poland</td>
<td>CEO, Chairman of the Board (founder), COO</td>
</tr>
<tr>
<td>IT 4</td>
<td>2002</td>
<td>11</td>
<td>12% estimate</td>
<td>95</td>
<td>Finland, Estonia, Poland, Germany</td>
<td>CEO, Sales Director (founder), COO</td>
</tr>
<tr>
<td>IT 5</td>
<td>2001</td>
<td>9</td>
<td>18 %</td>
<td>93</td>
<td>Finland</td>
<td>CEO (founder)</td>
</tr>
<tr>
<td>IT 6</td>
<td>2006</td>
<td>7</td>
<td>41 %</td>
<td>84</td>
<td>Finland, Denmark, China</td>
<td>CEO (founder), Business Director</td>
</tr>
<tr>
<td>IT 7</td>
<td>2001</td>
<td>6</td>
<td>-14% (unit divested)</td>
<td>76</td>
<td>Finland, US, Romania, Taiwan</td>
<td>CEO (founder)</td>
</tr>
<tr>
<td>IT 8</td>
<td>2007</td>
<td>5</td>
<td>17 %</td>
<td>50</td>
<td>Finland</td>
<td>CEO, Chairman of the board (founder)</td>
</tr>
</tbody>
</table>

The research data consisted of archival data and semi-structured interviews. First, I collected archive data from case company press releases as well industry reports and statistics. This was to familiarize myself with the case company and its specific market environment. I then conducted 1-3 semi-structured interviews per case company, each lasting approximately one hour from December 2013 to May 2014. Semi-structured interviews enabled me to compare the case firms in certain areas, but still to leave room for informants to raise firm-specific issues. I started by interviewing the CEO and then the persons he/she appointed to be central in the strategy development. The interviews consisted of questions about company and informant background, the latest strategy, how it was developed and finally how strategy practices had evolved during the history of the company and why. I recorded the interviews and transcribed them and promised the anonymity of companies in order to support the openness of informants in interviews.

I used Atlas.ti software was to store and analyze the research data. I first tracked the origin and the evolution of strategy practices in each venture separately. Then I compared the ventures with each other to identify similarities and differences in them. At the end I grouped the similar ventures together and analysed in a detail the factors that had influenced their development of strategy practices.
Results

The origins of strategy practices

The case companies were all founded by a few individuals. Four companies (IT2, IT4, IT5 and IT6) were founded for a new rising business opportunity and four companies (IT1, IT3, IT7, IT8) were started as the founders were motivated to do better and more customer-centric the same business than they had done in large companies.

The strategy practices in all case companies were very informal in the beginning, as the companies consisted of only the founders who acted as owners, managers and employees, doing everything themselves. Five of eight case companies utilized some kind of a plan (e.g. budget, long-term plan, business plan) of which the founders followed carefully, striving for planned results.

The founder of IT 3 describes this as follows:

“In the beginning six founders create the strategy together. We developed a long-term plan containing the number of employees, the number of customers (we knew their names before they were our customers), the number of projects, the development of revenue and profitability. We realized our plan systematically and followed its implementation. We thus “created” the growth step-by-step.”

The founder of IT4 describes this:

“In the beginning, strategy practices consisted of founders doing a business plan, thinking about it and discussing it together informally. Business plan was sparred with external parties – advisory board, venture capital firms and customers, which helped us to improve the plan e.g. to crystalize the earning’s logic.”

The other case companies were more intuitive, and less business-oriented, focusing clearly on doing. They did not have formal strategy practices.
The founder of IT5 describes their entrepreneurial mode as the follows:

“There is no strategy and practices in the founding phase. It is about experiencing and doing with great enthusiasm. At the beginning we (owners) started to develop own product. We were enthusiastic and technically competent, doing everything ourselves and not thinking so business-oriented. In start-up spirit, if there is a problem, you can work at weekend. If you don’t have money, you don’t pay salary.”

The founder of IT6 describes their founding stage as the following.

"I had ideas – kind of strategy in my own head - and no formal method for creating them. At the beginning, I brainstormed and discussed these ideas together with the other founder at home.”

In all case companies the CEO and the founding team were the ones to decide about strategy practices. When comparing the case companies with each other, there are big differences in strategy practices. Table 2 summarizes the initial strategy practices in case companies during the first years.

