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## Small but attractive: Dimensions of new venture employer attractiveness and the moderating role of applicants' entrepreneurial behaviors

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### ABSTRACT

Operating under high levels of uncertainty and limited public recognition, one of the most significant challenges for new ventures is attracting qualified employees. Building on the concept of legitimate distinctiveness, our study investigates how recruitment-related heterogeneous and homogeneous entrepreneurial identity claims influence applicants' judgments of new ventures' employer attractiveness. We combine anticipatory psychological contract theory and legitimacy theory to build theory about the way applicants evaluate new venture employer attractiveness. Using a metric conjoint experiment, we study 9,824 employer attractiveness judgments made by 307 job seekers. Our multi-level approach also yields cross-level interaction effects of job applicants' innovative behavior, which offer novel insights into which new venture employment dimensions specifically attract entrepreneurially-minded potential employees. We derive implications for new venture recruitment theory and offer practical implications for startup staffing.

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### 1. Executive summary

Recruiting employees and building human capital poses a major challenge for new ventures, especially in their nascent stages. Notably, a crucial knowledge gap in the entrepreneurship literature concerns our understanding what makes new ventures attractive as employers from the applicants' perspective. We propose that to be perceived as attractive employers, new ventures need to make two types of recruitment-related identity claims, namely heterogeneous and homogeneous identity claims (Navis and Glynn, 2011). On the one hand, new ventures need to make heterogeneous identity claims to promote their attractive and distinct employment attributes distinguishing them from other new ventures competing for the same talent pool. Startups may differentiate their employment offering in terms of transactional (e.g., monetary or other tangible attributes), relational (e.g., characteristics of the employer-employee relationship, such as social support by management or colleagues), and ideological (e.g., a firm's vision or mission) attributes. On the other hand, startups also need to make homogeneous identity claims that position them as trustworthy, credible, and reliable employers. These claims comprise legitimacy signals of both the new venture's founder(s) (e.g., education, previous work or founder experience) and the new venture itself (e.g., endorsements such as awards or reputable investors). Moreover, regarding the target group of potential employees, we argue that for new ventures entrepreneurially-

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minded applicants should be especially attractive and vice versa, based on the notion of person-organization fit. Therefore, we also analyze differences in the judgments of entrepreneurially-minded vs. less entrepreneurially-minded individuals.

We study 9,824 employer attractiveness judgments made by 307 job-seekers. In our study, we first investigate the ranking of potential applicants' preferences for heterogeneous and homogeneous attributes of new ventures' employment offering. Based on person-organization fit, we also study how potential employees' preferences for these employer attributes are influenced by their entrepreneurial behaviors (i.e., innovative, proactive, and risk-taking behavior) and thereby determine which offerings are especially attractive depending on those three entrepreneurial behaviors.

Our findings demonstrate that new ventures need to balance distinct employment offerings (heterogeneous claims) with founder and startup legitimacy (homogeneous claims) to attract potential employees. In comparing the relative importance of these claims, our study finds that distinctiveness claims have more influence on new ventures' employer attractiveness as compared to legitimacy claims. Second, we show that potential employees' entrepreneurial behaviors (especially innovative behavior) influence how they perceive the attractiveness of new ventures' employer attributes. In particular, for highly innovative individuals, we found that ideological attributes and founder legitimacy are more important, whereas transactional attributes are less important than for less innovative individuals. However, we found no such influence of the other two entrepreneurial behaviors (i.e., proactive and risk-taking behavior) when analyzing our job seeker sample as a whole.

Therefore, we conducted post-hoc analyses which revealed that additional individual background variables are required to better understand the influence of entrepreneurial behaviors on employer attractiveness judgments. Specifically, our analyses show that individuals' prior career experience (i.e., work experience and general interest in startup employment) interacts with their levels of entrepreneurial behavior and the employment offerings in influencing individuals' judgments. We found that, among employees with higher work experience, more proactive individuals value relational attributes and founder legitimacy more than less proactive individuals. Moreover, among employees with lower work experience, more innovative individuals value transactional attributes less than less innovative individuals, while more risk-taking individuals value relational attributes more than less risk-taking individuals. Additional post-hoc analyses similarly reveal that proactive and risk-taking behaviors have a more positive influence on the perception of new ventures' relational employment offerings mostly for potential applicants with high levels of interest in startup employment. These results imply that individuals' prior career experiences – such as their work experience and their exposure to startup-related contexts – influence their attractiveness judgments and thus needs to be additionally considered when studying employment attractiveness from a person-organization fit perspective. Finally, we found that in the new venture recruitment context, legitimacy signals seem to be somewhat less important than in other contexts where prior entrepreneurship research has shown the importance of startup legitimacy for new ventures' success. Instead, startups are well-advised to focus on building a distinct employment offering profile in terms of transactional, relational, and ideological attributes that markedly differentiates them from their competitors in the labor market.

## 2. Introduction

*'At a time of unparalleled technological development, it is the human resources that paradoxically spell success or failure for all firms, and especially entrepreneurial ones'*

[(Katz et al., 2000, p. 7).]

New ventures face several competitive disadvantages because they operate under higher levels of uncertainty, suffer from limited public recognition and legitimacy, and are characterized by low organizational awareness (Aldrich and Auster, 1986; Leung et al., 2006; Stinchcombe, 1965). Consequently, even though having talented employees is one of the most important success factors for early stage startups, new ventures – especially in their seed stage – face difficulties recruiting qualified personnel (Greer et al., 2016; Mayson and Barrett, 2006). In fact, in a recent study of 758 US-based startup executives, 89% of participating firms considered finding qualified employees 'challenging' (SVB, 2013). Although we know quite well why and under what conditions individuals decide to become entrepreneurs (e.g., Parasuraman et al., 1996; Schjoedt and Shaver, 2007; Souitaris et al., 2007; Wilson et al., 2007), our knowledge about attracting employees to new ventures is very limited (Cardon and Stevens, 2004; Greer et al., 2016) with a few notable exceptions. For example, in their conceptual article, Williamson et al. (2002) propose that to attract qualified employees, small firms should capitalize on both their distinct and attractive employment offering (e.g., flat hierarchies or high task variety) to 'stand out' among potential competitors. A study by Tumasjan et al. (2011) similarly finds that to attract new talent, new ventures require a unique set of startup-specific employer attributes, such as an informal team climate, increased responsibility/empowerment, flexible work practices, and a focus on personal development. These studies demonstrate how specific elements of new ventures' employment offering may be used to position them as attractive, trustworthy employers. Nonetheless, they do not provide a comprehensive theoretical framework for studying applicant attraction in new ventures. Furthermore, these studies shed no light on the issue of how new ventures can increase person organization (PO) fit (Kristof-Brown et al., 2005) and accumulate specific human capital (Hayton, 2003) to compensate for their liabilities of newness and smallness (Aldrich and Auster, 1986).

Thus, our research addresses new ventures' organizational attractiveness (OA) from two perspectives, namely first, what kind of new venture employment offering leads to high OA, and second, how can new ventures increase their PO fit with potential applicants. First, our research addresses new ventures' challenge of balancing both distinct (i.e., "standing out"/appearing different

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