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Author(s): Jennifer A. Starr and Ian C. MacMillan

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RESOURCE COOPTATION VIA SOCIAL CONTRACTING: RESOURCE ACQUISITION STRATEGIES FOR NEW VENTURES

JENNIFER A. STARR and IAN C. MACMILLAN

The Wharton School, University of Pennsylvania, Philadelphia, Pennsylvania, U.S.A.

This paper examines the role of social contracting strategies by independent and corporate entrepreneurs in acquiring resources for new ventures. Venture managers in both independent start-ups and corporate ventures use social contracting as a means to resource cooptation—an approach to resource acquisition which is especially suited to the particular constraints of new ventures. The analysis highlights potential obstacles to social contracting strategies for the corporate entrepreneur and presents a set of formal testable propositions which emerge from this perspective.

INTRODUCTION

A scan of recent articles in the strategic management literature would reveal a trend which is highly encouraging—materials that are being published increasingly use a rigorous economic lens to study strategic issues. However, this could also be a disturbing trend to the extent that it begins to so dominate the focus on strictly economic transactions that it starts to exclude research on the social transactions that characterize a business. Nowhere would this be more disturbing than in the case of corporate ventures and entrepreneurial activities. The corporate venture is an intensely social endeavor as well as an economic one, and the interactions among venture managers and those that must support them are such that a strict focus on economic exchanges is inadequate.

The objective of the paper is exploratory. It will start to explore the application of social transactions concepts to both independent and corporate entrepreneurial start-ups in the hope that this will spur further research along these

lines. To this end it draws on the literature and a number of case vignettes to systematically:

1. Demonstrate that social contracting by some entrepreneurs and intrapreneurs is critical to the process of resource acquisition for their ventures.
2. Identify two key areas where social contracting behavior can be critically useful in the start-up, namely in coopting legitimacy and particularly in coopting underutilized resources.
3. Explore why the targets of such social contracting behavior are prepared to tolerate their resources being coopted. We suggest that it is because some entrepreneurs and intrapreneurs employ social assets such as friendship, liking, trust, obligation, and gratitude to secure resources at prices far lower than the market price, to the significant benefit of their ventures.
4. Identify how some entrepreneurs and intrapreneurs build these social assets.
5. Explore why corporate venture managers seem to have more difficulty than independent entrepreneurs in doing this.

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6. Develop a set of formal testable propositions that relate social contracting behavior with corporate venture characteristics and venture performance.

In deciding what type of venture to study one is faced with the choice of whether to study just the intrapreneur or also the independent entrepreneur. We have ample evidence in the work of Weiss (1981) that, compared to the independent entrepreneur, firms are particularly poor at corporate start-ups. On average, corporate ventures take twice as long to reach profitability and end up half as profitable as independent start-ups. We suspect this has a lot to do with the way in which corporate venture managers go about acquiring resources, and the cost of such resources, and so we saw value in studying both independent and corporate entrepreneurs.

In one article there is no intent to be exhaustive. Rather we wish to provoke further study along social contracting lines by demonstrating evidence of its usefulness for start-ups and provide a framework for thinking about how to study start-ups from this perspective.

ECONOMIC VERSUS SOCIAL TRANSACTIONS

Interpersonal exchange theories generally are derivatives of the neoclassical economic model of market exchange. Individuals, like firms, invest their time and energy in social transactions based on their expectations of future profits and rewards (Homans, 1950, 1958, 1961; Blau, 1964; Swedberg, 1987). As defined by Homans:

Social behavior is an exchange of goods, material goods but also non-material ones, such as the symbols of approval or prestige This process of influence tends to work out at equilibrium to a balance in the exchanges. For a person engaged in exchange, what he gives may be a cost to him, just as what he gets may be a reward, and his behavior changes less as profit, that is, reward less cost, tends to a maximum. Not only does he seek a maximum for himself, but he tries to see to it that no one in his group makes more profit than he does (Homans, 1958: 606).

Thus, individuals voluntarily enter social relationships, based on psychic profit-maximizing rational calculations.

The major distinction between economic and social transactions is that social transactions engender feelings of unspecified, diffuse, future personal obligations, trust, and gratitude (Blau, 1964). Social transactions agreements are rarely explicit. Although there are calculable extrinsic and intrinsic costs and benefits in social transactions, they do not carry exact price tags or reflect market-based utilities and preferences. Difficulties can arise in adjusting the balance of accounts and assessing the competing trade-offs of social and instrumental advantages of interpersonal relationships.