**Table 2 – The initial strategy practices in entrepreneurial ventures**

<table>
<thead>
<tr>
<th>Case</th>
<th>Strategy practices in the first years</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT 1</td>
<td>No process, management discussion once a year</td>
</tr>
<tr>
<td>IT 2</td>
<td>Budgeting based planning</td>
</tr>
<tr>
<td>IT 3</td>
<td>Long term plan and market analyses</td>
</tr>
<tr>
<td>IT 4</td>
<td>Business plan</td>
</tr>
<tr>
<td>IT 5</td>
<td>No process, doing as much possible</td>
</tr>
<tr>
<td>IT 6</td>
<td>No process, founders talk informally about strategy</td>
</tr>
<tr>
<td>IT 7</td>
<td>Strategy process led by different external consultants</td>
</tr>
<tr>
<td>IT 8</td>
<td>Detailed business plans</td>
</tr>
</tbody>
</table>

Those ventures that used planning had typically founder(s) that were experienced managers. They had earlier worked either in a large multinational company or they had already built another company and sold it. They were systematic in their nature and result-oriented (also financially). Those founders that did not plan were young and keen on doing rather than planning, especially as they were passionate about the work itself and there was plenty of
demand for it. These founders had not yet finished their studies and had no earlier experience of working in another company, except summer or part-time jobs. Thus, it can be concluded that the prior experience, personal characteristics and education level of the CEO and the founding team influenced how strategy practices were developed in entrepreneurial ventures.

**Current strategy practices of case companies**

Currently, the case companies have grown to have employees in the range of 50-150 and the revenue 5-16 MEUR and they all have established more formal strategic planning practices. CEOs have still the full responsibility of strategic planning including its design, contents and methods and the organization. CEOs typically both plan and implement strategic planning process and act as facilitators in strategy workshops. None of the companies have corporate staff for strategic planning. After the strategy workshops, CEO is the person to integrate workshop results and based on that to develop the strategic plan and the related communication material. The strategic plan is approved by the board after which CEO and the management team plan for its implementation and follow-up.

There are also important differences in current strategic planning practices in case companies in spite of all being more formal than in the beginning of the ventures. While the latest strategy round of the case companies IT1, IT3, IT5 and IT6 was to develop a new strategy and vision for the company for several years ahead, the round in the other four companies was just to update the current strategy with necessary small modifications. Typically, those firms that were to develop new strategy had completed their earlier plans and it was thus time to plan what to do next. In addition, they often were in need to revise their strategy due to the changes in the market environment. Those firms that were to only to update their strategy were doing fine and the task for strategic planning was to strengthen the focus to improve the implementation of the strategy.

The strategy process to develop new strategy was typically wider in the scope, lasted longer and involved more people than the strategy process to update the current strategy. In both types of strategy processes there were though significant differences in the exact process contents, duration, participants and applied methods. The practices to create new strategy are illustrated in Table 3.
<table>
<thead>
<tr>
<th>Case</th>
<th>Contents of strategy process</th>
<th>Duration</th>
<th>Participants</th>
<th>Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>IT 1</td>
<td>In-depth analyses of customer cases – investigating what is different in large customer cases in relation to others. Developing company and its service portfolio based on large customer cases.</td>
<td>Six months</td>
<td>New CEO, COO, CTO and HR manager.</td>
<td>Brainstorming, open discussion, self-developed analyses method</td>
</tr>
<tr>
<td>IT 3</td>
<td>Market and industry analyses followed by two strategy workshops that determined market scenarios, questions for destiny and the actions needed.</td>
<td>3-4 months, two days of workshops</td>
<td>Management team + board (10 persons)</td>
<td>Trends analyses, scenarios, BCG matrix, open discussion and brainstorming</td>
</tr>
<tr>
<td>IT 5</td>
<td>Employee questionnaire and customer interviews (15) to identify new seeds for growth. Evaluation of growth options, their size and “sanity check” in first workshop day, conclusions and strategy wrap-up in second day.</td>
<td>2 months, workshop two days</td>
<td>Management team, key R&amp;D personnel, chairman of the board (12 persons)</td>
<td>Brainstorming as one group, workshop guided by external facilitator.</td>
</tr>
<tr>
<td>IT 6</td>
<td>Crystallizing mission, vision and values. Determined company goals, competitive landscape, SWOT and market positioning. Development of alternative strategies and how they work in different scenarios. Determining strategy, critical success factors and implementation plan.</td>
<td>One year, 6-8 one day long workshops</td>
<td>Management team (4 persons)</td>
<td>SWOT, strategic positioning, scenarios, BCG-matrix etc. Strategy process guided by external facilitator.</td>
</tr>
</tbody>
</table>

