Acquisition of resources

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Obtaining and managing the resources in new and small firms is highly complex. Firstly, resources that new and small firms may need are rather low-scaled which makes it less attractive for traditional resource providers such as banks and venture capitalists to get involved. This means that the entrepreneurial firms often need to get creative with identifying and acquiring their resources. Secondly new and small firms often face organizational challenges in handling their resources is sophisticated and systematic manner as they might lack skills, manpower and most crucially – time. Therefore, it makes sense to differentiate between resource acquisition in small entrepreneurial firms from that in larger- more established resources.

While there is no single established definition, resources are commonly understood as wide range of tangible and intangible assets that firms may require to perform their activities. It´s customary to speak about following resource categories: financial resources like money on bank; physical resources such as for example premises, equipment; human resources including both the physical staff but also the individuals background and experiences, and social resources that include the personal, professional networks and reputational resources such as good will. You may also hear speaking about institutional resources, which are all the human, financial, technical and other resources necessary to achieve the institutions´ or the firms´ missions and goals. Vast variety of factors may contribute to whether a new firm makes a spectacular success or struggles for survival. Among such possible factors research identifies resources as a critical one. For most new firms an optimal set of resources evolves over time, and changes significantly from start-up to growth and maturity. In light of these dynamic changes it is no surprise that new firms value particularly the intangible resources such as for example knowledge and expertise, reputation, business alliances. Such resources are not only more stable in light of dynamic development, but also they are often brought into the firm by the entrepreneur and the team- and that is often the first type of resources to be acquired.

What are the possible reasons for the difficulty in obtaining the resources for the new firms? One of the reasons is the strong interconnection between the firm and its owners and founders. Research agrees that new firms often rely on their founders with their human and social capital as on central asset. To get access to those new resources new firms are often bound to rely on founders´ own social network and personal and professional relationships. This close interrelation between the objectives of the firm and objectives of their individual owners as well as reliance on the individual network of the founder bears both advantages and disadvantages. On one hand, the firm founders have more freedom in mixing personal and firm resources. For example, they may use personal savings and credit cards for business purposes thereby having the possibility to promptly aid the cash flow problems. On the negative side the firm founders and external resource providers may often perceive and value the firm very differently because they simply do not possess and operate the same information regarding the firm. Such information asymmetry is often responsible for limited access that new firm founders have to conventional financial resources such as bank loans or equity investments from business angels and venture capitalists. There can be both internal and external reasons why resource challenges are particularly pronounced in small firms. Firstly, new firms may have difficulties in managing their resources in an efficient way due to disproportionally high costs associated with starting up or so called internal liability of newness. Indeed, the new firm founders have to invest in

learning the business peculiarities, establishing new formal structures, finding their way around professional networks, recruiting and motivating talented staff and performing other activities that are all costly and time consuming. Secondly new and small firms face external liabilities of newness, meaning they lack legitimacy in the eyes of outside stakeholders which is also critical for resource success. External liability of newness often has to do with fact that firms that are young in age and small in size lack the established reputation and track record and they are often associated with high risks. Recent studies conducted on extensive sample of Swedish firms show that as much as 40% of newly started business will be liquidated within the first three years. Considering such high insecurity and the earlier discussed information asymmetry it is no surprise that the external resource providers such as customers, potential partners, banks and venture capitalists are often hesitant to support the new firm. Now consider that the market as such is also a place that is risky, dynamic and highly competitive. In order to claim its place on the market the new firm must overcome both external and internal liabilities of newness as promptly as possible, while keeping the costs of resource acquisition and management to the minimum. This means that some clever and resourceful logics and strategies might be required. We will next take a look at what resource logics are and how can the firms use some specific logics to overcome the challenges that they inevitable face. There are different schools of thought that help us understand the resource acquisition and management behaviors. The first one is traditional management school which is theoretically rooted in resource-based view and resource dependence theory. In resource-based view organizations are seen as bundles of resources. Bundles of resources are defined as all tangible and intangible assets that are tied to the firm in a relatively permanent fashion. According to resource-based theory resources can become bind or bundle up to generate unique features that would increase the competitive advantage. Another managerial perspective- resource dependence theory- views the set of resources at a firm´s possession or control as a tenant for firm´s strategic or tactical management. By acquiring and controlling the resources the firm attains power over its competitors that might require the same or similar resource sett. And thus, the firm is able to build and sustain the competitive advantage. The firm may also enter into strategic alliances with other firms to utilize the resources together. A phenomenon called in strategic management research as 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. Research differentiates between two main types of resourcing cooptation. The first type is cooptation for legitimacy whereby alliances are built with more established market players, primarily in order to gain advantage to the common reputational and good will resources. The second major type of cooptation is coopting underutilized goods, meaning that the firms in their alliance with share physical assets: human and social resources, whenever the needs might be common or complementary. The resource strategies, if undertaken well, should lead to increased survival and performance of the firm. In turn such performance outcomes should influence which resources will next be identified, acquired or developed, as a means to extend the growth in dynamic environments.