A recent advance in theoretical paradigm development, socio-economics, adds a further complication to social exchange transactions (Etzioni, 1988). This paradigm argues that constraints on rational choice are not only attributable to earlier criticisms of rational models—namely cognitive limits of human information processing, or political processes (Cyert and March, 1963; Allison, 1971; Janis and Mann, 1977; MacMillan, 1978; Quinn, 1980; Narayanan and Fahey, 1982), but in addition, individual choice is characterized by tension between rational choice factors and moral commitments. Etzioni suggests that in most cases the strictly self-interested ‘rational’ decision is inhibited by moral commitments of the individual to what seems ‘fair’ or ‘right’ or ‘appropriate.’ Individuals struggle to find a balance between these two separate, and often incompatible, bases of valuation. In this paradigm, emotions and values, ‘shape to a significant extent the information that is gathered, the ways it is processed, the inferences that are drawn, the options that are being considered and the options that are finally chosen’ (Etzioni, 1988: 94).

It is in the context of such ‘messy’ social transactions that the venture manager sets out to secure the resources needed to start the business. This is not to suggest that social transactions do not pervade other facets of business endeavor. What we shall argue below is that entrepreneurs and some intrapreneurs are particularly skilled at using social transactions to parsimoniously secure start-up resources, that this capability is particularly beneficial to the start-up and therefore deserves specific study.

NEW VENTURE START-UPS AND SOCIAL TRANSACTIONS

In the formative stage a new venture is no more than a commercial experiment; a set of assumptions or hypotheses about market needs, product specifications, resource availability and production, and organizational capabilities that needs to be tested by practice (Block and MacMillan, 1985). Since venture managers rarely possess all the resources and capabilities required to seize an opportunity, the vital entrepreneurial task of assembling the resources is often a 'trial-and-error' process because the exact resources that will be needed are unknown. Given the uncertainty, the resource constraints and the survival challenges inherent in new ventures, venture managers must seek 'asset parsimony,' deploying the minimum assets needed to achieve the desired business results and securing the resources to do this at minimum cost (Ansoff, 1979; Hambrick and MacMillan, 1984; Stevenson and Gumpert, 1985; Spann and Hudson, 1988).

As a result, both corporate and independent entrepreneurs build ventures that use intensely cooperative strategies, primarily by employing social transactions to secure the instrumental results they seek (Barnard, 1938; Lin, 1982; Coleman, 1988). Accounts of entrepreneurial activity in established corporations resound with tales of skunkworks, horsetrading, tincupping and resourceful bootstrapping. Corporate intrapreneurs corral resources, steal personnel time, appropriate materials, conceal development activities, and curry personal favors to secure the resources needed for their new ventures (Quinn, 1979; Kanter, 1983, 1988). Champions of new businesses mobilize informal, multifunctional, loosely structured networks of organizational and extra-organizational members to provide resources and support (Schon, 1967; Quinn, 1979; Maidique, 1980; Burgelman, 1983; Hutt, Reingen, and Ronchetto, 1988). Similarly, previous working relationships, voluntary connections, and kinship and community ties lay the groundwork for independent new ventures (MacMillan, 1983; Birley, 1985; Johannisson, 1987b).

Thus there is ample evidence from these studies that social transactions play a critical role in the acquisition of venture resources. Our interest lies in how this happens, in what resources the venture

manager procures using social transactions, in how the venture manager goes about securing such resources so parsimoniously, in *why* the owners or fiduciaries of these resources are prepared to release them. Our objective is to open up these issues and lay out some preliminary findings that will hopefully spur further studies of these questions.

Two cases, one about a Cuban American in the United States, the second about a Swedish venture manager in a European miniconglomerate, illustrate social transactions at work in securing resources. Both of these cases will be used to illustrate a number of points throughout the remainder of the paper.

The Cuban American entrepreneur, starting a men's clothing import business from Brazil, needed to establish credibility with his Manhattan buyers. He identified a friend of his from business school who had just expanded, and moved into new offices on Fifth Avenue. They had extra office space in anticipation of growth. He persuaded his friend to rent him a piece of the office at far lower than the market rate rental prices. In addition, he persuaded the company to give him a telephone line which was answered by their receptionist. He used their secretary for typing, their delivery van, xerox machine, and computer equipment. He agreed to pay pro-rata for all the office equipment and personnel that he used. He received permission to use their conference room as well. Every time buyers came around, he rushed his samples from the basement downstairs and assembled the display in the conference room so that it looked as if it were an ongoing permanent display. Once the buyers left he dismantled his displays and returned the conference room to its original condition. This went on for about 6 months. Although he had originally offered to pay pro-rata for all the resources that he used each week, whenever he offered to settle up his account his friend told him to forget about it. The arrangement not only enabled the entrepreneur to save thousands of dollars of fixed expenses, but gave him access to resources that he could never have afforded as a start-up company.

Such imaginative resource acquisition strategies are not the sole realm of the independent entrepreneur.

