



Human resource flexibility and strong ties in entrepreneurial teams

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ABSTRACT

Human resource flexibility is important in entrepreneurial ventures that need to respond to the changing challenges of growing the new business. This research investigates the impact of previously well-known people (strong ties) as entrepreneurial team members on the human resource flexibility of new ventures. Data collected from German founding entrepreneurs in technology-oriented, incubator-based firms shows that choosing a well known individual to join the entrepreneurial team increases the founder's ability to modify the team member's work role, but complicates asking the team member to leave the team if required. Hence, strong ties both increase and reduce human resource flexibility. However, the effect of strong ties on role modifiability is statistically significant only with novice entrepreneurs. These research findings counsel founders to discuss role modification and exit during partnership and entrepreneurial team membership negotiations.

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1. Introduction

This research examines the impact of previously well-known people (strong ties) as entrepreneurial team members on the human resource flexibility in entrepreneurial teams. Usually, firms founded by teams are more successful than those founded by individuals (Kamm et al., 1990). New member addition critically impacts on the human capital and knowledge available (Page and Noel, 2009) as well as the culture and social interaction prevalent in the venture (Forbes et al., 2006). Moreover, these factors affect the firm's performance potential (Ensley et al., 2002; Lechler, 2001). Few studies, however, analyze new member addition to develop a deeper understanding of the dynamics of the entrepreneurial team and its consequences (Forbes et al., 2006; Ucbasaran et al., 2003), even though the entrepreneurial team's ability to adapt and respond flexibly is necessary for success (Watson et al., 1995), especially for innovative and growth-oriented start-ups in new and emerging markets (Soriano, 2010). Therefore, the founder should try to select team members who can form a cohesive and stable, yet flexible core of human capital for the new venture.

This research focuses on the impact of new member addition on the flexibility of the entrepreneurial team by investigating the concept of human resource flexibility (Milliman et al., 1991). In essence, this concept suggests that an entrepreneurial team performs better if the

team members are willing to modify their roles and also exit the entrepreneurial team if required. This study proposes that the way the founder selects team members may affect the human resource flexibility in the venture. For the purpose of this study, an entrepreneurial team member refers to any additional individual added by the founding or lead entrepreneur to the team of working owner-managers.

From the perspective of the founding entrepreneur, one of the major controllable strategies for entrepreneurial team formation is whether to select entrepreneurial team members from existing strong contacts, or to search more widely among less well-known contacts. The selection of a new team member, "as it actually occurs" (Forbes et al., 2006, p. 232), is more frequently based on interpersonal fit rather than on competence. Therefore, most entrepreneurs assemble their new venture teams based on pre-existing relations (Kamm et al., 1990).

This research proposes that in terms of the new venture's human resource flexibility, a strong tie is a double-edged sword. Team members with whom the founding entrepreneur has a longstanding personal relationship are more likely to be committed to this person and their venture, which simplifies having these team members modify their work roles when required. At the same time, the commitment in a strong personal relationship is likely to be mutual. This may impede asking the team member to leave when the firm's development needs outgrow the individual's skills. The consequence is that the team may be agile in the early phases of the new venture's development but when the venture grows and the need for additional expertise increases, the firm is not flexible enough to exchange members of its team of working owner-managers.

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However, this research also proposes that the effect of strong ties applies mainly to novice entrepreneurs who start a business for the first time. Individuals with previous entrepreneurial experience, so called serial or habitual entrepreneurs (Westhead et al., 2005), are more likely to run their businesses in a more professional manner and thus do not pay so much attention to personal relationships. In other words, this study expects the serial/novice distinction to moderate the impact of strong ties on human resource flexibility.

This article makes the following theoretical and practical contributions to knowledge on entrepreneurial teams. First, researchers identify the effects of the use of strong ties in the selection of entrepreneurial team members on aspects of human resource flexibility including role modification and opportunity to exit the working relationship. Secondly, this study detects that, although habitual and nascent entrepreneurs may use strong ties in their selection of entrepreneurial team members, experienced entrepreneurs have different relationships between strong ties and human resource flexibility, creating differing moderating effects for these two groups. Finally, the study develops implications for entrepreneurs concerning entrepreneurial team formation.

