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Paradoxes or trade-offs of entrepreneurship: Exploratory insights from the Cambridge eco-system[☆]

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ABSTRACT

The literature in business and management studies presents trade-offs (either/or) and paradoxes (both/and) as two different approaches of making choices. However, research in entrepreneurship has not analyzed entrepreneurial decisions through a paradox and a trade-off approach. Using insights from unstructured interviews with founders of start-ups in health care and medical devices industry in Cambridge (MA, USA), this study explores two approaches entrepreneurs follow while making decisions, a trade-off versus a paradox approach. Four dimensions emerge from the analysis: technology, market, customer, and team. Results show that within each dimension, in some cases successful entrepreneurs consider a trade-off approach (e.g. technology push over market pull, simplicity over complexity, or breakthrough over incremental). In other cases, they take a paradoxical approach (e.g. passion versus preparedness, improvisation versus planning, exploitative versus explorative innovations, a reactive versus a pro-active approach). Occasionally founders consider a trade-off approach in an early stage and move to paradox later (e.g. when deciding about listening to early versus late adopters or when selecting a single versus multiple market applications). Because of high certainty, a paradoxical approach occurs more often at a later stage of venture creation.

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1. Introduction

Entrepreneurial challenges are important concerns for researchers and practitioners. Over a decade ago, *Shane and Venkataraman (2000)* argue that entrepreneurship is a field worth studying and offer a conceptual framework. They argue that looking at an entrepreneur as a person is not sufficient and that the phenomenon of entrepreneurship consists of two different aspects: the entrepreneur and entrepreneurial opportunities.

Translating promising technologies into economic returns is one of the main challenges of every start-up (*Gans & Stern, 2003*). A compelling technology is also a key element for investors, because such technology might lead to exploring attractive markets and having a larger customer base (*Cusumano, 2013*). However, an attractive market and evidence of customer interest are not sufficient for a start-up's success. A strong team is another critical factor. Scholars analyze the

effect of the founding team's capabilities on venture's performance (e.g. *Zhao, Song, & Storm, 2012*) and on venture capitalists' evaluation of venture proposals (*Franke, Gruber, Harhoff, & Henkel, 2008*). Teams' involvement and heterogeneity (*Vanaelst et al., 2006*), and team composition and tacit knowledge transfer (*Forbes, Borchert, Zellmer-Bruhn, & Sapienza, 2006; Knockaert, Ucbasaran, Wright, & Clarysse, 2011*) also affect start-ups' success and survival. Finally, studies posit that the right eco-system and environmental settings affect entrepreneurs' motivation (*Dubini, 1989*) and venture creation (*Edelman & Yli-Renko, 2010; Feldman, 2001*).

Within this context, decision making is a major element of entrepreneurship. Entrepreneurs are constantly facing choices and have to make decisions with the best outcomes for their venture (e.g. *Holland & Shepherd, 2013; Townsend, Busenitz, & Arthur, 2010*). Despite the increasing scholarship on entrepreneurial choices and decision making factors, the literature seemingly ignores the approaches which entrepreneurs, namely in healthcare, could take while facing challenges and tensions.

Strategic agility enables entrepreneurs to respond effectively and flexibly to the tensions of their environment and involves being alert and capable of identifying and integrating new challenges and opportunities, while facing tensions resulting from those challenges or opportunities (*Lewis, Andriopoulos, & Smith, 2014*). Trade-off and paradox are different types of responses to those challenges. When facing a tension

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between competing options A and B, a trade-off approach looks at advantages and disadvantages of each option, providing an either/or approach. Here the goal is to identify the option with the highest advantage and lowest disadvantage. On the other hand, a paradoxical approach aims at choosing options A and B simultaneously. Although the options might seem contradictory, their interrelations often allow their coexistence. Thus, the goal of a paradoxical approach is to present a both/and solution, emphasizing common grounds and contrasts of the opposing elements (Lewis et al., 2014).

Scholars in leadership and organizational behavior study these approaches in various contexts, such as organizational environments, survival, or strategic agility (e.g. Doz & Kosonen, 2008). Others look at paradoxes in management studies (da Cunha, Clegg, & e Cunha, 2002) and propose that a positive perspective towards the co-presence of opposing elements can increase the potential relationship between the two (Clegg, da Cunha, & e Cunha, 2002). For example, Chen, Yao, and Kotha (2009) study passion versus preparedness and the effects of each element on venture capitalists' decisions. However, research in the field of entrepreneurship has seemingly overlooked paradoxical approaches in the case of entrepreneurial decisions in healthcare. When thinking about his management experience, the founder of a technological company recalls the paradoxical approach he took to solve the tensions between passion and preparedness: "A lot of entrepreneurs get started, because they are very passionate. That was certainly my case. But getting a business to work mechanically is also about being prepared. You can't do with one or the other. You need to have both".