Consider the case of a Swedish miniconglomerate that has started 30 businesses in the past decade. One of the venture managers in this conglomerate builds new businesses by deliberately cultivating

a network of consultants and a network of university professors, and consciously using them to aid in the start-up of his new ventures. He learned from one of his consultant colleagues that in the foundry industry in Sweden there were serious problems with labor and automation. No sane Swede wanted to work in a foundry because of the poor operating conditions—dust, grit, heat, and humidity. The problem could not be exported, because foundry goods are so heavy that the transportation costs/price ratio is not economical. Conventional automated equipment would not work under these operating conditions either, and none of the manufacturers were prepared to create a special line just for the foundries. The venture manager took this strategic problem into his network and asked his consultants to find out if this was a problem in the rest of Europe. The consultants in his network started to ask others in their networks to find the answer and provide the market information. The word came back through the network that a lot of foundries in northern Europe are having this problem. He then went into his second network, an extensive network of engineering professors and found one group with the technology that could solve this problem. It was not very difficult, but they needed \$250,000 to develop a prototype. So he returned to his consultant network and accompanied each of the consultants on a visit to their foundry clients. To each client he said, 'I want to develop a piece of equipment for you. Here is your consultant, who will vouch for my credibility and reputation. From you I ask \$10,000, which is less than you will pay for a secretary in this company. I shall collect \$10,000 from a number of foundries in Europe to develop the prototype that will solve your problems.' Without giving any foundry a piece of the action he easily raised more than enough funds to develop the prototype. By using social networks he was able to fund the venture without spending any of his own capital. In addition, he uniquely positioned the product with the foundry managers by having them buy into the prototype development, and more importantly to buy into the lengthy and expensive process of *helping him debug the prototype in their production systems*.

The case of these two venture managers, one an independent and one a 'professional' intrapreneur, illustrate a certain type of venture manager, a type that secures critical resources at low to zero cost, using social transactions, rather than economic exchange. There are many others like these two venture managers. However, there are also many corporate venture managers that do not resort to such social transaction approaches, preferring, or resorting out of igno-

rance, to 'pay full fare' for the resources that they need—thus following the approach of the traditional administrative manager (Stevenson and Gumpert, 1985).

We argue that there are benefits to studying those who pursue a social transaction perspective, as evidenced by the two cases above. In order to clarify the contribution of this perspective and specifically highlight *its relevance for corporate venturing*, we will in the course of the paper develop a series of formal testable propositions, starting with the first below that is purely definitional, but systematically developing others that relate social transaction-oriented behavior with corporate venture performance.

Proposition 1: In any large sample of corporate ventures, the resource acquisition behavior of the venture managers will fall along a spectrum ranging from 'strictly administrative' at one extreme to 'strictly social transaction-oriented' at the other extreme.

This proposition allows us to posit two types of venture manager—an 'administrative' venture manager who favors economic exchanges at full fare and a 'social transactions-oriented' (STO) manager who favors social exchanges that capture resources at reduced fare.

In propositions 8 and 9 below, after we have explored the behavior of STO venture managers more fully, we will provide behavioral yardsticks for categorizing venture managers into these two groups.

Turning now to a discussion of the two case vignettes, the first observation we would like to make is that in both cases *cooptation* laid the groundwork for successful resource acquisition. A college chum provided prestigious office space, necessary equipment, and absorbed the administrative overhead, for free! A network of consultants and professors willingly functioned as the marketing and research and development departments. In both cases, participants consciously and willingly allowed the venture manager to coopt vital resources at well below market cost. In both cases the participants' active cooperation in this cooptation process was evident. The research issue that flows from this is what patterns of cooptation are prevalent, and why the participants allow cooptation to take place at all. These are discussed next.

RESOURCE ACQUISITION VIA COOPTATION

Cooptation is one of the most flexible and easiest mechanisms for gaining access to resources, exchanging information, exercising influence, developing interfirm commitments, avoiding conflicts and establishing legitimacy (Selznick, 1948, 1949; Thompson, 1967; Pfeffer and Salancik, 1979; Burt, 1980, 1983).

In the above cases at least two major types of cooptation took place: coopting legitimacy and coopting underutilized goods. These are common types of cooptation secured through social transactions.

Coopting legitimacy

Legitimacy, the institutional support of powerful external actors, is often a critical ingredient for new venture success because of the 'liabilities of newness' (Stinchcombe, 1965; Aldrich and Auster, 1986; Singh, Tucker, and Meinhard, forthcoming). Because the venture has no track record, there is a (justifiable) lack of confidence on the part of customers, distributors, and suppliers that the venture will survive and therefore little reason to provide patronage. Given the propensity for firms to terminate corporate ventures, there are even insiders who question the legitimacy of the corporate venture. Thus the venture faces a credibility crisis, and has somehow to create an impression of viability and legitimacy before it will receive support. Building legitimacy by systematically building a reluctant customer and distributor base can be an extremely slow, painstaking, and therefore costly process.