2. Theory development and hypotheses

2.1. Human resource flexibility

Originating from the literature in human resource management, the concept of human resource flexibility refers to “the capacity of HRM to facilitate the organization's ability to adapt effectively and in a timely manner to changing or diverse demands from either its environment or from within the firm itself” (Milliman et al., 1991, p. 325). Situations that may require human resource flexibility include a dynamic or diverse environment as well as divergent or rapidly changing organizational goals and strategies (Lengnick-Hall and Lengnick-Hall, 1988). These situations accurately describe the context of an entrepreneurial team, regardless of the industry. Sanchez (1995) proposes that the larger the range of alternative uses for the resource and the lower the time and cost to switch from one resource to the next, the greater the resource flexibility. Two distinct dimensions of resource flexibility include functional flexibility, which comprises the ability to perform a wider range of tasks, and numerical flexibility, which refers to the ability to vary the size of the team (Young-Ybarra and Wiersema, 1999).

Functional flexibility is perhaps most prevalent in entrepreneurial teams as role modification. This research defines role modification as the ability to modify work role agreements, without creating undue conflict or reducing commitment to the new venture's goals. An example often seen in high-tech entrepreneurial firms happens when the firm has developed the product and the entrepreneurial team has to shift focus from engineering to marketing. The founding entrepreneur may ask a team member recruited for their ability in technology development to provide technical support to sales efforts. If that team member agrees to shift from technology to sales, the business will have a better allocation of resources (Milliman et al., 1991). Thus, individuals who are willing to dynamically reconfigure their work roles to respond to changing needs as the organization progresses through the organizational lifecycle, and react to changing external environmental demands, will perform better as entrepreneurial team members.

The second form of human resource flexibility, numeric flexibility, refers to structuring human resources by acquiring or divesting employees. In the context of entrepreneurial teams, adding new team members or removing existing ones represents numeric flexibility. Even though prior research suggests that the founding team's longevity contributes to a new venture's success (Boeker and Wiltbank, 2005), growing businesses especially will arrive at a point where the venture needs additional skills. While a founder can add

more team members to gain valuable skills, practical considerations confine the size of the entrepreneurial team, including communication difficulties in large teams and dilution of equity issues.

Prior research finds that adding team members has an increasingly negative impact on sales growth performance as the new venture develops (Chandler et al., 2005). Moreover, some existing team members may end up occupying key roles that are outside their ability, thus potentially hampering the firm's development or at least not providing an ideal resource fit. In such cases, it can be beneficial for the venture if the team can flexibly exit the working relationship with this person – even if they were to retain partial ownership of the business as a silent partner. Chandler et al. (2005) find that departures from the new venture team have a positive impact on sales growth performance.

2.2. Strong ties and human resource flexibility

The conceptualization of strength of relationship in the following discussion is based on Granovetter's (1973) concept of the strength of tie, which he defines as “a (probably linear) combination of the amount of time, the emotional intensity, the intimacy (mutual confiding) and the reciprocal services which characterize the tie” (p. 1361). A strong tie may form outside the professional sphere through family ties and friendships, but may also be the result of a long-term working relationship with colleagues, customers or other stakeholders that the founding entrepreneur knows from their previous professional engagements. Previous research argues that the size and configuration of the founding entrepreneur's network influences the formation of entrepreneurial teams (Aldrich and Kim, 2007), given that new team members are often chosen based on pre-existing ties (Kamm et al., 1990).

Generally speaking, entrepreneurs are more likely to turn to their available social contacts especially in the early stages of the entrepreneurial process not only due to convenience (Forbes et al., 2006), but also because of the availability of interpersonal trust and motivational resources such as mental, emotional, and social support in these relationships (Greve and Salaff, 2003) as well as the commitment they expect from these individuals to the new venture (Welter and Smallbone, 2003). The principal argument in this study is that in terms of human resource flexibility, the mutual commitment inherent in strong personal relationships can be a strength and a weakness in entrepreneurial teams.

A strong tie between the founding entrepreneur and the new team member can contribute positively to resource flexibility by facilitating easier role modification. Frances and Sandberg (2000) find that venture teams based upon friendship are more likely to rely on implicit agreements, which are easier to modify than explicit, written contracts. Furthermore, these authors propose that higher levels of friendship will result in greater commitment to the new venture, which can reflect in willingness to accept role modification. Thuy and Quang (2005) observe that in new international joint ventures, strict adherence to the wording of a legal contract between the enterprise partners is hardly possible. Their results show a significant positive relationship between relational capital, which includes friendship, and flexibility, defined as the degree to which the parties adjust their own behavior to accommodate each other's objectives (Pearce, 2001).

Against this backdrop, this research proposes that the trust-based and supportive working atmosphere facilitated by a strong tie is likely to contribute to a greater willingness of the entrepreneurial team member to adjust to different work roles.

H1. Strength of tie positively impacts on role modification.

The potential downside of strong ties in terms of human resource flexibility is that they could lead to a lack of resource flexibility because relationships based upon strong ties are likely to be harder to

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