

**New Venture Start-up Courses and Type of Employees: Unexplored  
Moderators to New Ventures**

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**ABSTRACT**

In this paper the human resource and new venture growth relationships are explored within a resource-based view of the firm. Specifically, a moderating relationship between full-time employees and start-up courses for new ventures is tested. Results from this sample indicate a significant relationship exists between full-time employees and new venture growth, while the relationship between part-time employees and new venture growth exhibits no significant relationship. Limitations and implications for these findings are also offered.

## INTRODUCTION

Most people familiar with entrepreneurship literature recognize the many different facets associated with starting a new venture. The early focus of entrepreneurship research has centered on understanding the individual traits of the entrepreneur. For example, previous work experience in similar industries has been argued to have a positive relationship with the performance of new ventures (Chandler & Hanks, 1994; Chandler, 1996; Dunkelberg & Cooper, 1982; Cooper, Gimeno-Gascon, & Woo, 1994; Shaver & Scott, 1991; Gartner, Starr, & Bhat, 1998). Other trait-focused research has looked at the psychological characteristics of the entrepreneur (Begley & Boyd, 1987; Brockhaus, 1980; Herron, L. & Sapienza, H.J.1992; Chen, Greene, and Crick, 1992; Baron, 1998). In general, there has been significant research focused on the entrepreneur. While all of this information has helped us move forward, are there additional considerations to be made?

One additional consideration offered in this research project is the focus on various resources available to the entrepreneur. Based on the resource-based theory (Barney, 1991; Alvarez and Busenitz, 2001; Lichtenstein and Brush, 2001; Brush, Greene, and Hart, 2001), internal and external resources of the entrepreneur have a significant relationship with the performance (i.e. sales) of new ventures. The model presented here offers several contributions to understanding entrepreneurs and the new venture start-up process. First, it more clearly defines the “background” of the entrepreneur’s experience by investigating the *type* of educational courses and the *functional* area of work experience obtained by entrepreneurs that might help in the start-up process of new ventures. More specifically, the education and experience variables are defined by functional disciplines, i.e. sales and marketing, operations management, accounting and finance, and human resource management. A second contribution is the impact of specific courses taken by entrepreneurs. Historically, education has referred to the formal high school, post-high school, and graduate degrees as a definition of education. In addition to educational courses, a new category of “start-up” courses is presented. The focus of “start-up courses” in this paper is a significant addendum to the definition of the “education” variable. A third major contribution of this project is the addition of employees as an important component to new venture creation. When reviewing the entrepreneurial process (Shaver & Scott, 1991; Ucbasaran, Westhead, & Wright, 2001), the focus is on the entrepreneur and his/her cognitive capabilities for opportunity recognition. Although it takes the initiative of the entrepreneur to recognize an opportunity and take the appropriate action to launch a new venture, the entrepreneur might be better served with surrounding him- or herself with employees who will help the venture grow faster than if the entrepreneur works alone. The general question being addressed in this paper is “do employees have an impact on the growth of new ventures?” The model presented here suggests they do. Before moving on, however, a quick review of the resource-based theory sets the stage for the framework used in this analysis.

## RESOURCE BASE THEORY AND ENTREPRENEURSHIP

The Journal of Management’s special issue (1991) on resource-based theory was a major contribution for understanding how the effective bundling of resources assists organizations. In more recent developments to understanding the entrepreneur, a resource-

based theory (RBT) has been applied to entrepreneurship that offers a helpful insight (Alvarez and Busenitz, 2001). As Alvarez and Busenitz point out though, RBT has contributed mostly to the strategic management field and the only interface between RBT and entrepreneurship has been the setting in which empirical research has been conducted (Chandler and Hanks, 1994). The difficulty with this limited interface is the several units of analysis that expand the entrepreneurship literature. By adopting the RBT, the unit of analysis is focused on the same dimension—the resource. For parsimony purposes, the following discussion clarifies the three of the components of RBT (managerial rents, resource bundling, and heterogeneous outputs) and their relationship to entrepreneurship research.

