



# The evolution of interorganizational relationships in emerging ventures: An ethnographic study within the new product development process



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## ABSTRACT

Emerging ventures rarely have the resources they need, which often force them to reach beyond their boundaries to access these resources. While the field has acknowledged how critical external relationships are in the emergence process, we lack an understanding of how these relationships evolve. Drawing on fourteen longitudinal case studies, this article begins to fill that gap by examining how emerging ventures use interorganizational relationships to discover, develop, and commercialize new products. We found that emerging ventures tended to establish outsourcing relationships early and that many outsourcing relationships progressed into alliances. This suggests that these early relationships are dynamic, evolve through the emergence process, and may be critical to the successful emergence of a venture. We also discovered that many entrepreneurs developed strong socioemotional bonds with their alliance partners. Unexpectedly, our study revealed that in many cases these socioemotional bonds clouded the entrepreneur's judgment of the partner's abilities and led to problems that threatened the venture's survival.

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“Trust but verify.”

[President Ronald Reagan]

## 1. Executive summary

A central concern for the field of entrepreneurship is the process of organizational emergence. Organizations come to exist when they demonstrate intention, establish boundaries, acquire resources, and engage in exchanges (Katz and Gartner, 1988). Reynolds and Miller (1992) defined venture emergence as the process through which a series of actions are undertaken by an entrepreneur to create a viable organization. The creation and ultimate emergence of entrepreneurial ventures is often an iterative process between entrepreneurs and the resources that surround them (Alvarez and Barney, 2007; Alvarez et al., 2013; Sarasvathy, 2001). However,

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emerging ventures rarely have the resources they need to complete the tasks required to take an idea to commercialization, which forces them to reach beyond their boundaries to access required resources to perform tasks such as design, engineering, and manufacturing (Aldrich and Martinez, 2001; Steier and Greenwood, 2000).

These outside resources may be transactional or take the form of an alliance. These two literatures for the most part have been developed individually. Outsourcing research tends to focus on cost benefits, and views the purpose of interorganizational relationships as *minimizing* the resources and capabilities required by an entrepreneur. Conversely, the alliance research tends to focus on the mutual benefits each partner gains from the relationship, and views the purpose as the development or acquisition of new resources and capabilities. In combining the two literatures, we can see that the form of the relationship changes by whether or not the entrepreneur is attempting to minimize costs or gain skills. Our study seeks to answer calls in the literature for detailed, historical data on how new ventures evolve during the development of new products (Kapoor and Adner, 2012) and to consider interorganizational relationships as dynamic and mutable over time (Ariño et al., 2008; Gulati and Sytch, 2008; Pels et al., 2000). We provide insights into the pathways and patterns through which interorganizational relationships in emerging ventures are initiated and evolve, and how that evolution impacts emerging ventures' attempts to launch new products.

Our research is centered on the application of a multi-case ethnographic, qualitative methodology to investigate how entrepreneurs utilize and develop interorganizational relationships during the emergence of their new venture. Using grounded theory, we initiated a ten-year, longitudinal qualitative study of fourteen emerging ventures. The prolonged engagement allowed the study of multiple ventures during the new product development process, from idea through commercialization.

Our study makes several contributions to the entrepreneurship literature. First, we highlight how interorganizational relationships evolve during the new product development (NPD) process. Second, we discovered that frequently, as many of the relationships evolved, governance shifted from explicit contracts to implicit, subjective agreements (i.e., psychological contracts). Finally, we found that interorganizational relationships that came to rely heavily on psychological contracts often encountered problems whereby socioemotional bonds superseded business obligations. A relationship tipping point was found to emerge whereby the alliance became enmeshed. These relationships proceeded down a path of escalated commitment and psychological dependency, which ultimately had dire consequences for both parties. We found that these toxic, enmeshed relationships tended to occur during periods of the most tension, strain, and conflict. In this research, these periods of stress tended to be during the final preparation for commercialization. Ultimately, those emerging ventures that were unable to revise the relationship eventually failed to successfully commercialize. Therefore, while our study shows the benefits of interorganizational relationships to new venture emergence, it also identifies how such relationships, when they are based more on socioemotional bonds than on business obligations, can impede the venture's emergence.

## 2. Introduction

A central concern for the field of entrepreneurship is the process of organizational emergence. Organizations come to exist when they demonstrate intention, establish boundaries, acquire resources, and engage in exchanges (Katz and Gartner, 1988). Prior to these achievements, organizations are in the process of emergence from which only a few will actually launch. Reynolds and Miller (1992) defined venture emergence as the process through which a series of actions are undertaken by an entrepreneur to create a viable organization. The creation and ultimate emergence of entrepreneurial ventures is often an iterative process between entrepreneurs and the resources that surround them (Alvarez and Barney, 2007; Alvarez et al., 2013; Sarasvathy, 2001). However, emerging ventures rarely have the resources they need to complete the tasks required to take an idea to commercialization, which forces them to reach beyond their boundaries to access required resources (Aldrich and Martinez, 2001; Steier and Greenwood, 2000). This study contributes to our understanding of entrepreneurial creation and emergence by applying a multi-case ethnographic methodology to investigate how entrepreneurs utilize and develop interorganizational relationships during the emergence of their new venture.

Building on Ring and Van de Ven's theory of interorganizational relationships and psychological contract theory (Rousseau, 1995), our study concentrates on the role of the entrepreneur in developing and utilizing partnerships since "these relationships only emerge, evolve, grow, and dissolve over time as a consequence of individual activities" (Ring and Van de Ven, 1994: 95). Interorganizational relationships can range from simple contractual outsourcing to strategic alliances in which boundaries of the firms become co-mingled. During the opportunity creation and venture emergence process a dynamic interaction is at play between the entrepreneurs and their partners and the actions taken by either party can influence both the relationships and the emergence of the venture (Alvarez and Barney, 2007; Sarasvathy, 2001).

Our study seeks to answer calls in the literature for detailed, historical data on how new ventures evolve during the development of new products (Kapoor and Adner, 2012) and to consider interorganizational relationships as dynamic and mutable over time (Ariño et al., 2008; Gulati and Sytch, 2008; Pels et al., 2000). We aim to provide insights into the pathways and patterns through which interorganizational relationships in emerging ventures are initiated and evolve, and how that evolution impacts emerging ventures' attempts to launch new products. Specifically, we seek to explore how interorganizational relationships evolve as ventures emerge and how this evolution affects the ventures' emergence.

Our study makes several contributions to the entrepreneurship literature. First, we highlight how interorganizational relationships evolve during the new product development (NPD) process. Second, we discovered that frequently, as many of the relationships evolved, governance shifted from explicit contracts to implicit, subjective agreements (i.e., psychological contracts). Finally, we found that interorganizational relationships that came to rely heavily on psychological contracts often encountered problems whereby socioemotional bonds superseded business obligations. Those emerging ventures that were unable to revise the relationship

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