While IT1 developed its strategy from internal company perspective based on its current situation, IT3 developed its strategy from external market perspective and forecasted market development. IT5 focused its strategy on identifying new seeds for growth based on internal and external views, while IT 6 worked to develop a formal strategy and to focus its operations. While others utilized 2-6 months for strategy development, IT6 spent the one year for the work guided by an external facilitator. While IT3 and IT 6 utilized common methods typical of strategy books for their strategy analyses, IT1 and IT3 relied on their own methods and mostly on open discussion and brainstorming in a group. IT1 had smallest participation in strategy development (four persons), while IT5 had largest participation (12 persons in strategy workshops).
The practices for updating the current strategy are illustrated in Table 4.

**Table 4 – Strategy practices for updating strategy in case companies**

<table>
<thead>
<tr>
<th>Case</th>
<th>Contents of strategy process</th>
<th>Duration</th>
<th>Participants</th>
<th>Methods</th>
</tr>
</thead>
</table>
| IT 2 | Top management updates strategy based on the following input:  
- Market research, how company performs in different areas in relation to competitors  
- Operational plans from teams and units  
- Key personnel workshop results on how to solve key challenges in production  
- Company SWOT | 4 months | Management team | Open discussion and assessment of strategy input. SWOT |
| IT 4 | Crystallizing own competitive advantage, evaluation of a new business opportunity in high level. | 1 month, one-day workshop | Management team | Brainstorming, imagination and visualization. |
| IT 7 | Discussion about market and company state and brainstorming on possible scenarios. Raising and evaluating strategic options. Deciding on focus areas. | 2 months, 3 days of workshops | 3 founders + US country director and Asia area director | Evaluation of strategic options and grading them. Imagination e.g. who is next customer. SWOT Balanced Scorecard. |
| IT 8 | CEO discusses informally current operations and strategy with key persons and updates strategy. Management team and board give feedback for strategy update. | 1 month | CEO, chairman of the board, owners, key personnel | Open discussion and assessment of initial strategy update. |

As these latter case companies were doing fine and they had no need to develop a completely new strategy, they had chosen different areas what to work on in their formal strategy process. While IT7 and IT8 strived for assessing their current operations and setting focus areas, IT2 used the strategy process to improving its current value added for the customer and IT4 crystallizing its competitive advantage and evaluating one new business opportunity in high level. The process was for updating strategy was shorter (1-4 months), involved less people and utilized less formal methods than in the process renewing strategy. The longest process was in IT2, which collected input widely from both internal and external stakeholders, although the strategy was essentially developed in one management team meeting. For others,
the strategy process was conducted purely by the management team and it also owners and the chairman of the board. The key methods for updating strategy were open discussion and brainstorming. In addition, case companies used SWOT, strategic option evaluation and creative imagination and visualization as methods in strategy analyses.

In addition to specific strategic planning cycle, all case companies claimed to think strategy throughout the year and to be quick to act when there was need to make changes to strategy based on new opportunity or threat. As the organization structure in case companies was flat and the decision power centralized, it was easy for CEO to take such quick actions either independently or involving the board to decision when needed. Typically, the board consisted of founders having close relationship to the case company, often working in an operative or managerial role. Founders were thus readily available and easy to contact for the CEO for discussions about strategy when needed. In the case company IT3, the founders had formed a “family council”, who discussed strategic issues throughout the year. In all case companies, CEO was in frequent contact with the chairman of the board. In a few cases the CEO acted also as the chairman of the board. It was also typical that the chairman of the board was old CEO and the founder of the company. Quick decision-making made the strategy work in SMEs to be highly flexible and autonomous in comparison to large companies, where the management team and the board are strictly separated and have diverse backgrounds.

The evolution of strategy practices

All case companies had thus increased the amount of strategy work and developed more detailed strategy practices as the firms grew. In the following, I present briefly how the founders of entrepreneurial ventures describe the evolution of their strategy practices and the key drivers for change.

The founder of IT 4 describes:

“No longer all employees knew the strategy by heart and had interest to even think about it. Thus, the need for strategy communication emerged. Furthermore, it was no longer evident that all employees were loyal to the company, so the need arose for motivating them through strong vision, mission and strategy. At this point, we wanted to hire an external CEO to take the company to the next level. ”
The founder of IT 5 describes this:

“After five years, we needed to focus to become commercially viable, not to do everything, but to be best in a selected area. We needed to make operations more systematic, to collect ideas and also decide upon them, not just leave them hanging in the air. At this point, we recruited managers from other companies to central positions to develop project management and risk management processes.”

