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# Team member commitments and start-up competitiveness

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ABSTRACT

This study uses resources-base and social capital theories to examine the influences of trust and entrepreneur resources on team member commitments and start-up competitiveness during both the initial and growth stages, and then explores the influences of resources and competitiveness of the initial stage on the growth stage. Empirical results support the following conclusions. In both stages, competitiveness positively associates with the start-up team member commitments; Instead of the entrepreneur or firm resources, what affects team members commitments to the start-up is the team members' trust on the entrepreneurs; Entrepreneur resources and start-up competitiveness accumulate across stages, and competitiveness in the initial stage positively influences new team members commitments in the growth stage.

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## 1. Introduction

The success rate of start-ups is extremely low (Nesheim, 2000), and to increase the probability of success, researchers suggest that entrepreneurs should use network connections to accumulate and integrate necessary resources (Li and Zhou, 2010; Wu et al., 2008). For instance, Bruderl and Preisendorfer (1998) demonstrate that when German entrepreneurs gain support from their interpersonal network connections, not only the start-up establishment is easier, but the subsequent operations of the start-up are more likely to be successful. Usually the resources available to a start-up during the initial stage are scarce, but entrepreneurs can acquire necessary resources through their network connections (Gulati et al., 2000; Hitt et al., 2001). Therefore, many studies apply social network theories to explain start-up activity recently (Hoang and Antoncic, 2003; Wu et al., 2009), implying that the entrepreneurs' contacts with, knowledge about, and trust gained from network members can help them to gain necessary resources (Dubini and Aldrich, 1991).

Some network studies focus on inter-firm networks and generally refer to them as business networks (Forsgren and Johanson, 1992); however, other studies, particularly studies of Asian countries, focus more on personal relationships or personal networks (Kienzle and Shadur, 1997; Li and Zhou, 2010). For example, Sivadas and Dwyer (2000) propose that resource endeavors can be intrafirm or interfirm, and the former is more important in the innovation process. The intrafirm resource endeavors of a start-up, that is, the entrepreneurial team members, become an important research issue in entrepreneurship studies (Forbes et al., 2006; Houghton et al., 2009; Wu et al., 2009). Accordingly, this study focuses on the role the intrafirm resource endeavors of start-ups or the start-up team members.

Furthermore, networks are not static, but rather dynamic processes that continuously change and develop (Ostgaard and Birley, 1996). As a start-up evolves through life cycle stages, resources and competitiveness may accumulate; the personal networks of entrepreneurs may evolve accordingly, and some original partners or team members may leave the start-up while new partners may join in (Forbes et al., 2006). In other words, the social capital of entrepreneurs may change as the resources and competitiveness of the start-up change. Therefore, in addition to the influences of the internal partners or personal networks of entrepreneurs on the start-ups, this study also investigates the evolvement of the resources, internal partners, and competitiveness of start-ups in the initial and growth stages.

## 2. Literature review and hypotheses

Resources-based view (RBV) of the firm is one of the most popular perspectives in explaining firm performances. RBV argues that sustainable competitive advantage comes from heterogeneous firm

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resources. Specifically, RBV suggests that strategically valuable resources should be tacit, complex (Schoemaker, 1990), exclusive (Wenerfelt, 1984), and unable to accumulate rapidly (Dierickx and Cool, 1989), or VRIN (valuable, rare, inimitable, and non-substitutable) (Barney, 1991; Eisenhardt and Martin, 2000; Wu, 2010), thus preventing competitors from acquiring them easily. Researchers agree that Penrose (1959) is the origin of RBV, who proposes that sustained firm growth bases on resources such as management capability and economies of scale in technological expertise. Since Wenerfelt (1984) proposes the concept of resource position barrier, and through the efforts of Rumelt (1984), Dierickx and Cool (1989), Reed and DeFillippi (1990), Barney (1986, 1991), Grant (1991), Mahoney and Pandian (1992) and Peteraf (1993), RBV has become an important strategic perspective in both academy and practice.

In addition to firms' own resources, firms also depend on the environment to provide resources (Pfeffer and Salancik, 1978), and social capital theory suggests that firm networks are helpful for firms to acquire resources from the environment (Houghton et al., 2009). For example, Lee et al. (2001) find that networks influence firm ability to mobilize environmental resources, attract customers, and identify entrepreneurial opportunities. In an interpersonal network, an individual is at the node that binds different actors and personal resources together, and the ties between actors are either affectively or economically oriented, or in Forbes et al.'s (2006) term, resource-seeking ties or interpersonal attraction ties.

An example of an affectively orientated network is when entrepreneurs encourage friends and family members to invest in a new venture (Bruderl and Preisendorfer, 1998; Dubini and Aldrich, 1991), members join the firm because of their personal affection to the entrepreneur. In contrast, in an economically orientated network, the willingness of joining is primarily associated with the profit potential of the firm (Laumann, 1982), such as the expertise or the capability of the entrepreneur (Bruno and Tyebjee, 1985).