Our observation is that STO venture managers coopt legitimacy, rather than build it, and they do it in two ways: by association and by endorsement.

By capitalizing on his college friendship, the Cuban American entrepreneur obtained a Fifth Avenue address which, by association, conveyed the image of a fashionable, sophisticated, and especially, reputable clothing business. This association communicated a credibility to his customers which was a critical factor in securing his first few orders.

The Swedish intrapreneur, on the other hand, was able to coopt legitimacy by securing the

endorsement of the consultants, thus piggybacking on the credibility of the consultants with their clients. Without such an endorsement no sane foundry manager would likely have given up \$10,000 for a 'paper' prototype. In another example:

A young intrapreneur, charged with the creation of a synthetic filter cloth business in a very conservative customer industry, which had always used canvas cloth, managed to break through by securing an 'order' from the leading firm in the industry. In reality the deal was nothing more than an agreement with the leading firm to try the cloth and pay for it only after it had demonstrated superiority, a process that would take about eighteen months. However, the young intrapreneur persuaded the purchasing agent in the leading firm to provide him with an official order for the trial batch. This official order was used to persuade other firms in the industry to buy the cloth. In the eyes of the lesser competitors the 'order' was a *de facto* endorsement of the product by the leading firm.

Without coopted legitimacy the business may not be able to start at all, or only be able to start after debilitating delays experienced while building credibility and after bearing the crippling costs associated with such delays.

We suggest that the venture manager is more likely to pursue strategies to coopt legitimacy and consequently more likely to secure legitimacy at lower cost than the administrative venture manager.

Proposition 2: STO venture managers will coopt legitimacy for their ventures more than administrative venture managers will.

Proposition 3. As a result of successfully coopting legitimacy, those corporate ventures started by STO managers that are entering new market areas will have: earlier customer acceptance; earlier distributor acceptance; and earlier revenue streams.

Coopting underutilized goods

The other cooptation achieved in the case vignettes was cooptation of goods underutilized by others. This is in keeping with the literature—entrepreneurs are those who identify new uses for goods and services that are being underutilized

by others (Schumpeter, 1934; Kirzner, 1973, 1979; Casson, 1982). From our analysis of the works of Kanter (1983, 1988), Burgelman and Sayles (1986) and many case examples, there appear to be four major classes of cooptation strategies for taking advantage of underutilized resources, each with distinct characteristics that have to do with permanence of ownership of the resource and the perceived value of the resource in the eyes of the original owner. These strategies are: begging, borrowing, scavenging and amplifying.

Borrowing strategies are used to secure, temporarily or periodically, the use of assets or other resources, under the premise that they will eventually be returned. In our case vignettes the Cuban American entrepreneur's use of the delivery van illustrates this approach.

A corporate intrapreneur who grew his division tenfold in a decade is even more aggressive in his 'borrowing.' He often tells his people to charge the early expenses for their new projects to accounts of other divisions of his firm. He has found that it takes at least a year before the corporate auditors discover the charges, and by that time the project has usually generated the revenues to repay those accounts.

Begging strategies secure resources appealing to the charity, honor, or goodwill of the owner of the resources. In this way venture managers gain access to the resources without needing to return them, despite the fact that the owner recognizes the assets have a value. The Cuban American entrepreneur obtained the use of the typist's time, computer equipment, and telephone lines using this method. Kanter (1983), in her research, identifies many cases of 'tincupping' where intrapreneurs beg or scrounge resources from the rest of the firm.

Scavenging strategies extract usage from goods that others eschew or do not intend to use.

One venture manager needed catalogs of buyers for her mail-order business. While these are commercially available, they are very expensive. Using her charm and ability to make friends, this venture manager convinced one of the big firms who repurchase these catalogs annually to give her their old catalogs. Since only 10 percent of the addresses change every year, she recycled the old catalogs with only 10 percent error, and saved herself precious funds that could be deployed elsewhere for fledgling start-up.

In a similar vein a major business information firm which has grown profits fifty-fold via intrapreneuring has created several lucrative businesses simply by repackaging former online information into print form and selling it to new sets of customers who want cheaper, less timely information.

Amplifying, the fourth strategy, is exemplified by the Cuban American's use of his friend's conference room as an 'instant' permanent display. Amplification is the capacity to lever far more value out of an asset than is perceived by the original owner of the asset. It is a phenomenon that is particularly important in societies which are desperately poor, or firms that are in dire circumstances, and thus deserves considerable more study.

