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Many Startups Benefit From a Short-Term Focus

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Conventional wisdom tells us that having a long-term strategic focus on customer value creation and future market demands is a powerful source of building a sustainable competitive advantage in startups. But our research, which was recently published in the Strategic Entrepreneurship Journal (https://onlinelibrary.wiley.com/doi/full/10.1002/sej.1440) , demonstrates that this advice is not always true for many startups.

In some situations, startups benefit more from a short-term strategic focus. This focus helps them overcome the immediate challenges startups face during the earliest stages of development, and sets the stage for future success. From studying 170 Belgian startups spread over different industries, we discovered that a short-term focus in the startup phase of a firm can accelerate its growth in the scale-up phase. Moreover, it helped startups maintain that short-term focus if they had one or more external board members – that is, board members who were neither employed by the venture, nor members, friends, or relatives of the founding team.

Long-Term vs Short-Term

The time horizon is the main difference between decisions made with a long-term or short-term strategic orientation. The longer the time period before a decision has an effect, the more uncertain and the less predictable the outcome will be. In other words, the longer the time period, the greater the risk of a strategic decision. Although entrepreneurs are not risk-averse by nature, they will try to estimate and limit risks by using historical information on the one hand and market knowledge on the other hand. But waiting a long time for the outcome of a strategic decision requires high levels of financial resources other than debt, as the outcome of those decisions is uncertain as well as deferred. To finance those long-term strategic decisions, firms need resources beyond what is needed to finance daily activities.

Given the difference between short- and long-term strategic orientation decisions, we see two reasons why startups should prefer a short-term strategic focus. First, mature firms have indeed more historical information than startups. This is the primary reason why long-term decisions and long-term strategic orientation is riskier for startups than for mature firms and short-term orientation is more preferable. Second, startups often lack the financial resources to wait for a benefit that's a long way off, which forces them to focus on the short-term. Furthermore, a focus on short-term decisions resonates with the lean startup approach, which emphasizes rapid iterations to test and validate the business model.

The Role of the Board of Directors

Therefore, it's important to understand the mechanisms that can enhance the short-term strategic orientation in startups. Other studies have shown that external board members can add significant value to the company from a monitoring as well as an advisory perspective. External board members monitor the management team of a firm to protect owners' interests and challenge them in their strategic decision-making process. Both from their control role as well as their strategic advisory role, external board members ensure that the company's management uses its scarce resources in a way that creates the most value. In the context of startups, this means that an external board member will emphasize the focus on short term strategic orientation.

Our study drew upon a dataset called START, an extensive biennial survey of startup ventures in the Flanders region of Belgium. We focused on a set of firms that took part in the 2005, 2007 and 2009 waves of the survey, and we merged the START data with financial data drawn from another database, called Belfirst. In total, our sample included 170 startup ventures in a variety of industries, 28% of which have external members in their board of directors. For each of these firms, we examined their "relative short-term strategic orientation" using survey measures, the ratio of external board members to total board members, and a variety of moderating and control variables.

Our research indeed finds that the presence of external members in startups' board of directors enhances the focus on short-term strategic decisions. Entrepreneurs and board members describe this as focusing on company survival rather than on business growth in the startup phase.

Difficult Starting Position = Higher Impact

Our study further shows that having external board members doesn't have the same impact for every startup. We saw a stronger impact when startups operate in a highly competitive environment where they face fierce competition from new entrants and incumbents. In such environments, startups need to react and adjust quickly to competitive threats. Consequently, the external board member will play a stronger role in developing strategy. We saw the same effect at startups that invested less time in preparatory activities, such as developing a business plan, before founding. In these startups, the level of uncertainty and risk is greater as they have less knowledge about their environments – for example, knowledge about their customers and competition -- and this makes the need for strategic support more urgent. These conditions increase the importance of the strategic support from external board members to reinforce a short-term strategic orientation.

Conclusion

In this article we set out to answer an important question for founders of new startups: When do startups benefit from a short-term focus? Based on our research with startups in Belgium, we find that startups benefit from a short-term strategic orientation during the initial phase of their existence. This increases their chances for survival without jeopardizing their growth potential in the scale-up phase. Including external members in the board of directors enhances a short-term strategic orientation, and their added value becomes more important in startups operating in more competitive environments and in startups that are less prepared before founding.

Explore the Research

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