



## **Role of Strategic Orientation for Indian Startups in Operating in Turbulent Environment**

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### **ABSTRACT**

*India is on the brink of becoming a prime global innovation hub, and Indian startups have a major role to play in driving the innovation engine. However, it is necessary that Indian entrepreneurs shun some of the traditional paradigms and adopt paradigms that are more in sync with strategies that promote innovations. This study attempts to explore the environmental factors affecting 89 firms operating in a turbulent environment and strategy adopted by startups. In the process of proposing and explaining the variables affecting strategy and environment, this paper makes certain contributions. It contributes towards integrated and comprehensive literature on the subject which can be utilized for academic purposes. The variables explored through exploratory factor analysis can be instrumental to firms as a guide for charting out the future strategy of firms*

**Keywords:** *Indian startup; Innovation; Environmental pressure; Strategic orientation.*

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### **1.0 Introduction**

Entrepreneurship promo is one of the most beneficial ways for a nation for improving its economy and attracting venture capitalists that will reap huge rewards in future. According to Dinesh and Sushil (2019), there have been exemplary improvements in India towards entrepreneurship in order to boost activities of entrepreneurship among graduates to become entrepreneurs and launch their own startups with the support of government and financial aid. Startup India is one of the initiatives undertaken by government to promote entrepreneurship in the country.

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“Successful entrepreneurship always involves seizing opportunities shrewdly and quickly and converting them into sustainable profit-making enterprise, many startups fail to achieve their goals because of heavy competition and often such failure is a result of poor strategy” (Hitt *et al*, 2001). Although in past decade, India has excelled in entrepreneurial activities related to software exporting and other information technology enables service startups. However, numerous barriers still exist in business ecosystem for the survival of startups in India as well as globally. The ecology to support new entrepreneurial ventures in India is still in the embryonic stage. Recent years have seen the emergence of angel investors and dedicated venture funds as the global community is becoming attentive towards the gap between availability of venture capital and existence of opportunity in India. Firms and individuals are trying to find creative ways of overcoming these constraints to

Every organization is optimized to function and operate in an environment which is conducive for its growth and profitability. The extant environment is a key determinant in the strategy adopted by the decision-makers to further the interests of their businesses. However, environment is a dynamic entity that keeps altering / evolving in time, space and dimension.

A start-up company is a new entrepreneurial venture which aims to meet the marketplace needs by developing a viable business model around a product, service, process or a platform. These are usually companies designed to effectively develop and validate a scalable business model. Start-Ups have been observed to have high rates of failure, but the minority of successes include companies that have become large and influential. A lot of Startups share the same origin story, a couple of close friends trying to build a company that will change the world. As the company grows, it transitions from a few friends to a team and moves out of the garage and into a real office. Whilst this is an exciting transition and usually, a positive sign, it is also the time when certain growing pains begin to emerge. Startups have to develop a strategy which is congruent with the environment they operate in.

The sensitivity to comprehend the changing environment and re-defining the organizational strategy may be feasible for big business which have dedicated teams and resources to invest for studying and recommending changes. However, it is the smaller Businesses, MSME and Startups, which may not be able to invest the requisite focus and attention towards the changing environmental parameters with their limited resources. However, it is pertinent to mention here that, Architectural innovations place a premium on exploration of design and assimilation of new knowledge. Many established organizations find this type of transition difficult, but Startups or new entrants with no established framework are better placed and suited to harness the potential for

developing new channels and information to exploit the potential of a new design (Henderson and Clark, 1990).

“In the rapidly changing business environment of today, it has become necessary for the organizations to move from boundary-oriented thinking and continuous improvement towards a systemic reinvention of their models. This is believed to provide the disruptive competitive advantages necessary to survive and thrive in an environment where the ‘rules of the game’ change quickly in almost all companies and industries. While identifying the generic components of the different business models the relevance of the reinvented business models for competitive advantage and outlines the challenges faced by some companies in developing new business models should be understood” (Voelpel *et al.* 2005). Hence this paper attempts to explore the factors which affect innovation in startup firms.

## **2.0 Literature Review**

“Contingency theory is a dominant theme in organization theory (Galunic and Eisenhardt, 1996). In design terms, contingency theory suggests that an appropriate organizational design is contingent or dependent upon such factors as size, strategy, technology, environment, and managerial preference.” (Baligh *et al.* 1996).