These four strategies of resource cooptation allow the entrepreneur to secure resources that would otherwise have to be secured by economic exchange at much greater cost. There are three critical implications of this: by appropriating underutilized resources venture managers reduce the *cost* of start-up, they reduce the *risk* of start-up by dramatically bringing down the initial investment, and they increase the return on assets of the venture (by reducing the denominator of ROA).

Proposition 4: STO venture managers will coopt more underutilized assets than administrative venture managers.

Proposition 5: As a result of resource and asset cooptation, STO venture managers will: suffer fewer resource setbacks and disappointments; suffer fewer resource shortages; have ventures with lower asset intensity; have ventures with lower fixed cost/revenue ratios; achieve cash and profit breakeven in shorter time; have greater survival rates; and have greater return on assets.

We do not claim that we have identified the full array of characteristics and mechanisms of coopting underutilized goods. Rather we have tried to demonstrate

1. that resource cooptation can dramatically influence the viability and performance of the venture;
2. that such cooptation is intimately linked to social transactions;

3. that there appear to be clearly different classes of cooptation, each with distinct characteristics.

We make no claim that we have identified all the possible classes of social assets, or the distinguishing characteristics of these assets—this should be the topic of more research, if we acknowledge the potential importance of cooptation to venture performance.

The key puzzle which arises from the above examples is why should any owner of an underutilized good be party to such cooptation?

SOCIAL CONTRACTING AND SOCIAL ASSETS

We suggest that resource cooptation is often the result of a process of social contracting whereby the venture managers exploit certain 'social assets' they possess. These social assets are a set of obligations, expectations, and mutually developed norms and sanctions which evolved from prior social interactions (Lin, 1982; Coleman, 1988). By 'social contracting' the venture manager 'cashes in' on the patterns of expectations, norms, and governance structures built out of these past relationships (Barnard, 1938; Zucker, 1983; Johannisson, 1987b).

In such *social* contracts the goods and services the venture manager needs are implicitly 'traded' for social commitments: favors are extracted or obligations are built (Homans, 1958, 1961; Blau, 1964). While the mental records may be ambiguous, each party knows that at some time in the future, on a completely different and totally unspecified transaction, the initial provider of the resource may ask a favor, recalling his 'loan' or 'cashing in' the obligation.

In our analysis of such social contracting between STO venture managers and owners of the resources needed by these managers, we observed a number of distinct types of social assets. These assets appear to lie along a spectrum that has to do with two distinguishing characteristics: (1) how formal the recognition is by both parties that a social 'debt' is owed; (2) the cost of 'maintaining' the asset.

At the one extreme of this spectrum lies *friendship*. Friendship is a social asset that can be used over and over again without exhausting the account or building a sense of indebtedness

(Ben-Porath, 1980). The act of helping a friend in need may even reinforce the friendship itself, so the asset could be used many times in different ways. As in the case of the Cuban American entrepreneur, friends may gladly give or lend assets, and actually derive pleasure from doing so. Allowing a friend to provide assistance may even deepen the friendship. However, friendship is rare, and to develop close friendships takes much nurturing and maintenance, so there are limited opportunities to deliberately construct these social assets (Gabarro, 1987).

Liking is less intense than friendship, but some of the same characteristics apply. However, there is less spontaneity of giving and more need for an accounting of the levels of favors and obligations owed or discharged with each transaction. The important thing about liking and friendship is that, within reason, they both are repeatedly deployable, and may even increase with usage as opposed to being discharged.

Gratitude is a case where there is some unspoken recognition that a favor may be repaid in the future, that the debt of gratitude may be discharged by the return of the favor if the occasion arises. It is much easier to generate gratitude than to generate liking or friendship, and this social asset does not require maintenance, whereas liking and particularly friendship requires maintenance.

In the case of *trust* we have a neutral point, where favors are granted, but these social transactions are more formally recognized as favors which must be returned some day. The favor is granted with the knowledge that the favor will eventually be returned. The role of trust in these transactions is to reduce the uncertainty that an appropriate repayment will take place in the future (Granovetter, 1985; Williamson, 1985; Zucker, 1986; Etzioni, 1988).

At the other end of the spectrum is *obligation*. With the building of obligation there is a clear, mutually perceived understanding that a debt is being incurred, and clear expectations that a return of the favor is required to release the debtor from obligation (Homans, 1958; Blau, 1964). Obligation is earned and discharged much like a commodity, and is the closest to the tangible assets of the economic transaction.

Once again, we do not claim that the above listing of the social assets is exhaustive, nor do we claim that the characteristics of these assets are comprehensive. Rather we have tried to

demonstrate:

1. that the key to resource cooptation appears to lie in social contracting processes;
2. that in these social contracting processes access to the tangible assets needed to start the venture is exchanged for certain social assets;
3. that there appear to be distinctly different types of social assets with very different usage and maintenance implications.

