Networking--An Interactive Approach to Threshold Management

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Abstract

Building on threshold management studies, this paper develops a model and hypotheses about how women entrepreneurs, identified as intentional and corporate climbers, use an interactive approach to develop network strategies to guide decisions at the threshold stage in their businesses.

According to recent statistics from the National Foundation for Women Business Owners, while the sizes of women's businesses are growing, they are still predominantly operating in the capacity of owner-manager. Thus, how women use networking strategy when their businesses reach the point where they must decide whether to maintain control or turn operations over to a professional manager may reveal important information about long-range and operational success.

Introduction

Threshold management studies clearly suggest that networking strategies are very different for entrepreneurs and managers. Research on Non-Founder Chief Executive Officer (NFCEO) firms indicates they will have more networks devoted to strategic planning than will Founder Chief Executive Officer (FCEO) firms. FCEO firms appear to have more networks devoted to customer bases than NFCEO firms. Founders are more likely to act directly on information received from networks than professional managers who appear to use their networks to double check opportunities.

Career Life Cycle and Threshold Transitions

Becoming an entrepreneur may be viewed as a process within one's career life cycle—a career window of opportunity (Harvey & Evans, 1995). Significant research has focused on the establishment stage of entrepreneurship (Greiner, 1972; Lorrain & Dussault, 1987; Cooper & Gascoon, 1992; Terpstra & Olson, 1993) and the characteristics of organizational founders (Schein, 1983; Willard, Krueger & Feeser, 1992; Daily & Dalton, 1992). While founders may successfully lead their organizations through the survival and establishment phase of the business, their ability to continue successfully through the stages of organizational expansion and maturity is not assured (Willard et al., 1992; Hanks, Watson, Jansen & Chandler, 1993).

A surviving, founder-led organization that is in or approaching a transition period from entrepreneurial to professional management is a threshold firm (Whisler, 1988; Daily & Dalton, 1992, p. 25-26). A transition may be necessary because the organization has grown and operations have become more complex. But the very abilities of the founder that saw the organization prosper through the survival and establishment stage (Lorrain & Dussault, 1987) can become a hindrance to further firm growth and performance. Conventional wisdom declares that a professional manager (Willard et al., 1992) should now replace the founder. However, the research of Daily & Dalton (1992) did not distinguish the financial performance of firms based on FCEO versus NFCEO management. Instead they found that *"performance did not suffer when the founder remained CEO, compared to a professional manager holding the position. Moreover, a specific test of Flamholtz's (1986) proposition did not demonstrate a need for the founder to transfer management and control of the firm to professional managers once the firm reached, and even moved beyond, the critical threshold identified by Flamholtz"* (p. 30-31). The debate about relinquishing control to a professional manager and abdicating power is still open.

For the entrepreneur, an important career transitional stage occurs when the decision to expand the business and/or take on a professional manager emerges. This transition may occur in the early growth, later growth or stability stages (Dodge & Robbins, 1992). This threshold dilemma often goes unrecognized which can cause even more problems for the firm and founder. A threshold decision requires CEO adaptation or succession (Levinson, 1971; Tashakori, 1980; Buchele, 1967; Clifford & Cavenaugh, 1985; Drucker, 1985). At stake is the key issue of whether the owner can give up the management role and at the same time remains a vital link in the successful operation of the business. This transition period may be marked by delegation or leadership crises (Willard et al., 1992; Buchele, 1967). When the firm requires a larger management team but the founder is unwilling to give up control over important decisions, a delegation crisis has been reached. A leadership crisis arises when the founder is unable or unwilling to develop the new skills necessary for leading a larger management team (Buchele, 1967).

