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Resource mobilization in entrepreneurial firms ☆

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ABSTRACT

We test the relative influence of power and social embeddedness in mobilizing resources between newly-formed businesses and other organizations by re-examining longitudinal data from the Van de Ven and Walker (1984) study of interorganizational relations. We find that resource flows to entrepreneurial ventures are predicted by the total dependence between parties engaged in the creation of value; they are not predicted by dependence advantage (or disadvantage) between the parties. We discuss the implications and propose that a theory of joint resource mobilization may be more useful than a theory of unilateral resource acquisition for understanding how new ventures access external resources.

1. Executive summary

The fact that the resources needed by new organizations are often controlled by large, powerful parties poses a dilemma for new firms. On the one hand, new ventures need to engage in relationships with these firms to gain access to resources. On the other hand, engaging in these relationships exposes new ventures to the possibility of opportunistic behavior by these powerful parties. Thus, these relationships have often been seen as a necessary evil— a dangerous activity that entrepreneurs must carefully consider beforehand and one that they must delicately manage afterwards. In this article, we aim to shed some light on the question of how new ventures should manage their relationships with such powerful actors. Building on the recent resurgence of studies based on resource dependence views, we examine whether access to resources by entrepreneurial firms is better achieved through attending to the dynamics of power advantage or the dynamics of mutual dependence.

In order to shed empirical light on these seemingly contradictory views, we test the two alternative theoretical perspectives. In particular, we examine whether resource flows to entrepreneurial firms follow patterns consistent with the power advantage assumptions, the mutual (or joint) dependence assumptions, or neither. To accomplish this aim, we re-analyze Van de Ven and Walker's (1984) longitudinal, matched-pair set of data on the dyadic interorganizational relationships between newly created early childhood development organizations in Texas and the established organizations upon whom they depended for many resources.

We find that the joint dependence in the dyad is positively related to flows of resources to the new ventures. Conversely, dependence advantage (i.e., the power perspective) does not predict resource flows to the new organization. These results suggest that gaining access to external resources depends more on total interdependence than it does on achieving a superior dependence position vis-à-vis the exchange partner. Our results do not imply that power in interorganizational relationships is unimportant or irrelevant. Rather, they suggest that the analysis of power in relationships may be more productively shifted to a broader, collective level, rather than one in which power is conceptualized as a zero-sum game of dependencies.

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These findings have consequences for both theory and practice. Rather than seeking to obtain a short-run power advantage to appropriate as much value as possible from their relationships with resource providers, new ventures may be better advised to pursue longer-term mutually beneficial relationships. In short, new ventures interested in obtaining sustained access to external resources would be well-served by establishing complementary, symbiotic relations with resource providers. We found no support for the idea that value would be extracted from them at an increasing rate as their dependence on powerful partners grows. It may be that new ventures can more effectively gain and sustain access to resources by "growing the pie" and building the amount of total dependence in the dyad, than they can by gaining a power advantage over their exchange partners. From a theoretical point of view, our findings suggest that researchers would be well-served by adopting a broad, nuanced view of the concepts of power and dependence. Understanding more fully the dynamics of dependence and interdependence may lead to better theorizing and to better tests of interorganizational relationships among firms.

2. Introduction

Obtaining adequate financial, physical, and human capital from external sources is a vital and challenging entrepreneurial task, especially for startups (Martens et al., 2007). The resources that new business entrepreneurs need are typically controlled by large, established and powerful parties (Katila et al., 2008). As a consequence, entrepreneurs face the dilemma of engaging in relationships with potential resource providers who are more powerful and may behave opportunistically (Yli-Renko et al., 2001; Katila et al., 2008).

Until recently, the literature painted a picture of entrepreneurs as being vulnerable to outside resource providers (Pfeffer and Salancik, 1978) and emphasized how this vulnerability constrains the way in which new ventures make their choices and manage their relations. Establishing interorganizational relationships was often portrayed as a necessary evil; a risky activity that new ventures need to carefully consider and manage. A recent resurgence of studies of resource dependence theory questions these classical assumptions (e.g. Gulati and Sytch, 2007; Casciaro and Piskorski, 2005) and provides a more nuanced view of the power relationship between new ventures and established resource providers.

This paper empirically examines the question of *How should new ventures manage their relationships with powerful actors that control external resources?* Until recently, the literature addressed this question in two ways that were seemingly unconnected and even contradictory. One (the power perspective) suggests that new ventures should attend to and minimize their dependence disadvantage in order to manage their relationships. The second (the social embeddedness perspective) suggests that new ventures should maximize the joint (total) dependence of the two parties to realize the greatest benefits from their relationships.

The power perspective is based on resource dependence theory and focuses on how the balance of power between two parties influences the outcomes of the relationship (Pfeffer and Salancik, 1978). It derives from classic resource dependence theory, and is based on the idea that power is a function of the dependence of one party on another (Emerson, 1962). Because it follows a 'logic of power' (Gulati and Sytch, 2007), this tradition focuses on the relative dependence advantages or disadvantages of the parties in a given relationship. It suggests that each party in the relationship should seek to minimize its dependence on the other party and to maximize the dependence of the other party. Therefore, new ventures seeking external resources from other, more powerful parties are expected to try to counteract the power advantage of these potential resource providers with strategies to increase their power and to reduce the power of others (Katila et al., 2008).

The social embeddedness perspective is based on theories of socialization and group formation and focuses on how interactions among exchange parties create awareness, affiliation and interdependence among parties, and shared norms and goals (Homans, 1961; Poole and Van de Ven, 2004). It is based on the idea that exchange relationships are embedded in a broader set of social relations (Granovetter, 1985). Because it follows a logic of embeddedness (Gulati and Sytch, 2007), this tradition focuses on the effects of the joint (or total) dependence of the parties in a given relationship. It suggests that two parties involved in a highly interdependent relationship will have a richer and deeper level of interaction that has beneficial outcomes for both parties (Larson, 1992). Therefore, new ventures seeking external resources from other, more powerful parties are advised to engage in rich and interdependent relations with these potential resource providers.

The power and social embeddedness perspectives offer different predictions about the effects of dependence on the outcomes of an exchange relationship. From the perspective of a new venture seeking resources from larger and more established actors, these two views offer different prescriptions about establishing and managing relationships with potential resource providers and about resolving the tension between the need to access external resources and the risk of becoming vulnerable to powerful outside parties.

Following recent developments in resource dependence theory (Gulati and Sytch, 2007; Casciaro and Piskorski, 2005), in this paper we examine the impact of *both* dependence asymmetries and joint dependence on entrepreneurial resource acquisition. We contribute to the literature in several ways. First, we articulate the theoretical arguments for each perspective, clarifying how either the power logic or the social embeddedness logic could make sense for entrepreneurs seeking external resources. Second, by directly comparing the effects of both dependence asymmetries and joint dependence on the resource acquisition efforts of entrepreneurial firms, we shed empirical light on the debate. This examination of the resource acquisition outcomes of entrepreneurial firms (once they have made the decision to enter into such relationships), provides a lens through which it is possible to reflect on when new ventures' fears of becoming vulnerable to more powerful parties is more or less justified. Empirical evidence has shown that the fear of opportunistic behavior does indeed play a role in the way new ventures form and manage their relations with resource providers (Yli-Renko et al., 2001; Katila et al., 2008). However, it is less clear whether this fear is justified by what actually happens to entrepreneurial firms that enter these types of relationship.