#### *Managerial Rents*

In contrast to earlier research (Chandler and Hanks, 1994), this model suggests the entrepreneur's prior knowledge and experience is seen as an internal resource that is part of the antecedent to new venture growth. Chandler and Hanks' (1994) model proposes the managerial and entrepreneurial competence as moderators rather than including them in the "managerial rents" category of this RBT model. From the RBT perspective, one could make the case managers are viewed as a resource that generate revenue for the organization. Obviously, the entrepreneur can be seen in this same capacity as the focal point to generating sales. Castanians and Helfat (1991) and Katz (1974) suggest a classification of managerial skills that are most important for top-level managers in large organizations. Specifically they identify technical, human, and conceptual skills as a way of understanding the ways in which managers achieve the resource capability of generating "rents." Similar to these classifications of managers in organizations, an argument could be made that entrepreneurs require technical, human, and conceptual skills before, during, and after the launch of a new venture. In this study, the technical and human skills of human resource management are investigated through previous work experience and the number of courses completed in human resource management.

#### *Resource Bundling*

A closer look at the act of bundling resources highlights the need for an entrepreneur to deploy the appropriate resources in the correct manner. According to Alvarez and Busenitz (2001), the main problem for entrepreneurs is understanding how to best use resources to obtain the highest possible profit. Stated differently by Brush, Green, and Hart (2001), new ventures generally need to accumulate a wide variety of resources with limited finances. Both Alvarez and Busenitz (2001) and Brush et al. (2001) further argue the main activity for bundling resources occurs at the accumulation phase of new ventures when the resources are non-existent. Businesses that have been around for several years, on the other hand, have the luxury of bundling resources already present in the organization. Thus, a major delineation for entrepreneurship's application of RBT is the process of gathering knowledge and coordinating resources that leads to the launch of the business. Ultimately, it boils down to a basic question—what resource(s) help(s) an entrepreneur become proficient in the assembly process?

In an effort to answer such a question, this model places a new emphasis on *start-up courses*. The skills an entrepreneur receives in this type of course would be extremely helpful for understanding how to coordinate his/her time with limited resources during a launch. As a way to explore this aspect of the RBT model, the number of start-up courses

completed during the initial stages of the start up process attempts to measure this component of the RBT-entrepreneurship theory because this, alone, is a resource.

### Heterogeneous Outputs

Exploitation of the resources exists because different agents have different views of the resources used to convert inputs into outputs (Schumpeter, 1934; Kirzner, 1979; Shane & Venkataraman, 2000). At its most basic level, resource-based theory assumes that some of the resources and production capabilities are heterogeneous across firms (Barney, 1991). Although strategic management research has focused almost exclusively on understanding the heterogeneity of resources, strategists have not focused on “the process by which these resources are turned from inputs into heterogeneous outputs and exploited to extract greater profits” (Alvarez and Busenitz, 2001, p. 757). From this aspect of the RBT, an argument is made that the process of hiring employees is a part of the input-output process. Unlike established organizations, new ventures do not have the time or resources to build a world-class human resource (HR) that takes care of the hiring activity. Therefore, it is left to the entrepreneur to understand this “processing” of a vital resource.

Part of understanding the hiring process of employees is making sure the new venture receives the best return on its investment of employees. From organizational behavior literature, differences exist between full-time (FT) and part-time (PT) employees (Eberhardt, B.J., and Moser, S.B. 1995). For example, partial inclusion theory proposes that people are members of multiple social systems and have multiple roles (Thorsteinson, 2003; Katz & Kahn, 1978; Miller and Terbor, 1979). Therefore, full-time employees tend to feel more included in the social system of work. All too often part-time employees feel less connected because they are not included in all of the aspects of the job (Thorsteinson, 2003). This aspect of inclusion leads employees to have a sense of “fit” with their workplace. As such, employees will connect with their work environment based on their perceptions of person-organization fit (see P-O fit literature with Kristof, 1996; Van Vianen, 2000, 2001) and their perceptions of legitimate psychological contracts (Cavanaugh and Noe, 1999; Rousseau 1990, 1995). Through some of this organizational behavior literature, PT employees have been found to be less satisfied than FT employees. Furthermore, Martin and Hafer (1995) found PT workers were less involved with their jobs and employees who are more engaged are more productive; thus, creating a more productive workplace (Harter, Schmidt, and Hayes, 2002).

