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Horse and cart: The role of resource acquisition order in new ventures

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ABSTRACT

Entrepreneurs need to accumulate different types of resources to take the initial steps to grow their ventures. While much is known about the configurations of resources that improve venture success, less is known on how ventures should *initially* accumulate resources to begin to exploit valuable opportunities. Using agent based simulations, we classify resources by the functions (search and execution) that they provide. We find that acquiring search resources before execution resources leads to more valuable opportunities, but only under conditions of higher uncertainty. We contribute to the entrepreneurial resource acquisition literature by showing how resource order may affect an entrepreneur's ability in opportunity discovery, evaluation, and exploitation. We draw inferences on contingencies that can increase the salience of resource order on venture success.

1. Introduction

New ventures typically lack the necessary resources to survive and grow, and thus need to acquire critical resources in order to overcome liabilities of newness and smallness (Aldrich and Auster, 1986; Stinchcombe, 2000). Not surprisingly, research focused on entrepreneurial resource acquisition (Chen et al., 2008; Lounsbury and Glynn, 2001; Zott and Huy, 2007), is a core area of focus in the domain of entrepreneurship. Extant research has primarily focused on the attributes of resources that afford new ventures greater probabilities for growth and survival (Amit and Schoemaker, 1993; Mahoney and Pandian, 1992; Peteraf and Barney, 2003),

However, most resource bundles are not acquired instantly, but rather in a sequential and path dependent process (Lavie, 2012; Pacheco-De-Almeida et al., 2008). These resources influence the ability to discover, evaluate, and exploit opportunities (Fosset al., 2013; Keh et al., 2002; Shane, 2000). The practice-oriented literature in lean startups (Blank, 2013; Breuer, 2013; Ries, 2011) also notes the path dependent nature of early resource choices and their effect on future venture growth. In particular, many entrepreneurs start from scratch with little or no resources; in such instances, early resource choices may have a heightened impact on venture growth and performance (Alvarez and Busenitz, 2001; Lichtenstein and Brush, 2001).

In this paper, we focus on how the functions for which resources are used create contingencies in the ordering of resources. Resources do not, in and of themselves, provide functionality (Penrose, 1959). And, even when ventures acquire

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similar resource configurations, their choice of which resource to acquire first can vary. We propose that resources can be used for search and execution, and that some resources are better suited for each function. Using agent based simulations, we explore the effects of acquiring search and execution resources in different orders. In short, we find that different resource acquisition orders equate to putting the horse before the cart while others seem to be putting the cart before the horse.

2. Resource configurations

There is increasing awareness that besides resource attributes themselves (Barney et al., 2001), the *process* of resource accumulation itself may affect resource bundle attributes and contribute to performance benefits (Hoopes et al., 2003; Lavie, 2012; Peteraf and Barney, 2003). Emerging ventures that seek to develop new resource combinations find that many resources are non-tradable with non-existing factor markets (Alvarez and Busenitz, 2001; Dierickx and Cool, 1989; Stevenson and Jarillo, 1990). Rather, resources are combined together to provide the firm services, or functions (Baker and Nelson, 2005). Yet the general lack of resources and incomplete and fragmented factor markets often force new ventures 'to beg, borrow, or steal', to co-opt whatever resources they can find (Starr and MacMillan, 1990) and/or 'make do with what is at hand' (Baker and Nelson, 2005). The need for resources may cause entrepreneurs to acquire resources that are needed, but ill-adapted to their most immediate needs.

We focus on two functions that resources can enable that allow new ventures to take the initial steps of pursuing entrepreneurial opportunities (McMullen and Dimov, 2013). First, *search resources* are resources that help ventures discover and evaluate opportunities. Prior research indicates that entrepreneurs become aware of, recognize (Baron and Ensley, 2006) or discover (Klein, 2008) opportunities largely due to prior knowledge (Shane, 2000). Although an entrepreneur may be able to recognize many different opportunities, only after evaluation does an entrepreneur know if the opportunity is worth pursuing, or whether another opportunity would be better (McMullen and Shepherd, 2006). In sum, we label resources related to the processes of discovery and evaluation—which are inherently intertwined processes—as search resources.

Search resources aid in pattern recognition (Baron and Ensley, 2006). Breadth of knowledge and experience (e.g., working in different startups, different lines of business, different contexts, playing different roles), technological knowledge (Keh et al., 2002; Kor et al., 2007), and experiencing both success and failure (Cope, 2011) can create search resources. These various dimensions of experience help to more fully develop decision-making heuristics needed in discovering and evaluating opportunities (Wood and Williams, 2014). While an individual entrepreneur or entrepreneurial team may possess some of these search resources, they typically need to also access additional search resources through advice and mentoring from other investors, advisors, and mentors (Amezcua et al., 2013; Dutt et al., 2015; Kor and Misangyi, 2008), professional forums, and even nearby colleagues who act as sounding boards for business ideas (Ozgen and Baron, 2007). Access to resources that can be used for search is one of the benefits of working in an entrepreneurial cluster. As entrepreneurs interact with these requisite resource providers, they are better able to evaluate and validate opportunities (Wood and McKelvie, 2015).

The second resource category is *execution resources*, which embody elements that enable new ventures to fulfill the core value proposition by providing the product and/or service to customers. Execution resources specifically are focused on opportunity deployment (Choi et al., 2008; Foss et al., 2013) and are needed to configure inputs and develop processes—in short, to facilitate opportunity exploitation. While money is often considered as a key resource, in and of itself, money does not perform search or execution functions. Rather, it facilitates acquiring resources that can serve these functions for the firm. This can include intangible resources such as management, human resources, programming knowledge, marketing and financial resources, as well as tangible resources such as equipment, facilities, or materials. As in the case of search resources, an entrepreneur or entrepreneurial team may possess some execution resources, but they often need to acquire execution resources through others, including employees, suppliers, investors, and advisors (Foss et al., 2013).

Overall, although we can clearly identify what resources new and emerging ventures need—search resources and execution resources—we have precious little empirical knowledge to guide us (as researchers) or inform stakeholders (practitioners and entrepreneurs) which resources to acquire first. We model this dilemma in the following simulation.

3. Simulation study

We model the performance effects of the process of acquiring resources in new ventures by focusing on how resources influence a new venture's ability to discover, evaluate, and exploit opportunities. Our use of the term 'ventures' encompasses both sole entrepreneurs as well as teams of entrepreneurs who have already set up a firm. We use NETLOGO's agent based modeling environment that approximates the process of resource assembly for two types of resources (i.e., search and execution). While we do not build specifically on a prior model, similar methods have yielded insights across multiple domains including computer science (e.g., Dickerson, 2014), marketing (e.g. Negahban and Yilmaz, 2013), and entrepreneurship (e.g., (e.g. Dilaver et al., 2014). Previous studies have, for example, used simulations to study organizational co-evolution, decision choices, and high-performance achievement (Ethiraj and Levinthal, 2004; Levinthal, 1997; Rivkin, 2000).