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You can't leave your work behind: Employment experience and founding collaborations[☆]

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ABSTRACT

It is well known that founders typically seek assistance for their fledgling ventures, but what remains unclear are the reasons why some founders collaborate with more people than others in their startup efforts. Our study investigates the link between employment experience and the extent to which founders depend on others for assistance when starting businesses. Employment experience provides founders with opportunities to be exposed to and develop preferences for particular work environments and the conditions associated with certain organizational roles. Drawing on occupational socialization theory, we investigate why employment experience predicts founding collaboration size. Our analysis of a nationally representative sample of early-stage business founders in the United States reveals that the amount of business experience and the defining social and analytical requirements of a founder's occupational background affect the number of people founders choose to involve in their founding efforts in opposite ways: While founders possessing venture-specific industry experience are more likely to opt for solo ventures or smaller collaborations, founders with backgrounds in highly interactive occupations are more likely to recruit more collaborators as co-owners. We found this preference for collaboration is strengthened for founders with occupational backgrounds that called for both interactive and analytical work. Our findings have theoretical and practical implications on how founders' experience influences the extent to which they initiate collaborations with others.

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1. Executive Summary

Aspiring business owners are often completely reliant on their own skills, along with the time, resources, and expertise of those whom they invite to contribute to their founding effort. While bringing others into a startup effort can provide clear benefits, coordination effort increases with the number of people involved, which can undermine the progress of the new venture. This tradeoff regarding how many people to involve in the founding collaboration is one of the many challenges new ventures face. Despite its theoretical importance and practical implications for entrepreneurs, founding collaboration size has not been systematically studied as an outcome in prior work.

Motivated by this gap in the literature, we set out to investigate why some founders are more likely than others to enlist additional people during the earliest stages of business formation. We draw on sociological theories of occupational socialization, which argue that founders develop preferences for certain working environments based on prior occupational

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experience. The link between employment experience and business creation can be attributed more generally to *Stinchcombe's (1965)* imprinting hypothesis, which predicts that new organizations are significantly affected by the social context in which they are founded. We argue that founders' prior occupational experiences remain with them and influence their choices in other domains, including their startup efforts. The entrepreneurial space they create may actually bear a strong resemblance to the work they leave behind, and their former job values and work styles will influence the extent to which founders involve others in their entrepreneurial efforts.

To test our claims, we analyzed the Panel Study of Entrepreneurial Dynamics II (PSED II), a nationally representative sample of U.S. adults in the early stages of starting businesses and those who join them in their entrepreneurial efforts. We discovered that 40 percent of founders start small, embarking alone or with only one other collaborator, whereas another 20 percent involve four or more people. In line with our hypotheses, we observed two conditions that account for these opposing outcomes: Specifically, venture-specific industry-experienced founders – who are more familiar with the structures and processes required for moving their venture forward – are less likely to work with others. On the other hand, founders who hail from interactive occupations – who are better conditioned to make use of colleagues' information or abilities – are more likely to form collaborations with others as co-owners. The positive effect of interactive occupations is further amplified for founders who also hail from analytically oriented occupations. Our findings reveal that founders' occupational backgrounds have measureable consequences on the way in which they mobilize assistance for starting their businesses. Overall, these findings provide a more comprehensive picture of how different facets of employment experience influence the number of collaborators involved in business creation efforts.

Our study is unique in its emphasis on the early stages of the start-up process and its investigation of an outcome closer to the theoretical influences of employment experience we examined. Our work provides new theory and evidence for the mechanisms guiding founders in how they interact with those who make distinctive contributions during the early stages of the start-up process. Given the role that occupational socialization has on the manner in which new business creation activities are undertaken, our findings also imply that founders can cultivate certain skills by working in particular occupations that place emphasis on these skills.

“...I'm not taking any founding partners in my new venture and I wouldn't have it any other way. I'm not afraid of flying solo, I want the responsibility to be on the line for every decision, and I have the experience and skill to make it all happen.”
– David Miller, Founder, AvidXchange.

“To us, the ideal founding team is one supremely talented product oriented founder and one, two, or three strong developers, and nothing else.” – Fred Wilson, Principal, Union Venture Capital.¹

2. Introduction

Every year, millions of people in the United States like David Miller initiate efforts to launch new businesses as founders. People often start organizations because they strive to do something they are unlikely to achieve on their own and invite others to join them in pursuing a common vision (*Aldrich and Ruef, 2006*). Thus, many others, such as Fred Wilson, become involved in the founders' efforts as co-owners, advisors, investors, or other types of supporters. Unlike established businesses with the ability to call upon internal experts and experienced staff, aspiring business owners are completely reliant on their own knowledge and their ability to persuade others to share their time, expertise, and resources. However, as these statements reveal, people differ in opinion regarding the extent to which others should be involved in founding efforts.

Intrigued by such diverse philosophies on founding collaborations, our study investigates why some founders are more likely than others to enlist additional people during the earliest stages of business formation. We define a founder as the focal person who initiates the venture and is primarily responsible for the early stages of business creation. Founding collaborations are the group of people who assist the founder with distinctive contributions to business creation efforts. By collaborate, we mean that a founder involves others who provide tangible forms of support, demonstrate key responsibilities, or are deeply integrated in the creation of the new business (*Jack, 2010; Kotha and George, 2012; Ruef, 2010*). Founding collaborations may involve co-ownership (in the form of equity) or depend on assistance from others who do not receive equity in the new business, a distinction made in prior research on business formation (*Klotz et al., 2014; Aldrich and Ruef, 2006; Xu and Ruef, 2007*).

Our line of inquiry is intended to address a theoretical puzzle central to *Stinchcombe's (1965)* insights on new venture liabilities: On the one hand, involving others can introduce necessary skills, resources, and other forms of assistance, providing clear benefits to the venture's progress. On the other hand, because roles and reward structures are likely undefined in the early stages of business formation, coordination effort increases with the number of people involved in the process, perhaps diverting effort from operations and undermining progress (*Sine et al., 2006*). This tradeoff regarding how many people to involve in the founding collaboration – anticipated by *Stinchcombe (1965)* and deemed a “founder's dilemma” potentially affecting the effort's overall viability – is one of the many challenges new ventures face (*Wasserman, 2012*).

¹ Miller quote taken from comments posted on “Both Sides of the Table” blog (<http://www.bothsidesofthetable.com/2011/05/09/the-co-founder-mythology/>). Wilson quote taken from his own “AVC” blog (http://www.avc.com/a_vc/2011/09/moneyball-for-startups-1.html).

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