We recognize that the usage of social assets is not unique to entrepreneurs and new ventures—the use of interpersonal exchange is as ubiquitous in everyday life as the use of cash and credit in economic exchange. However, given their start-up challenges, venture managers typically do not have formal access to sources of power, authority, and influence, and must rely more heavily on the tactics described here to obtain the resources they need (Starr, 1989; Cohen and Bradford, 1990). Therefore we suggest that the study of social contracting and social assets is especially important in the context of corporate venturing.

Proposition 6: STO ventures managers will, prior to the launch of the venture, have built more social assets in the form of friendship, liking, gratitude, trust and obligation than administrative managers.

Proposition 7: STO venture managers will make more use of social assets to procure resources than would administrative managers.

Venture managers are motivated to use social contracting strategies primarily because they see an opportunity to secure the resources they need to start their businesses. However, this form of contracting has other interesting advantages for the new venture. Since these resources are secured with vague, diffuse, implicit agreements with indefinite payback schedules, the future value of the current transaction is fuzzy, imprecise, and accountable only in the minds of the participants. As a result the terms of the 'debt' are usually flexible and postponable.

There are also dark sides to social contracting. There is the danger that differential 'record-keeping' and 'mental balances' by both parties could give rise to grave problems of, and disagreements over, false expectations. There is also no formal commitment, which raises the

uncertainty of future 'payments,' or the possibilities of opportunistic behavior. A business built on social contracts which initially enable the entrepreneur to avoid extensive resource commitments may backfire, leading to the eventual loss of a valuable friendship, particularly if the business dealings created by the social contracts sour (Gabarro, 1987; Starr, 1989).

Despite these dangers of social contracting, venture managers seem willing to live with the potential negative aspects of social contracting for the benefits—the opportunity to create a new business.

We have identified some of the assets that underpin social contracts, and have discussed some of the reasons why entrepreneurs are motivated to use social contracting. However, unless these assets can be developed, the mere recognition of these strategies is of no use to the corporate venturer. The normative issue in this paper has to do with whether social assets can actually be developed.

Building an inventory of social assets

The development of social assets is not unique to the study of entrepreneurship (Walton and McKersie, 1969; Kotter, 1985). In their classic chapter on attitude structuring, Walton and McKersie document dozens of strategies for building social assets (Walton and McKersie, 1969). Rather than reiterating their comprehensive work here, we will summarize the key approaches they suggest that are used by entrepreneurs to build friendship, liking, trust, gratitude, or obligation. There appear to be at least four major types of strategies to build social assets.

1. Sharing information

By sharing information the venture manager may be able to build up an inventory of social obligations or social affinities which can be "spent" at a future date. For example:

A corporate entrepreneur saw an opportunity to connect two of his major suppliers while developing a new medical products business. One manufacturer, in the south, had cheap labor costs and good employee morale, but was nonetheless losing money due to lack of business. The other, in the north, had high labor costs

and an employee shortage. By introducing these two manufacturers the venture manager reduced the costs of one and increased the sales of the other. As a result of this information the venture manager received years of better service, special attention and better terms from both suppliers, which greatly facilitated the development of his new business venture.

2. Solving and receiving help with problems

Solving problems for someone is an obvious way of developing social assets such as liking, gratitude or obligation. For example:

An intrapreneur manager starting a new pump business for an engineering supply company was at a distinct disadvantage competing with several established manufacturers for a fairly large contract from a refinery. Fortunately, the venture manager discovered that the refinery manager was having a problem with a newly installed cooling-tower system. The venture manager suggested that the plant manager call one of his other customers who had solved a similar problem the week before. The plant manager called this customer and got a solution in minutes. As a result he was quite willing to give the contract to the venture manager. By exploiting his network and providing sorely needed information, the venture manager created feelings of gratitude that secured the sale.

Having your problems solved by another is a less obvious but equally successful strategy. People often develop an intense affinity or a high sense of responsibility for the people that they assist. Venture managers who seek and follow advice are often able to engage other types of support as well. Senior managers who have proffered advice become champions of the corporate venture they have advised, and individuals who have given advice may also offer endorsements, recommendations, or even funding.

A venture manager charged with developing a margarine business appealed to the contract manager of an engineering equipment supplier to help him with the design of a particularly difficult and expensive piece of plant. In the end the contract manager was aggressively helping the venture manager drive down the price of the entire contract. This included a recommendation to use some second-hand equipment that was being freed up in another job that the contract manager's firm was executing. The

contract manager eventually took great pride in the fact that he had helped reduce the price of his firm's contract by 40 percent.

3. Giving and receiving favors

This strategy operates similarly to solving and getting help with problems, which was described above.