Inherent in threshold firm research is a distinction between the entrepreneurial and professional manager (Daily & Dalton, 1992; Willard et al., 1992; Buchele, 1967). Willard, et al. (1992) found no significant differences in performance between founder-managed and professionally managed high growth firms except that "on average, founder-managed firms were somewhat smaller," grew at a slightly lower rate, and showed higher rates of profitability and similar employee productivity (p. 181). Begley (1995) found that the best distinction in entrepreneurs and managers were created using (1) founders, (2) younger companies, and (3) the combination of founders and younger companies (p. 249). Their research indicates like Willard, et al. (1992) that founder-led companies were smaller, had "higher return on assets (ROA) than nonentrepreneurial managers, having shorter tenure in their positions, having previous work experience in the same industry, and having higher risk-taking propensity" (p 249). Miller & Simmons (1992) suggest "that founders may be more likely than nonfounders to manage in ways that afford them greater ability to direct and oversee organizational matters." Founders of high growth firms were found to have an intuitive approach when gathering data and preferred planning for drawing conclusions (Ginn & Sexton, 1990). Daily and Dalton (1992) find that, despite differences in style of leadership and strategy, both founders and professional managers can be successful beyond Flamholtz's (1986) "threshold " point. But there are significant differences in the ways founders and managers approach tasks. Founders create and work to sustain the culture of the firm (Schein, 1983; 1985) and are more task motivated than managers (Miner, 1990). They have a high stake in the business and tend to be entrepreneurial (Daily & Dalton, 1992). As owner/managers, they have the ability to move swiftly and act autonomously (Dyer, 1986) "have larger spans of control, smaller boards of directors, and higher proportions of board members from inside the organization than nonfounders" (Miller & Simmons, 1992, p.

31). Entrepreneurial founders tend not to utilize strategic planning techniques (Daily & Dalton, 1992; Schein, 1968) and are slow to react to environmental changes (Dyer, 1986). Entrepreneurs can be more susceptible to “overconfidence (overestimating the probability of being right) and representativeness (the tendency to over generalize from a few characteristics or observations)” than professional managers (Busenitz and Barney, 1997).

The Incubator Impact

Some literature has suggested that entrepreneurial and professional management skills are mutually exclusive (Whisler, 1988; Daily & Dalton, 1992; Schein, 1985). Drucker (1985) argues that “. . . there is entrepreneurial work and there is managerial work, and the two are not the same. Most people can do both, but not everyone is attracted to them equally . . .” (Inc. 1985, p. 41). Studies of incubator effects also suggest an individual can have both abilities at different stages in their careers. An incubator is the organization in which an entrepreneur was employed previous to leaving to start a new firm (Feeser & Willard, 1989). The effects of the incubator experience have been applied to entrepreneurial motivations, skills, expectations, and performance. Studies suggest that managerial experience gained in the incubator period provides an important training ground and contacts key to business venture creation and survival (Cooper & Dunkelberg, 1986; Feeser & Willard 1989; Birley, 1989; Cooper, 1981; Stuart & Abetti, 1990; Moore & Buttner, 1997). Entrepreneurial success has been heavily correlated with such incubator skills as extensive managerial and start-up experience and the ability to react quickly to environmental change (Duchesneau & Gartner, 1990; Daily & Dalton 1992; Brush & Hisrich, 1991; Cooper, Woo & Dunkelberg, 1989; and Cooper & Bruno, 1977) and all say that a strong relationship exists between corporate field experience and new venture creation.

More and more, women entrepreneurs are coming from the ranks of those with prior corporate executive and administrative managerial experience (NFWBO, 1997, NFWBO and Catalyst, 1998). Once in business, they draw from their previous organizational environments (Moore, 1990; Moore, Buttner & Rosen, 1992; Murphy, 1992; Birley, 1989; Cooper & Dunkelberg, 1987). Moore and Buttner (1997) found that 87% of the entrepreneurs in their study had a direct transfer of information from the prior organizational setting to the business they now own. The type of business in which 71% of the entrepreneurs previously worked was very similar to the new business they started.