Daft (2012) asserts that contingency theory, which has been advocated by various prominent organizational scientists like (Burns and Stalker, 1961) (Galbraith, 2014), (Lawrence and Lorsch, 1967), Miles and Snow (1978) and many other scientists who took an approach which emphasised on taking organisation as a whole insisted that there must be a good fit between strategy, processes, reward system, structure, people and the (Galbraith, 2014) or external environment”. “The 'design school 'model proposes a simple model that views the process as one of design to achieve an essential fit between external threat and opportunity and internal distinctive competence. A number of premises underlie this model: that the process should be one of consciously controlled thought, specifically by the chief executive; that the model must be kept simple and informal; that the strategies produced should be unique, explicit, and simple; and that these strategies should appear fully formulated before they are implemented “(Mintzberg, 1990). Small firms have to deal with intense pressure of hostile environment. To survive in such a hyper-competitive market, all organizations need to develop flexibility in their organization structure, operations and strategy development. Flexibility is defined as ability of organization to meet an increasing variety of customer expectations while keeping costs, delays, organizations disruptions and performance losses at or near zero (Zhang and Zhang, 2016). “Successful entrepreneurship always

involves seizing opportunities shrewdly and quickly and converting them into sustainable profit-making enterprise, many startups fail to achieve their goals because of heavy competition and often such failure is a result of poor strategy” (Hitt *et al.* 2001). As per Daft (2012) Organizations today are increasingly becoming global players, the workforce as well as customer base is becoming progressively diversified. The growing diverseness brings a multitude of challenges which includes preserving a strong corporate culture while enhancing diversity, handling work and family issues and coping with the disputes brought about by different cultural styles.

Drucker (1985) posits that focus on management will require new organization to (a) Focus on market (b) Plan ahead for future financial needs (c) Ask the founders to evaluate their strengths and abilities in light of changing needs of growing organization. “Systematic innovation is purposeful and organised search for change and systematic analysis of opportunities such change might offer social and economic innovation” (Drucker, 1985). Drucker (1985) suggests that entrepreneurial organisations must not try to diversify, splinter and must not try to do diverse things at once.

Innovation is widely recognized as an important element which helps the organizations maintain its competitive edge. “Most of the firms in their nascent state adopt Entrepreneurial Orientation is revealed through firm’s characteristics” (Lumpkin and Dess, 1996). “An entrepreneurial firm is one that engages in product-market innovation, undertakes somewhat risky ventures, and is first to come up with ‘proactive’ innovations, beating competitors to the punch” (Miller, 1983). Such features signal enhanced firms performance in volatile business environments where product and business model lifecycles have reduced as suggested by Hamel (2000), and where the profit generation from current operations are unpredictable and businesses have to constantly evolve and pursue new opportunities as advocated by Wiklund and Shephard (2005). “It has been noted by multiple studies that entrepreneurial strategic orientation is a deciding factor in improved performance of firms” (Zahara and Covin, 1995).

“The entrepreneurial firm is generally distinguished in its ability to innovate, initiate change and rapidly react to change flexibly and adroitly. It seeks ways to accentuate and perpetuate the strengths of innovation, flexibility and responsiveness while providing more sophisticated and efficient management” (Naman and Slevin, 1993). Many organizations need improved means of increasing the skills and effectiveness of entrepreneurial management and assisting their developing into successful companies.

This is very similar to Snow and Miles (1978) prospectors, who as per them are firms who are in perpetual state of development, Growth are achieved through product and market development. They operate in dynamic and uncertain environments,

managing constant change and innovation. Prospectors avoid long term commitment t In their study of build and harvest strategic missions by Gupta and Govindarajan (1984) have explained that build SBU's or firms trying to sustain in new and evolving industries and they face extremely uncertain environments. A strategy of differentiation is defined as an effort to offer a product that is different and unique and is recognised in the industry as explained by Porter (1980). "This strategy requires an external orientation and an innovative flair in order to provide a unique product to customer. Since the differentiating firm does not make regular products, it needs to know both what types of products customers want a customers feedback about the products it makes. There are multiple approaches to differentiation; it can be based on the product itself (i.e. technology, design and quality), marketing approach and delivery system or customer service. A successful differentiator will seek approaches that will lead price premium greater than cost of differentiating single technological process.