The founder of IT 6 described their evolution as the follows:

“As the company grew, my own hands were not enough. I needed to hire new employees and to take them to the management and strategy work with me. As the competition increased, we needed to focus. We initiated a systematic strategy process together with an external strategy consultant.”

In sum, the growth and the development of the firm as well as the increasing competition set new requirements for strategy practices. In three of the case companies, the founders took this challenge and utilized an external strategy consultant in some point to support them. In other five case companies, the founders hired a new CEO to respond to the challenge. Some of the case companies that hired a new CEO maintained their current strategy practices and only refined them. Others that hired a new CEO, took completely new strategy practices in use. In the following, the new CEOs describe how they changed strategy practices and the reasons behind the decisions:

The new CEO of IT3 describes:

“I did not want to take old practices, I took my own. Now there is a more external approach to strategy. This was a good moment, as I also needed myself to structure things and to learn about the company. I want to bring formality and make the process more systematic, although nothing was bad or wrong. It is the question of personality how one wants to develop strategy. I don’t know old practices, and have not wanted to get to know them.”

The new CEO of IT4 describes:

“The founders wanted to take the company to the next level, and hired me to do this. First, I had a 3-month long strategy process in which we defined the strategy. We did not develop
new strategy, but rather documented (formalized) the common understanding what we had. Thus, we made together a baseline, which we build on later together.”

The new CEO of IT8 describes:

”When I officially became a CEO, I wanted to document, write down, existing strategy practices. Together with old CEO we thought the CEO change offered a good moment for this. As we don’t have any problem, we are doing very well, there is no need to change strategy practices.

The new CEO of IT1 describes:

“As I started, we made a radical change to strategy. I think previous strategy wasted resources as experienced, top professionals were sold as pure project resources. This initiated change. We started to look how we operated with big customers and how this differed from other doing and based on differences we started to develop our services and to modify the company to become a service integrator.”

Thus, it can be notified that there were great differences in the firm-specific situations when the new CEOs started. The new CEO could continue with old strategy practices or to develop his/her own, when the company was doing well. Only when the company was doing poorly, as in the case of IT1, the new CEO needed to adopt completely new strategy practices in order to develop a new strategy.

All case companies developed continuously their strategy practices, as they learnt from prior experiences.

The CEO of IT7 describes:

“Our current strategy practices are based on founder’s own experience and education as well as the methods of external strategy consultants such as Balanced Scorecard. As the company grew, we took all new personnel to be part of strategy development. However, due to our international presence in three continents, we have taken strategy development back to the management team task, as we have not found a cost efficient way to take personnel and the facilitator along.”
The CEO of IT8 describes:

“Our current strategy practices are based on the founder’s (the current chairman of the board) own experience of management and involvement of customers. At the beginning we had detailed business plans that were regularly updated. As we experimented fast growth (with employees 20-65) we did not keep regular meetings, management team compositions etc., we operated very informally in order not to reinforce our operations.

The CEO of IT4 describes:

“Our current strategy practices have been formed through experiment, learning-by-doing. We have tried different ways once we have found what works for us and what not. We have learnt what to reinforce and what to keep flexible. We have learnt how to communicate different aspects of strategy (both management team and key personnel). We have utilized existing literature both old and new. We try to follow the time”.

The CEOs of the case companies developed their strategy practices based on their own experience, education and personality as well as through learning-by-doing. Major changes in strategy practices occurred only when an external CEO or strategy consultant was hired. As an example IT 1 hired a new, experienced CEO as the old one had not succeeded to grow the company as expected. The new CEO developed a completely new strategy and strategy practices. He did it together with the management team. They examined what the company was doing well in their long-term, most valuable, customer relationships in comparison with other customers. They then developed their service portfolio based on what they had learnt from most valuable customer projects. The new strategy practices were innovative and developed based on own thinking. The CEO of IT 6 in turn did not have the competence and experience of strategy development and he hired an external strategy consultant when the company needed to develop a focused strategy.

It is though important to keep in mind that hiring a new CEO or strategy consultant does not necessarily mean that the company will radically change their current strategy practices. If the company is doing well, the new CEO or strategy consultant is not obliged to change the strategy practices. He/she can keep the old ones and only to refine the old practices according to his/her own experience and preferences. However, if the company is not doing well, the
new CEO or strategy consultant need to define his/her own strategy practices, and to fully drop the old ones.