All of these findings taken together, nascent entrepreneurs need to consider how to start down the right path with hiring employees. Applying the different theories of employee productivity and satisfaction, full-time employees feel more connected to their social group, sense a better “fit,” and are more satisfied with their psychological contracts. Ultimately, full-time employees contribute more to the new venture growth.

### RESEARCH MODEL

Based on the resource-based theory and related discussion above, the research model presented here is represented in Figure 1. In this model the correlations between the managerial rents variables and new venture performance are moderated by the type of employees hired during the early stages of the new venture launch. Likewise, the type of employees hired moderates the relationship between the bundling of resources and new venture performance. To test the moderation effect of this model, the analysis followed methods suggested by Nunnally and Berntstein (1994). Specifically, Nunnally and Bernstein (1994), as well as Venkataraman (1989) advocate the multiplicative interaction

term should explain significant variation beyond the original variables' explanation. To deal with the multicollinearity problem of multiplying two variables together, Nunnally and Bernstein (1994) suggests centering the original variables before forming the interaction variable. Once this mathematical step has occurred, the t-score linked with the interaction variable is a valid assessment of its significance.

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Insert Figure 1 about here  
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From the RBT framework and research model above, the following hypotheses were investigated with this research.

H1a: The number of courses completed in human resource management will be positively related to the growth of new ventures.

H1b: The number of years of experience in the human resource management field will be positively related to the growth of new ventures.

H1c: The combined number of courses completed and number of years of experience in the human resource management field will be positively related to the growth of new ventures.

H2: The number of start-up courses completed by an entrepreneur will have a positive moderating effect on the relationship between managerial rents and sales.

H3: Full-time employees will have a positive moderating effect on the relationship between managerial rents and sales.

## **METHODS**

The data for this research was extracted from the Panel Study of Entrepreneurial Dynamics (PSED). This database has been a longitudinal study that has been collecting data since the late 1990's. Although the database was initially started as a proprietary database for more than 100 scholars who formed the Entrepreneurial Research Consortium (ERC), it became available to the public in 2002. Currently the PSED is being administered by the Institute for Social Research at the University of Michigan and can be found at <http://projects.isr.umich.edu/psed>. For more details on the data collection process, see Reynolds (2000).

### *Sample*

For the purposes of this study, a sub-sample was selected to use in the analysis. The first criterion selected was nascent entrepreneurs (N=767) who were not associated or sponsored by other organizations. These responses were from people who started an independent new venture, purchased or took over an existing business, or purchased a franchise, respectively. From the 767 new ventures, the sample was reduced to those ventures who had hired at least one employee (n=180). The average number of employees (full-time and part-time) was 12, the average number of full-time employees was 7 and the

average number of part-time employees was 5. The demographic descriptive statistics for this sub-sample are detailed in Table 1.

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Insert Table 1 about here  
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#### Measures (*Managerial Rents*)

*Industry Experience* (control variable) was measured using a single item (Q343) from the PSED that asked how many years of experience the nascent entrepreneur had worked in the same industry as the start-up venture.

*Opportunity* (control variable) was measured with two items (QA2 & QA3) from the PSED. Item number QA2 asked “Which came first for you, the business idea or your decision to start some kind of business?” Item QA3 asked “When you were looking for an appropriate idea for a business, about how many were considered before selecting this idea?” Because the distribution of responses for this second item was skewed, QA3 was recoded into a binary variable, 0=1-3 ideas and 1= more than 3 ideas.

*Managerial Experience* was measured by a single item (Q342) in the PSED that asked “what was the largest number of employees you’ve ever supervised.” Although Q341 asked the nascent entrepreneur to state how many years of managerial responsibility he/she had achieved, this was left out of the *managerial experience* measure because of this project’s focus on a HR framework. The basis of the argument is that the more employees one supervises, the more HR knowledge one gains. In some venues, the *number of years* of managerial responsibility can be misleading—in some instances, a person may have several years of managerial responsibility of supervising one employee, which does not necessarily enhance HR understanding.

*Functional Experience* was measured by questions QF1(a-d)2, RF1(a-d)2, and SF1(a-d)2. These questions asked how many years of work experience the entrepreneur had in sales/marketing, accounting, production management, human resource management, transportation and inventory management, financial management, technology management, mathematics, and economics. Because of the number of zero responses in the less-common functional areas, only sales/marketing, accounting, production management, and human resource management responses were included.