### **3.0 Objective**

This study endeavors to explore the variables that affect strategy and environment that effects the functioning the startup firms. It is an attempt to help the start-ups adapt to the changing organizational environment to ensure their sustenance in a turbulent and dynamic business environment. Since there cannot be a readymade/ template solution for the problems, certain recommendations can be extracted from this research. This study is aimed at the following:-

- Exploring factors of environment and strategic orientation of startup firms which effects the functioning of a startup.
- Providing guidelines pertaining to strategic orientation of startup firms functioning in turbulent environment based on factors extracted after factor analysis.

### **4.0 Research Methodology**

#### **4.1 Data sources**

Data for this study was drawn from the interactions and inputs of founders and top executives of major Startups through convenience and random sampling. In addition, online publications, offline journals and newspapers were used to identify the relevant Startups at various stages of their funding. The founders / executives of these selected Startups were contacted through social media and emails for compiling the relevant data. The data was collected through pre-structured questionnaire on a five -point scale. A sample of 89 organizations was taken. It was a non-probability sample data from

founders going through different stages of funding was sought. Responses for the same was collected through an online form.

**4.2 Data collation**

Data Government definition of startup is an entity incorporated or registered in India, which is not more than 7 years old, with an annual turnover not exceeding 25 crores in any preceding financial year, working towards innovation development, deployment or commercialisation of new products and processes or services driven by technology or intellectual property. However, this definition is only applicable only for government enlisted startups.

For the context of this study the researcher has considered startups as companies which are younger than 10 years which has innovative technology or business model and have to strive for significant employee and/or sales growth” (Kollmann, 2016). Startups which were at least two years old were included in the study because most of the startups fail within two years of their life (Giardino, 2014), size of the firms included in sample ranged from six employees to 350 employees.

A questionnaire of 15 items, five-point rating scale was developed based on the literature review. Questionnaire was developed after comprehensive literature review.

**4.3 Data analysis**

The data was subjected to data synthesis and to clean the missing and redundant data. After which the data was subjected to reliability test, Cronbach Alpha of the data was determined to 0.96, which ascertains the reliability of data (Table 1). In the next step, KMO Bartlett test was performed to understand the sampling adequacy of each variable It was calculated to be 0.706 (Table 2)

**Table 1: Reliability Test**

Cronbach alpha	N of Items
.89	15

**Table 2: KMO Bartlett Test**

<b>KMO and Bartlett's Test</b>		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.706
Bartlett's Test of Sphericity	Approx. Chi-Square	451.315
	df	105
	Sig.	.000

Factor analysis was done to understand the underlying factors of environment and strategy which affects the innovation in startup firms. The factor loadings of extracted factors along with their communalities is shown in Table 3. Table 3 shows that all fifteen variables have extraction values of more than .60.

**Table 3: Communalities Extraction Method, Principal Component Analysis**

	<b>Initial</b>	<b>Extraction</b>
Final products are easily substitutable by customer	1.000	.741
Customer requirements are not predictable	1.000	.762
The arrival of competitor is constant threat	1.000	.651
Competitor's actions are not easy to predict	1.000	.554
Technologies related to product are changing rapidly	1.000	.624
Procurement of right human capital is difficult	1.000	.687
There is difficulty in procurement of raw materials	1.000	.633
Business focus is on developing a unique expertise or a unique market	1.000	.561
Business focus is on providing wider spectrum of services	1.000	.661
Business focus is on customisation of products as per customer's requirement	1.000	.662
Creating relations with customers over long time	1.000	.847
Utilisation of firms unique skills to anticipate and solve customer problems	1.000	.855
Interaction with customers, suppliers with the aim of probing new ideas and suggestions	1.000	.794
Organisation recourse to collaboration, ventures to procure and develop innovative products and processes.	1.000	.617
Clarity in budgeting and allocation of resources	1.000	.636

The result of factor analysis using principal component method as shown in table 4 is that 65.889% of the variance can be explained by classifying 15 variables in five factors or components. The percentage of the total variance is used as an index to determine how well the factor solution accounts for, what the variables together represent.