4. Creating opportunities for people to demonstrate their skills and competence

By creating or seeking opportunities which enable individuals to display their abilities and to appear competent in front of others can engender considerable social goodwill. The Swedish intrapreneur consistently provided this service to his consultant network and, as a result, reaped the benefits from his investment in this network. This strategy works extremely well for new ventures inside organizations, as demonstrated by the management information intrapreneur we interviewed who increased profits 50-fold. He ascribed much of his success to a policy of 'always accept the blame yourself, always give credit to others.'

By investing time and attention to the above strategies it is possible to build a social asset base that becomes the foundation for using the resource cooptation strategies discussed earlier.

Proposition 8: STO venture managers will, both prior to the venture and during the resource acquisition phase, spend more time than administrative venture managers on: sharing information with others, both inside and outside the firm; solving problems for others, both inside and outside the firm; seeking help on problems, both inside and outside the firm; giving and receiving favors, both inside and outside the firm; creating opportunities for others to demonstrate their competence.

Proposition 9: In contrast, administrative venture managers will spend more time than STO venture managers on: detailed budgeting and a priori estimates of specific resource needs; detailed and a priori specific resource planning; formally applying for resources; monitoring

and accounting for resource utilization; using 'official' corporate resources; using conventional vendors and distributors; attempting to adhere strictly to plan.

Social assets, once developed, can be further leveraged by building them into networks.

Building and utilizing networks

The network analysis literature has contributed much to our understanding of the general structure of social networks (Granovetter, 1973; Tichy, Tushman, and Fombrun, 1979; Burt, 1980). Recent research has explored how social networks might operate in the case of this independent and corporate entrepreneur (Granovetter, 1985; Aldrich, and Zimmer, 1986; Mueller, 1986; Thorelli, 1986; Johannisson, 1987a,b; Aldrich, 1988; Jarillo, 1988; Hutt, Reingen, and Ronchetto, 1988; Ring and Van de Ven, 1989; Hansen and Wortman, 1989). Use of networks is commonplace among venture managers. For instance, the Swedish intrapreneur in our second vignette consciously and systematically nurtured several networks, two of which (consultant and university) played a crucial role in his robotics venture.

Leveraging networks

Furthermore, entrepreneurs can use networks to leverage their social asset base by drawing on the networks of *their* network contacts (Granovetter, 1973; Aldrich and Zimmer, 1986; Aldrich, 1988). The Swedish intrapreneur piggy-backed on his consultants' networks to establish, through their many contacts, the scope of the market he was considering entering. This saved him significant market research expenditures.

Proposition 10: STO venture managers will, both prior to the venture and during the resource acquisition phase, spend more time than administrative venture managers on building, nurturing, and maintaining internal and external networks.

Proposition 11: Corporate ventures managed by STO venture managers will be characterized by: broader and richer networks, both inside and outside the firm; greater stakeholder com-

mitment; more pervasive, positive sentiments towards the venture; as a result of the above, there will be more tolerance and forgiveness for early setbacks, from both inside and outside the firm; as a result of the above, there will also be a greater willingness to help with problems, from people both inside and outside the firm.

So far we have identified that social contracting does influence start-ups, that it can be useful in obtaining resources for start-ups, that this is possible by deploying social assets, and that these assets can be consciously developed. There remains a final puzzle—why do corporate entrepreneurs seem less inclined and able to use STO approaches in their efforts to start their business?

CORPORATE CONSTRAINTS ON STO BEHAVIOR

We now examine some of the reasons why only a few intrapreneurs elect to pursue the STO strategies of their independent entrepreneurial counterparts. In general, corporate venturers (and resource-constrained established firms in general, i.e. organizations in decline) have more difficulty using resource cooptation and social contracting strategies than their independent counterparts. Although corporate venturers have a potentially extensive internal organizational network of resources and many do make use of them, there are also constraints on corporate entrepreneurs which make it difficult to take full advantage of intra- and interorganizational network resources.

Established organizations do not have an asset parsimonious mindset

They often take too much time, overplan, and overstaff; rather than make rapid small-chunk, spontaneous commitments. This organizational overkill can be hazardous to fragile new ventures, where timing, action, and social interaction are critical. Further, social network resources are 'soft,' affective, and emotionally charged, with uncertain tangible value. The typical corporate culture creates significant pressures to 'look' organized, calculating, certain, and rational rather than tolerating experimental, exploratory, and

emotional behavior (Dougherty, 1987). In order to 'keep up appearances,' excessive resources may be deployed. While independent entrepreneurs often err on the side of the casual, corporate entrepreneurs may be burdened with demands for formality, or actually be conditioned by the firm to eschew informal, unstructured agreements and commitments.

As Kanter suggests, to innovate there must be resources 'between the cracks' of the system and a means to access them (Kanter, 1983). But slack is in the mind of the beholder—managers may be conditioned to see resources in only one way, and will see them in no other way. So they are conditioned by their corporate experience to be incapable of amplifying, and trained to look with disfavor on begging, borrowing, or scavenging.