This study works on a sample of entrepreneurs in the field of healthcare and medical devices. Founders in this rich field share similar complexities. In the medical field, defining the customer is often difficult: patients receive the technology, doctors use or prescribe the technology, hospitals need to approve the technology, and insurance companies are the ones paying for the technology. Market in this field is not as straightforward and simple as in most fields. Thus, this exploratory study aims to understand better the nature of entrepreneurial decisions in the field of healthcare. The study focuses on major elements of entrepreneurship and explores a trade-off versus a paradox approach, aiming at understanding whether entrepreneurs consider merely a trade-off or both a trade-off and a paradoxical approach.

2. Method

In the past decade, qualitative research has advanced significantly regarding strengths and legitimacy, methodological progress, and contribution to advancing knowledge in management studies (Bluhm, Harman, Lee, & Mitchell, 2011), among other aspects. Hence, this study adopts a qualitative approach by adapting major practices of the Grounded Theory approach (Corbin & Strauss, 1990; Glaser, 1978; Glaser & Strauss, 1967). This approach gives room for interpretation and adaptation; therefore, scholars commonly consider Grounded Theory more a research paradigm than a methodology.

Unstructured interviews, that is, interviews not following a pre-structured interview guide (Corbin & Morse, 2003), are the richest sources of data for a Grounded Theory approach (Corbin & Strauss, 2014). The data for this research comes from an exploratory investigation of entrepreneurial challenges in healthcare start-ups. The study consists of 16 unstructured interviews, conducted in person or over phone. Sample size followed the concept of saturation, when the collection of new data does not shed any further light on the subject of the study (Glaser & Strauss, 1967). Established literature suggests 12 as the minimum number of interviews for grounded theory studies (Guest, Bunce, & Johnson, 2006). In this study, data saturation occurs after the first 11 interviews. Interviews lasted 45 to 90 minutes. Respondents were founders of technology start-ups in health care. They were between 35 and 67 years of age, highly educated, and with only one female participant. Rather than directing the respondents to talk specifically about challenges and tensions they faced, the interviews encourage respondents to explain the

story of their start-up, from idea to business. This approach reduces the risk of losing important related phenomena.

3. Results: Major elements of paradox

Using a Grounded Theory approach, four major dimensions emerge from the data: technology, market, customer, and team (Fig. 1). Prior work on practice of entrepreneurship mentions a strong team, an attractive market, compelling new products or services, and strong evidence of customer interest as key elements of successful start-ups, thus supporting these dimensions (Cusumano, 2004, 2013; Kanter, 2011). The eco-system and the environment also affect venture creation and growth. A right choice in a given context might need adjustments in a different context and environment (Gans & Stern, 2003). Because of specific laws and regulations, the healthcare industry has a special environment, within which entrepreneurs sometimes cannot make a choice. Start-ups face various regulations and institutional limitations. In the case of medical devices or drugs, clinical trials and FDA approval are the most important institutional challenges of the field. These time-consuming processes make most investments in this field a long-term investment and thus less attractive for investors who look for short-term returns. However, despite the long-term nature of such investments, healthcare entrepreneurs manage to secure funding also through networks and previous investors. Some entrepreneurs choose a trade-off approach to decide whether to enter the medical market or not. A founder of a dermatology company chose not to: "We said that we wanted to develop something which could rapidly be transferred to the market. To do so, we had to focus on materials that could potentially be regulated as cosmetics." Having decided to develop a non-medical product, they avoided all the regulations which apply to medical products and could enter the market quickly.

This study categorizes the challenges that entrepreneurs face under these four categories and explores whether a trade-off approach or both a trade-off and a paradox approach would apply. The study confirms that the common way entrepreneurs' respond to those challenges is choosing a trade-off over a paradoxical approach. However, 15 out of 16 interviewees have taken a paradoxical approach at least once.

3.1. Technology

An attractive technology is an essential component to attract the target customer. Successful entrepreneurs' technologies focus on unmet needs. Looking at available alternatives and having the ability to fulfill unsatisfied needs allow a technology to create value and become attractive for investors as well as potential customers. When deciding about innovations, entrepreneurs often face tensions between incremental and breakthrough, simplicity and complexity, exploitative and explorative (Fig. 1). The study shows that for each of these challenges, entrepreneurs tend to take different approaches.

Regarding exploitative versus explorative innovations, healthcare entrepreneurs prefer to choose a both/and solution, a paradox. They seek to pursue both options simultaneously, so that they can take advantage of both. Exploitative innovation keeps the current technology fresh, whereas the explorative innovations provide new value, which can enhance the existing technology or provide an improved alternative (Jansen, Van Den Bosch, & Volberda, 2006).

As regards trade-offs, simplicity is always a choice over complexity. Founders know that simplicity is a key factor for their products to diffuse faster. Nevertheless, they are also aware that designing simple products is more labor intensive. A founder of a design company for medical devices explains: "Sometimes the outset of the simplest products, from the user experience, are often the most complex to execute. The amount of complexity that goes into making something simple is often unrecognized by companies."

Similarly, considering the highly technological eco-system of healthcare in the Cambridge area, breakthrough ideas win-over

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