The case companies all see that their current strategy practices need to be refined and changed in the future due to different reasons.

The CEO of IT4 discusses their future changes:

“We have started to need for specified strategies within different functions during the last two years. Currently, we have only one business area and one business strategy, in the future we are likely to have several businesses and several business strategies.”

The Chairman of the board in IT3 thinks about future:

“Next we have as a challenge to involve middle management in the strategy development and to collect input from them.”

The CEO in IT8 thinks about future:

“Later in some point we need to formalize our operations ... we will soon have a new manager who comes from a large corporation, who we don’t know... But how to maintain the good things... to be flexible, to praise change, to have open discussion... We will surely have different strategy practices next year, but we try not to adopt formalized process, as long as we don’t have to.”

The CEO in IT6 thinks about the future:

“If I moved to the chairman of the board and we had a new CEO, we should significantly develop the way of the board works and our strategy practices. As long as I am both CEO and the chairman of the board, we can operate in current way.”

It can be thus concluded that as the firm grows in terms of personnel and business lines, there are new challenges, which influence the need for modification of strategy practices. Also, the increasing competition sets pressure to develop more accurate strategy practices to respond to the business challenges. Figure 1 summarizes the key forces that had influenced the evolution of strategy practices in case companies so far and that continue to influence their future
evolution, and the different alternatives for firms to respond to these internal and external forces.

**Figure 1 – Key forces influencing the evolution of strategy practices**

**Discussion**

This paper highlights the central role of the CEO in the formation of organizational routines in entrepreneurial firms. The earlier experience, education and personal characteristics of the CEO and the founding team affect the design of strategy practices. CEOs that are structured, have experience and business education tend to use business plans, long term plan or budgeting as the basis for directing operations already in the beginning of the entrepreneurial venture. Others, typically with young age, high technical competence and enthusiasm, just focus on doing as much as possible and do not stop to write down their vision. This paper demonstrates that strategy practices continuously evolve in entrepreneurial ventures through learning-by-doing. Prior research has also emphasized the importance of founders’ learning in the development of new organizational routines (Aldrich and Young, 2014).

As the entrepreneurial ventures grow, increasing competition and organization size in terms of personnel and business lines set further requirements for the development of strategy
practices. This finding is in line with prior literature that indicate strategy practices to be dependent on the life-cycle of the business (Berry, 1998; Robinson and Pierce, 1984) and the industry (Verrynne and Meyer, 2008). According to the terms of Verreyne and Meyer (2008), the strategy practices can be defined as simplistic in the beginning of the entrepreneurial ventures and they became more participative as the firms grew. Some case companies hired a new CEO, some an external strategy consultant and some worked themselves through trial-and-error to develop new strategy practices required for the new situation. The change from simplistic to participative strategy practices was either incremental or radical depending on the company situation. In the crisis situation (e.g. poor financial result) the change was radical, while in the normal situation, the change could be handled as incremental.

In earlier literature, Berry (1998) noticed that the firms with founders as CEOs need to go through crisis before the CEO realizes the importance of formal strategic management techniques. Based on this study, not all companies need to go through crisis to develop strategy practices. The founder in two of the eight case companies did not plan to stay as long-term CEO already when they started a company. They saw the need for a professional CEO, when the company has more than 50 employees. In these situations, the shift from simplistic to participative strategy practices was incremental.

The case companies being currently small- and medium-sized companies are still facing growth and their growth is likely to demand change for their current strategy practices. The challenge which the companies face is how to keep the flexibility and open company culture, while the company grows in structure and is required to make their strategy practices more formal. Although being agile is more difficult when the firm grows, there are different ways to strive for it.

This paper contributes to strategic management research in identifying the factors influencing the origin and the evolution of strategy practices in entrepreneurial ventures. As the results are based on eight case companies, I recommend future research to examine strategy practices in further firms and industries. This is to both validate the results and to possibly identify further factors influencing the evolution of strategy practices in entrepreneurial ventures. I also suggest future research to investigate in a further detail a few successful entrepreneurial ventures and how they have initiated and developed their strategy practices as the firm has grown from a venture to an established small- and medium-sized firm. This type of research
would provide in-depth understanding on how strategy practices form and evolve, and could make significant contribution to academic literature on change in routines. It would also be of high managerial relevance to support the management in small firms to respond to the challenge of maintaining flexibility and openness, while managing growing organization and increasing competition.
List of references