With a frugal investment strategy, STO venture managers are able to come out damaged but intact. Administrative managers facing a failing venture with high investment may be driven to escalation of commitment ('double their bets'), making it ever more difficult to exit, especially in firms which are unforgiving of failure.

Management procedures and techniques for established businesses are inappropriately enforced on new ventures

Established firms revere accomplishment of plans (Block and MacMillan, 1985), yet it is virtually impossible to 'plan' building social assets or exploiting underutilized resources. There is an organizational mindset that renders rapid reactive mutual adjustments based on social contracting agreements incomprehensible to the organizational beholder. Corporate entrepreneurs may be constrained by organizational policies which rigidly prescribe usage of the firm's existing resources. Resources available in the firm, particularly human resources, may not be appropriate, but corporate venturers feel obligated or compelled by the firm to use them. Alternatively, because they have access to these resources they do not conduct an opportunistic search for more applicable resources outside the firm. Therefore, corporate venturers spend time trying to adapt existing, inappropriate resources within the firm to the new business, rather than having the opportunity to go outside the firm on an informal basis to try to get those resources which are appropriate to the new venture. The prescribed

resources which are used may be 'taxed' with full cost accounting and charged for overheads the ventures really do not need or use and cannot afford.

Corporate entrepreneurs are not allowed to bend and break rules

Levels of accountability, likelihood of detection, and penalties for breaking the rules are greater for corporate entrepreneurs.

Implementation of interorganizational relationships is critical but often unplannable

Rational strategic planning techniques rarely recognize the realities of managing interorganizational collaborative efforts, which rely on interpersonal interactions which are dominated by trust, empathy, and personal feelings rather than contracts and formal agreements.

Intrapreneurs need time to build social assets and to develop networks

To tap network resources requires time and imagination, which may be in limited supply to corporate entrepreneurs. Time is the ultimate substitute for capital. Corporate venturers complain about the difficulties of getting staff time allocated and budgeted to new business development (Dougherty, 1987). Even when time is allocated, people may be distracted by other organizational demands which interrupt the concentrated effort and freedom to participate in cross-functional and interorganizational exchanges. In contrast, some independent entrepreneurs we interviewed remarked on experiencing unstructured time, which is inherent in the new venture process. Entrepreneurs are able to capitalize on this time availability to focus their imagination on social asset building and to develop networks of resources.

It is important to note that the above barriers are largely attributable to the climate, structure, and culture of the firm. Ultimately these barriers stem from the behavior of senior management and the systems that they put in place. This places a significant challenge on top management to find ways to break down the bureaucratic barriers to STO behavior when corporate ventures

are under way, or these barriers seriously compromise chances of success.

In the light of the above difficulties and obstacles to using STO strategies inside the firm, it is not surprising that STO behavior is less frequent than the more 'conventional' administrative type of behavior one encounters in firms, particularly because, in the management of the firm's *ongoing* operations, there is typically little need for STO resource acquisition strategies. However, as we have already mentioned, we have ample evidence in the study of Weiss (1981) that, compared to the independent entrepreneur, firms are particularly poor at corporate start-ups. We suggest that the discouragement of STO behavior is partially responsible. Firms insist on behavior that is not parsimonious, and with the exception of the relatively rare STO intrapreneurs observed in the work of Burgelman and Kanter, and in our sample, most corporate ventures are started by managers who handicap the venture with the burden of fully priced assets and the full fixed costs associated with an ongoing business. It is small wonder, then, that the track record of corporate ventures is so inferior to that of the independent startups.

CONCLUSION

We set out to argue that in the case of corporate ventures there is a real need to use a social transaction lens for studying the resource acquisitions needed for start-up. The article has highlighted the fact that social as well as economic processes can be very important in securing two types of support for the fledgling start-up—securing legitimacy and securing resources. There are surely other types of support worth identifying. The analysis suggests that such support is secured by social contracting, using social assets such as obligation, trust, gratitude, liking, and friendship. This allows the venture manager to secure resources at a lower cost than rational economic exchange would permit. Further research should be devoted to enhancing our understanding of the characteristics of these and other social assets. We need to begin untangling the subtleties that distinguish these assets from one another, and how each is used in social contracting. The analysis drew from extant literature on attitude structuring to show that it is possible to build such assets and leverage

them via network building, demonstrating that deliberate social asset building strategies are feasible for both corporate venturing and independent start-ups. Further research can begin to identify the full gamut of ways to build social assets. Finally we discussed some of the reasons why some corporate entrepreneurs may have difficulty in using potentially valuable social contracting principles in starting their ventures. This opens the way to further research on how to reduce these barriers.

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