Network management depends on trust (Powell, 1990), and the importance of trust for entrepreneurial networks formation, maintenance, and transformation is obvious (Howorth and Moro, 2006). The benefits of trust between cooperators include reducing transaction costs (Gulati, 1995) and agency problems (Howorth and Moro, 2006), inducing desirable partner behavior (Madhok, 1995), reducing the use of formal contracts (Larson, 1992), and facilitating dispute resolution (Ring and Van de Ven, 1994).

Scholars classify trust in various ways (Boersma et al., 2003). For instance, Zaheer et al. (1998) differentiate two different kinds of trust: confidence or predictability in individual expectations regarding the behavior of others, and confidence in the goodwill of others. Zucker (1986) distinguishes characteristic-based, process-based, and institutional-based trust. Williamson (1993) categorizes trust into calculative, personal and institutional trust. Zaheer and Venkataraman (1995) propose that trust can comprise both rational calculation and a leap of faith. Barney and Hansen (1994) distinguish among weak form, semi-strong form and strong form trust. Rousseau et al. (1998) differentiate among deterrence-based, calculus-based, relational-based, and institutional-based trust. Jones and Geroge (1998) differentiate between conditional and unconditional trust. Finally, Beccerra and Gupta (1999) distinguish between attitude-focused, behavior-focused, and competence trust.

However, Tinsley (1996) advocates that capability or competence considerations should not be part of trust, since certain highly capable individuals are unreliable: trust thus should include honesty and good intention, and has moral implications, while capability is not morally significant. Similarly, Nooteboom et al. (1997) see trust as a belief in the willingness of another party to cooperate even without material coercion or incentives. McAllister (1995) divides trust into cognitive trust and affective trust with similar implications. This study adopts the perspective of Tinsley (1996) and Nooteboom et al. (1997), emphasizing the affective or interpersonal side of trust, which comes from past relationships and affection between cooperative parties (Dyer and Chu, 2000; Gulati, 1998). This conception of trust resembles the emotional based trust of Gulati (1998) and the relationship based trust of Rousseau et al. (1998).

The following research hypotheses uses the concepts of resources base and trust to deal with the initial and growth stages of a start-up, and the linkage between two stages. Following the approach of Block and MacMillan (1985) and Starr et al. (1993), this study uses new product R&D success, new product exhibition, formal mass-production, and the involvement of institutional investors to indicate the beginning of the start-up growth stage. Further in-depth interviews with five high-tech entrepreneurs conclude that formal mass production is the most important milestone of the beginning of growth stage. Therefore, this study defines the initial stage of a start-up as the period from firm establishment to the start of mass production, and the growth stage as the first year after mass production.

### *2.1. Trust and team member commitments*

During the initial stage of start-ups, trust between entrepreneur and start-up team members is generally based on social networks (Dyer and Chu, 2000; Gulati, 1998) or personal relations such as friends, family ties or classmates (Steier, 2007). For example, Yu et al. (2003) find that personal relation is important in the formation of cooperative networks among Chinese entrepreneurs in Silicon Valley or the Hsinchu High-tech Science-based Industrial Park of Taiwan. That is, entrepreneurs with new business ideas find their management team members via personal networks to start a firm together (Bruderl and Preisendorfer, 1998; Dubini and Aldrich, 1991). Friendship between start-up team members and the entrepreneur creates trust in the entrepreneur, and Wang et al. (2009) find that trust is important for employees to make firm-specific investments. As a result, during the initial stage, team members' trust in the entrepreneur can create team members commitment to the start-up.

As a start-up enters the growth stage, entrepreneurs can still use their personal networks to invite new team members to join the start-up (Dubini and Aldrich, 1991). New members may be willing to join and commit to the firm during the growth stage because of their trust in the entrepreneur, which is based on their personal relationship with the entrepreneur.

**H1a.** During the initial stage, team member commitment associates with the members' trust on the entrepreneur positively.

**H1b.** During the growth stage, new team member commitment associates with members' trust on the entrepreneur positively.

### *2.2. Resources and team member commitments*

In addition to trust, Wang et al. (2009) find that economic consideration is another factor that influences the willingness of employees to make specialized investments to the firm. That is, a second factor influences start-up team member commitment during the initial and growth stage is the profit potential of the start-up. To be more specific, team members commit to the start-up with expectations of economic reward in the future. For instance, technical expertise, industrial experience (Hisrich et al., 2010; Roberts, 1991; Starr and MacMillan, 1990), managerial capability (Bruno and Tyebjee, 1985) or start-up experience (Hisrich et al., 2010; Sandberg and Hofer, 1987) of an entrepreneur are important determinants of the start-up profitability, and potential team members assess the profit potential of the start-up to determine their degree of commitment (Laumann, 1982; McAllister, 1995). In other words, with greater entrepreneur/firm resources, there is a higher possibility

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