The Role of Networks at the Transition Stages

The degree that networks are used for information gathering, centrality, support systems, or a hub-like effect in making threshold decisions is important to understanding the development and growth of entrepreneurial firms. A number of prominent researchers on network affiliations suggest that support systems are critical to both the establishment and maintenance of business ventures (Helgeson, 1993; Birley, 1985; Johannisson, 1986; Leonard-Barton, 1983; Rush, Graham & Long, 1987, Linn, 1990; Aldrich, Rosen and Woodward, 1987; Kotkin & Friedman, 1995; Hansen & Wortman, 1989; Cooper, 1985; Ostgaard & Birley, 1994; Hisrich, 1990). Hansen & Allen (1992) suggest that the day of the solo entrepreneur may be over. So important are the contacts formed through networking that Mitton (1984) recommends that the key to successfully starting a business is simply one’s movement from entrepreneurial know-how to entrepreneurial know-who. Clearly, support systems developed through networking provide important links to growth of firms as entrepreneurs seek to remain competitive in the market. Given that networks take on such an important role in formulating a business, it appears plausible that the impact of a sound network support system would be a key determinant in major decisions at the threshold stage of the organization.

Networks may be structured or casual. Some research indicates that informal networks are more important than formal ones (Birley, 1985; Brass, 1985; Burt, 1992; Baucus & Human, 1994). The informal networks may include contacts, which provide social, emotional and financial support. Johannisson (1986) and Baucus & Human (1994) suggest that those who previously have been employed have the advantage of in-place, well-established networks as well as the advantages of the former incubator experiences. Effective networks incorporate systematic planning and monitoring to increase their diversity (Dubini and Aldrich, 1991). Research on network centrality (Salancik & Pfeffer, 1978; Brush, 1992; Ibarra & Andrews, 1993; Larson & Starr, 1993); support systems, as defined by Brown (1995) and Foss (1993); the integrated or hub effect of networking—inclusion (Helgesen, 1990, 1995; Ostgaard & Birley, 1994; Moore & Buttner, 1997), and the transition functions of networking specifically examining the relationships of personal to strategic networks (Ostgaard & Birley, 1994, Burke, Rothstein, & Bristor, 1995) provide important sets of information in understanding how female entrepreneurs may use their networks at the threshold stage.

An important part of the threshold decision to employ a professional manager or to remain the entrepreneurial manager may evolve in the type of constellations the entrepreneur defines for her business venture. Shepherd (1991) defines constellation-style growth as the ability to grow while reducing investment risk and simultaneously gaining competitive advantage. This is accomplished by "fostering personal entrepreneuring through the use of coordinated partnerships of external firms with a leading firm." In other words, networking.

Network Commonalties and Differences

There is compelling evidence of the importance of personal network strategies as an interrelated part of centrality, support, and in organizational transitions, an approach that has been labeled interactive (Rosener, 1989, 1990; Brush, 1992). There is also evidence that women and men start their businesses from a different network base. "Forty-six percent (46%) of women business owners, compared to 37% of men business owners, reported having a mentor or role model who they looked to or drew encouragement from when starting their business "(NFWBO, Fact of the Week, April 27, 1998). Cromie and Birley (1992) found that women are just as active in their networking as men and their personal contact networks are as diverse. However, "females tend to rely heavily upon a male colleague as their prime contact but revert to their own sex for other contacts." By "contrast, their male colleagues relied almost entirely on members of their own sex for advice." Moore and Buttner (1997) found that while networks of trusted advisors serve as confidential sounding boards for voicing concerns and sharing solutions, women entrepreneurs consider the personal and emotional support, which mostly comes from spouses or significant others, far more important than financial, operational, or other types of assistance in running their businesses. According to NFWBO (1996) "*Women and men business owners differ in how they obtain information about technology*. *Women place greater* *importance on input from fellow business owners when gathering information about technology, and are less likely than men business owners to seek information from computer-related publications, general interest magazines, business association meetings and the Internet."*

For women, networks and contacts are clearly important. Andre (1992) relates increases in female small business to participation in small business networks. Moore and Buttner (1997) found over 60 percent of their entrepreneurs to view their work and life as a central point connected to an overlapping series of network relationships that included family, business, and society and that the establishment of cooperative networks is clearly related to success. Says NFWBO, women appear to "derive satisfaction and success from building relationships with customers and employees, having control of their own destiny, and doing something they consider worthwhile" (NFWBO, 1994b, p. 2). Initiation of business ventures is becoming more and more related to idea development for women (NFWBO and Catalyst, 1998). Women leaders place greater value on their relationships, with emphasis on cultivation and nurturance (Helgesen, 1990, 1995). Yammarino, Dubinsky, Comer and Jolson (1997) found "that female leaders form unique one-to-one interpersonal relationships with their male and female subordinates," (p. 205) and that these relationships are independent of one another and group membership.

