University of Dayton STARS 2013 Abstract Submission

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How Entrepreneurs can use their Knowledge and their Connections to increase the Number of People they Employ*

Recent years have seen a global economic downturn, which has posed a particular threat to the workforce in the U.S. In 2010, the U.S.'s unemployment rate reached a 27-year high (9.6%) and even though large U.S. companies are seeing most of the burden of the employment losses, smaller entrepreneurial firms have also been impacted. This is particularly concerning because small entrepreneurial firms employ more than 50% of the U.S. workforce and broader economic development and stability has been directly attributed to the prevalence and prosperity of small entrepreneurial firms. Due to the critical role entrepreneurial firms play for the labor force in the U.S., understanding factors relating to the number of workers U.S. entrepreneurial firms employ is vital.

Research in entrepreneurship suggests two important factors that relate to entrepreneurial success, like employing workers, include how much business knowledge entrepreneurs possess and the characteristics of the contacts that they have within their networks. Entrepreneurs' knowledge has been viewed as a resource that can help entrepreneurs to develop a firm that will be competitive over time. Unfortunately, entrepreneurs often lack the full spectrum of business knowledge that they need, especially when they are organizing their venture for launch and as they initially begin to grow their firm. This lack of knowledge can impact an entrepreneur's ability to successfully launch a new firm, grow it large enough to warrant hiring employees, and sustain firm operations over time. It is apparent, then, that these knowledge shortcomings can impact the broader economic development and employment stability of the regions where entrepreneurs launch their firms. Fortunately, some research has discovered ways for entrepreneurs to lessen the effects of their knowledge shortcomings—by developing and maintaining a diverse set of network contacts. These network contacts can include people the entrepreneur is connected to who can provide business-related help like friends, family, co-workers, investors, etc.

Current entrepreneurship research examining the benefits of network contacts for new firm performance has been impressive. This research has studied how many total network contacts an entrepreneur has and what types of help they provide. Broadly, this research suggests that the more network contacts an entrepreneur has and the more diverse knowledge they provide, can help entrepreneurs develop successful firms. But, these findings are very general. To refine our understanding of how certain kinds of contacts might help firms launch and grow, recent research has begun to examine benefits of certain subsets of entrepreneurs' network contacts. Subsets of interest include contacts who are family members versus non-family members. Generally, this research has discovered that family members provide entrepreneurs access to resources especially important at very early stages of firm development (e.g., moral and financial support, free labor) whereas non-family members provide help more relevant to later stages of firm development (e.g., increasing manufacturing capacity, supplier relationships). Although this research has begun to examine different benefits of family versus non-family network contacts this research is at its infancy and how differences relate to firm performance outcomes, like employing workers, has been neglected.

In this research, it is proposed that non-family network contacts will be more strongly associated with the number of workers entrepreneurs employ when compared to family network contacts. This is because research suggests that family contacts, who are individuals that the entrepreneur is strongly connected to, will provide more limited benefits as the venture becomes more well established and needs to hire employees. That is, family members might be helpful as the entrepreneur is organizing the venture for launch when needs include moral support, initial seed investment, and so forth, but as the venture grows and the operational and resource needs become more complex, the benefits family members provide might not be as helpful.

To explore this idea, an empirical study was conducted with $n = 174$ entrepreneurs. As predicted, the study's findings suggest that entrepreneurs' knowledge and subsets of network ties (non-family ties) positively relate to the number of workers a venture employs. Family network ties were not significantly related to the number of employees. Thus, although recent research suggests that family ties provide special access to resources and a high commitment to helping the firm, results from the present study raise questions about the utility of family ties for developing firms that generate employment, over time. Beyond its scholarly contributions to the entrepreneurship literature, this paper has two practical contributions to society as a whole, as well as other disciplines (sociology and economics, for example). First, this paper provides prescriptive advice to entrepreneurs regarding who they should develop business relationships with in order to launch and grow successful firms. Second, and more importantly, this research contributes to research interested in broader economic development concerns. As such, this paper illustrates mechanisms through which entrepreneurs can develop firms that will employ more workers, which is critical to economic development and the longer-term stability of the labor force.

*A version of this paper will be presented at the 2013 Babson College Entrepreneurship Research Conference in Lyon, France and is co-authored by William R. Meek, Assistant Professor at the University of Dayton and Cameron M. Ford, Associate Professor at the University of Central Florida