

# Chapter IX

## The Relationship Between Internet Entrepreneurs, Idea Generation, and Porter's Generic Strategies

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### **ABSTRACT**

*The chapter discusses the use of business strategies for pure Internet firms. It separates the strategic choices and directions used for idea generation, during start-up, and beyond business or brand establishment. Corroborating much of the literature, it argues that traditional notions of strategy might be inappropriate for some dotcom firms due to the high level of complexity, speed of change and competitiveness characteristic of the Internet environment. As has been observed by research, idea generation on the Internet can involve prospecting and reacting quickly to markets to a greater extent than amongst traditional businesses. Likewise, start-up strategies often appear to involve flexibility and an openness to strategic change in response to the fast dynamic nature of the online market. The chapter suggests alternative strategy models that might be useful in our understanding of Internet business creation and development.*

## INTRODUCTION

The current chapter explores idea generation, start-up (i.e., the first three years), and ongoing operational strategies for the establishment, sustainability, and growth within Internet-based firms, as opposed to off-line, traditional businesses. Specifically, the chapter refers to those firms that exist entirely on the Internet, and that are innovation driven—in terms of products/services or processes. Courtney, Kirkland, and Viguerie (1997) identify three strategic postures that firms can adopt in the **Internet environment**: shaping the future, adapting to the future, and reserving the right to play. For the current chapter, **Internet entrepreneurship** is associated most often with the first of these categories, but as will be shown, also can involve those firms that would be associated with the second.

## A SUMMARY OF SMALL BUSINESS STRATEGY RESEARCH

By and large, studies investigating **business strategy** and planning processes have centred on the activities of large firms (O’Gorman, 2000; Wheelen & Hunger, 1999). These studies have resulted in the development of a large body of theory, frameworks, techniques and concepts for understanding and designing suitable strategic postures for large, not small firms (Beaver & Prince, 2004). Indeed, a number of writers (e.g., Covin & Slevin, 1989; Shrader, Mulford, & Blackburn, 1989) have argued that strategic management techniques are unsuitable for small firms. Further, where research has attempted to identify the use and impact of various strategies in small firms, results have varied. For example, there are many empirical studies that have identified a positive correlation between strategy and planning, and small business performance and growth (e.g., Beaver & Ross, 2000; Griggs, 2002; Masurel & Smit, 2000; Perry, 2001). Conversely though, other

studies have found a negative or no correlation between the use of planning by small business owners and performance (e.g., French, Kelly, & Harrison, 2004; Gibson & Cassar, 2005). A likely explanation for these inconclusive findings is the use of different **business strategy** and planning definitions by the studies examined. Within the extant literature the concepts “strategy,” “strategic planning,” “business planning,” and “strategic management” are often used interchangeably. However, these expressions can and do represent very different things to owners, managers and scholars (Beaver et al., 2004). In the same way, research results are going to be influenced by how the planning construct is operationalised. For instance, in several studies, researchers have placed tremendous weight on the existence of a formal written plan that includes goals and objectives as symbolising a high degree of planning sophistication or formality. In the case of small businesses, various researchers argue that informal planning is just as valid as formal planning if owners or managers demonstrate **strategic awareness** (Lyles, Baird, Orris, & Kuratko, 1993; Robinson & Pearce, 1984). **Strategic awareness** is a much more desirable and important ability to possess than a formal business plan (e.g., Beaver et al., 2000; Georgellis, Joyce, & Woods, 2000). **Strategic awareness** is described as management’s ability to calculate the effects of environmental changes, and then to re-position their firm’s activities to take advantage of them (Gibb & Scott, 1985).

The **orthodox** perspective of **strategy formulation** holds that to preserve performance organisations make purposeful, logical and rational changes to their structures that cause them to be better aligned over time with their environment (i.e., they move from low to high performing structures). However, controversy surrounds the **orthodox** outlook because many authors believe strategy formulation cannot be described as a logical and rational process (Alvesson & Willmott, 1996). Brown and Blackmon (2005) state

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