The Threshold /Network Link

A key to the threshold decision to hire a professional manager, to remain the solo entrepreneur, or to develop other types of liaison roles may be a direct by-product of the degree the entrepreneur has established, transferred, and activated networks which are multiple, take in environmental constraints and yet remain flexible enough to provide support mechanisms. This can easily carry over into a strategy for network development for female entrepreneurs who can use both the personal network and an aggregation of personal networks to form important links in making threshold decisions. Some of these links may be in the form of constellations. When the threshold decision interferes with the network one is likely to react based on whether the entrepreneur is a niche, thrill, and status or growth seeker. For example, the threshold decision may indicate two things: (1) The business has grown and created a network that is too overwhelming or different than the network the founder enjoys. (2) The business is taking the founder away from an enjoyable network through increased administrative duties or firefighting. What is important according to a major conference board study is that effective transfer to professional management requires action on four fronts by company founders: "1. They relinquish control while they are still alert and able to counsel new management; 2. Their withdrawal from active management is final; 3. They commit themselves publicly to an orderly plan of succession; and 4. They articulate a formal company mission statement." (Anonymous, Journal of Accountancy, 1984). This involves distinct career shifts for the FCEO, as it requires the delegation of tasks and withdrawal of day to day activities but not entirely from the business.

Collectively, the findings suggest an image of the female entrepreneur at the center of a wheel, with the owner connected closely along the axle to a mentor and directly to each subordinate by a spoke. The employees are linked to each other along the rim. Points along this rim are linked inside of a series of interlinking networks embedded in personal relationships and the firm's relations with customers and other firms. The image clearly conveys that a centrally-located actor will not only have greater control over relevant resources and enjoy benefits and opportunities not always available to those on the periphery of the network, but also will be directly linked to individuals in her firm (Burt, 1992; Brass, 1992; Ibarra, 1995; Ibarra & Andrews, 1993). The image also suggests that irrespective of how comprehensive the networks of the female entrepreneur become, the decision to turn operations over to a professional manager may be difficult. And this decision is further complicated by whether the female entrepreneur is an intentional entrepreneur, corporate climber or copreneur.

Impact of Goals on Threshold Decisions

For the female entrepreneur, threshold decisions may be wrapped in a personal orientation that comes from long range, more latent or intermediate intentions. Now that more and more women are coming to entrepreneurship through corporate and professional organizational career windows we clearly begin to understand that they have not all focused on the same goals. We know from the research findings of Carter, Williams & Reynolds (1997) "that women owners can use founding strategy to reduce odds of discontinuing business and that a broad generalists strategy benefits their firms most."

There are the women who went into the corporate world with the desire to make the organization their stronghold, to work themselves up the corporate ladder, and to take on a key executive role and remain with the organization. This group is labeled corporate climbers and associated here in the classification as having latent intentions to become an entrepreneur. Still another group of women entered the organization as a place to gain contacts and training for the venture they always wanted to create; these are identified with long range intentions. Still another group, copreneurs, have started businesses as joint ownerships primarily with a spouse. Each group of entrepreneurial women brings a different focus to how to grow and build their businesses. Moore and Buttner (1997) found that corporate climbers value the managerial experience gained in the incubator environment far more than do intentional entrepreneurs. The intentional entrepreneur focuses on the market, new technology, and strategies. When both groups approach the threshold decision it is far more likely that the corporate climber will be more willing to hire a professional manager, valuing this experience, from her own incubator period than will the intentional entrepreneur. The intentional entrepreneur may remain more focused on experiences in facing challenges and setbacks and hold on to the supervisory role for it's strategic advantage in the marketplace. However, the corporate climber, the latent entrepreneur may be less aware of the importance of this critical competitive competence and, therefore, less sensitive of and responsive to shifts in the marketplace and the impact on firm survival. For copreneurs, the decision at the threshold stage will involve a joint decision and may be expected to be quite different from the strategy used by the intentional or the corporate climber.