Both of the traditional approaches- resource based view and resource dependence theory, assume managerial rationality in resource acquisition. Presumably the set of needed resources is well defined, it exists out there and the firms compete with each other on the market for access and control over these resources. Entrepreneurs within managerial line of thought act as economically rational actors that select the resource acquisition and management techniques that are least costly and most accessible. Further they may prioritize the resource acquisition techniques in a rational packing order manner whereby firms´ internal resources and entrepreneur’s own resources are used first, when the internal resources are depleted the external resources that are available for free or at low costs are used. Next in the packing order

line comes credit and debt and finally equity funding. Entrepreneurship research challenges these traditional managerial assumptions by emphasizing the importance of entrepreneurs' own individual abilities to creatively interpret the resources and approach to their resource environments. For instance, entrepreneurs make judgements about which resources are more or less important based on their expectations about the future of the firm. Studies show that firms of different sizes and ages are characterized by different resource combinations and as the new firm moves through the phases of development it may become necessary to transform the resources or get rid of negative resources to retain the right fit of resources to overall changes in the firm and its environment. Thus, shifts in the types and combination of resources are the characteristic of the growth and development of the new firms.

So let us look at how the entrepreneurship research may help us understand resource related behavior. The first concept that should be mentioned here is effectuation. Effectuation theory was first developed by Saras Sarasvathy in early 2000s and it's a broad concept describing entrepreneurial decision-making process that in contrary to predominant goal driven logic traditional management theories begins with general aspiration and then attempts to satisfy that aspiration using the resources at entrepreneur's immediate disposal. Another research concept that is useful for our purpose is bricolage and it is defined as resourceful recombination of available means particularly in situations where the environments are resource-scarce. Bricolage is also a rather broad approach to decision making that is action oriented and explains how entrepreneurs may efficiently act in uncertain or resource constraint environments. In entrepreneurship literature bricolage has been used as a concept closely related to improvisation. Bricoler, or the individual engaged in bricolage, does not plan or design the optimal path to set aspiration, but instead looks around to find available means that could be recombined to achieve the purpose. The concept of bricolage, or in other words making do with what is at hand, explains in many ways the behavior that may be observed of small firms that are able to create something from nothing, by exploiting resources that other firms rejected or ignored.

Finally, perhaps the most well-known entrepreneurial resource concept is financial bootstrapping. Bootstrapping is often theorized as a set of techniques directed at attaining the external resources and describes the process of satisfying the need for resources by so effort with no or minimum external support.

Let us now sum up what we have learnt today. Firms, equally new and established ones, require a lot of various tangible and intangible resources to perform their activities. New firms however are different from established businesses, both in terms of the kind of resources they need but also the possibilities to access and manage the resources. The central concepts for understanding these differences are information asymmetry and internal and external liabilities of newness. To overcome the liabilities entrepreneurs may use resourceful strategies and resourceful logics among which the particularly interesting ones are: resource cooptation, effectual decision making, bricolage behavior and financial bootstrapping.