The first factor is most important as it explains 27.25% of variance before rotation. The second factor explains 12.38% of variance. The third variable explains 9.880% variance. The fourth factor explains 8.9% and the fifth factor explains 7.401% variance.

**Table 4: Extraction Method, Principal Component Analysis**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.088	27.253	27.253	4.088	27.253	27.253
2	1.857	12.380	39.633	1.857	12.380	39.633
3	1.482	9.880	49.513	1.482	9.880	49.513
4	1.346	8.975	58.488	1.346	8.975	58.488
5	1.110	7.401	65.889	1.110	7.401	65.889
6	.993	6.620	72.509			
7	.845	5.634	78.143			
8	.710	4.732	82.875			
9	.645	4.297	87.172			
10	.554	3.694	90.866			
11	.453	3.022	93.888			
12	.327	2.179	96.067			
13	.312	2.082	98.149			
14	.205	1.365	99.515			
15	.073	.485	100.000			

Table 5 shows components extracted through Varimax rotation. It can be seen that five components can be extracted through varimax rotation. These variables can be clubbed in five components to explain the factors of environment and strategy which effects innovation in startup firms.

**Table 5: Varimax Rotation Extraction Method, Principal Component Analysis**

Component	1	2	3	4	5
1	.964	.219	.131	-.013	-.074
2	-.200	.723	.172	.584	-.257
3	.007	-.453	.802	.374	.107
4	-.048	.392	.180	-.164	.886
5	.170	-.265	-.526	.701	.364



## **5.0 Results**

The result of variables extracted through factor analysis shows that variables can constitute five components each consisting of some of the extracted variables. The main factors thus derived can be

### **5.1 Turbulent environment**

- Final products are easily substitutable by customers
- Customer Requirements are not predictable
- Arrival of competitor is a constant threat
- Competitor's actions are not easy to predict

### **5.2 Scarce resources**

- Technologies related to product are changing rapidly
- Procurement of right human capital is difficult
- There is difficulty in procurement of raw materials

### **5.3 Strategic orientation of firms**

- Business focus is in developing unique expertise and unique market
- Business focus is in providing wider spectrum of products
- Business focus is in customization of products as per customer's requirement.

### **5.4 Customer centricity**

- Creating relations with customers over a long time
- Utilization of firm's unique skills to anticipate and solve customer problems
- Interaction with customers and suppliers to probe new ideas

### **5.5 Management's responsibilities**

- Recourse to collaboration and ventures to develop and procure new products.
- Clarity in budgeting and allocation of resources

## **6.0 Conclusion**

Organizations functioning in a stable environment have their activities clustered on the basis of common work for the entire the organization. Organizations functioning in last century operated in comparatively static environment so the managers could align

their strategy with the environment at a relaxed pace. However, due to growing competition, turbulent environmental shifts, evolving customer needs and increased competition have forced organizations make their strategies more congruent to the environment and to introduce novel products at faster pace to stay competitive. Organizations earlier had to depend on mass production and distribution methods, but now they have to depend upon latest software's that can produce unique products and linear distribution system that can helps in direct delivery of products.

As per Daft (2012), with its roots in military terminology, strategy implies long term goals. However, for organizational effectiveness, goals have to be predefined, and they signify ends or objectives, strategy also roadmap to reach the designated end, including the resources that need to be allocated and committed to achieve that end. Strategy is a combination of end goals and mean goals which represents comprehensive plan of action that sets a critical direction and guides the allocation of resources to achieve long term organizational objective. Strategy refers to the pattern of decisions and actions that managers take to use the organizational core competence to achieve an edge over its competitors. Strategy is a choice, which specifies how managers plan to operate in turbulent environment. It can be inferred from the analysis of data that though Indian startup ecosystem is still in a very evolving state, and considering the turbulent environment, the strategic decisions taken by Indian founders are suitable for their growth and longevity.

## **7.0 Limitations and Suggestions**

This study explores the variables of environment and strategy that effects Indian startups. The sample size was small consisting 89 startups from all sectors. Although, the present study made an attempt to understand the innovation phenomena in context with organization design, however, the innovation in startups is ambiguous and still remains to be defined. The study provides further scope for large samples and controlled sample size of startups specializing in specific areas. Further, comparative research can be carried out between tech and non-tech startups also.

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