The ability for a founder to adapt is a key issue. It is important to discover whether or not the entrepreneur can or needs to make the transition to professional management. At this stage it is necessary to identify the goals of the founder. Founders are not a homogenous group and should not be treated as such (Birley & Westhead 1990, 1994). While far from a comprehensive listing, our hypotheses will examine founders, who are niche seekers, thrill seekers, status seekers, and growth seekers.

There may be a level of comfort where growth may be undesirable for the entrepreneur who is a niche seeker. A niche seeker may be defined as a founder who desires independence, stability, and static social status. This goal attainment or maximum desired growth is hinted at in the literature, but not articulated in Birley & Westhead (1994).

Thrill seekers like a variety of interests--therefore, a large network is needed for managing a firm as it moves above and beyond the threshold point. For this reason, this set of founders who like to dabble in varied activities (fingers in many different pies) may find moving beyond the threshold point to be undesirable. At a particular point in new venture growth, the needs of the firm take away from the thrill seeker's ability to concentrate on a variety of interests. Thus, a professional manager becomes attractive. Thrill seekers may go from venture to venture, building and selling, for the excitement of the survival and establishment phase.

Status seekers exhibit a more conventional view of the American entrepreneur. They are growth oriented and attempt to continually improve their businesses in an effort to expand personal status. A status seeker who links personal status to visible control of a successful business will be more inclined to continue managing the firms day to day operations. However, a status seeker who links personal status to visible ownership of a successful business will be more likely to hire a professional manager.

Growth seekers are similar to status seekers but tend to put the firm status ahead of personal status. Thus, a growth seeker is likely to weigh the options with the firm's best interest in mind. A growth seeker with managerial tendencies (our latent entrepreneur) will be likely to remain in control, while one with more entrepreneurial tendencies (our intentional entrepreneur) will be more inclined to hire a professional manager.

Hypotheses to test the relationships are provided in two sets below: (a) Network Affiliations, Incubators, and Threshold Decisions; and (b) Long-Range, Latent and Intermediate Goals.

Hypotheses

Networks, Incubators, and Threshold Decisions

HO 1: NFCEO firms will have more networks tied to larger organizations than will FCEOs.

HO 2: FCEO firms will have more networks tied to entrepreneurs, personal acquaintances (including family), and smaller organizations than will NFCEOs.

HO 3: Founders are more likely to act directly on information received from networks than will professional managers.

HO 4: Founders who modify and diversify their networks to match the growth of their firms will perform similarly to professional managers in larger organizations.

HO 5a: Founders will position themselves in a central power role as in the Hub Effect (defined above) more than will professional managers.

HO 5b: Professional Managers will share more power than will Founder Managers who are Chief Executive Officers.

HO 6: NFCEOs will transfer more network structures from previous organizations than will FCEOs.

HO 7: Intentional entrepreneurs will be more likely to hang on to their supervisory leadership roles at the threshold stage than will corporate climbers or copreneurs.

Long Range, Latent and Intermediate Goals

HO 1: Founders with incubator experience will be less likely to face delegation and leadership crises.

HO2a: Founders who are identified as niche seekers will be less likely to approach the threshold firm dilemma than members from other classifications of entrepreneurs.

HO2b: Founders who are identified as thrill seekers will be more likely to approach the threshold firm dilemma.

HO2c: Founders who are identified as status seekers who face the threshold dilemma are more likely to remain as CEO.

HO2d: Founders who are identified as growth seekers who face the threshold dilemma are more likely to step down in favor of a professional manager.

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Figures will be furnished at the conference.