*Functional Educational Expertise (FEE)* was measured using questions QF1(a-d)1, RF1(a-d)1, SF1(a-d)1. These questions asked how many courses the entrepreneur has in sales/marketing, accounting, production management, human resource management, transportation and inventory management, financial management, technology management, mathematics, and economics. Because of the number of zero responses in the less-common functional areas, only sales/marketing, accounting, production management, and human resource management responses were included.

#### Measures (*Resource Bundling*)

The *start-up courses* variable was measured by a single item in the PSED that asked how many courses related to the start-up venture were completed by the entrepreneur.

The items in the PSED that asked how many people were employed by the new venture measured *type of employee*. For full-time employees, items Q158, R733, S733,

R735, S735, R615, S615 were used and for part-time employees items Q159, R734, S734, R736, S736, R616, S616 were used.

The performance measure used in this analysis was the average sales between year 2 and year 3 of the PSED data (R742 and S742). As supported by other entrepreneurship research, the reliability of founder-reported measures appear to be content valid and are objectively anchored (Chandler and Hanks, 1994; Brush and VanderWerf's, 1992). Other research suggests the age of the firm should be used as a control variable. For example, Hanks, Watson, Jansen, and Chandler (1994) point out firms that are seven years old out perform firms that are one or two years old. In this analysis, however, all of the firms are three years old or younger and, therefore, do not need to consider age as a control variable.

## RESULTS

The correlations for all of the variables are displayed in Table 2 for information purposes. Multicollinearity should not be a concern in these analyses, based on the reasonably low correlations between the independent variables. Based on previous research (Murphy, Trailer, & Hill, 1996) industry experience and opportunity recognition were used as control variables and were expected to be directly correlated to sales growth. However, unlike other research findings, managerial experience does not have direct correlation with sales growth. Hypotheses 1a – 1c were not supported in this sample; human resource management experience and human resource management courses showed no relationship to sales growth of these new ventures.

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Insert Table 2 about here  
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Using step-wise regression models, the moderating effect of start-up courses and type of employees was explored. In the first “step” of the regression model (Table 3), “managerial rents” variables resulted in a significant regression model  $F(3,79)=2.846$  and an  $R^2 = .098$ . As seen in Table 3, the added interaction variable of startup courses resulted in non-significant models and lower F values,  $F(4,78)=2.113$ ,  $F(4,56)=1.392$ , and  $F(4,78)=2.125$  for industry experience, opportunity recognition, and managerial experience, respectively.

Also from Table 3, one can see Hypothesis 3 related to type of employees was supported with this sample. Full-time employees demonstrate [ $F(4,31)=1.751$ ] a moderating relationship between managerial rents and sales growth. As expected, part-time employees do not demonstrate [ $F(4,31)=.506$ ] a moderating relationship between managerial rents and sales growth.

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Insert Table 3 about here  
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## DISCUSSION

Although the results of this research project did not support all of the original hypotheses, there is a very significant finding from this analysis. Most importantly, this

study is the first to investigate the relationship between the type of employees and new venture growth. Although other research efforts (Chandler, 2000; Chandler and Hanks 1994; Gimeno, J. et al, 1997; Cooper et al, 1994) have investigated various aspects of human resource management or human resource capital, this is the first to look at the relationship between full-time employees and sales growth. These findings are important because it tells us that nascent entrepreneurs might be better served by hiring full-time employees. This is even more important because of the scarce resources available at the beginning stages of a launch. Indeed these findings support other research areas that highlight the importance of human resource practices (Dyer, 1993; Huselid, 1995; Cascio, 1991; Harrell-Cook and Ferris, 1997). If the human resources of the firm are indeed key sources of sustainable competitive advantage, as these researchers suggest, taking the risk to hire full-time employees appears to be worth the investment.

Additionally, this research adds to other RBT research (Alvarez and Busenitz, 2001; Lichtenstein and Brush, 2001; Brush, Greene, and Hart, 2001; Star and MacMillan, 1990) that tries to investigate the valuable resources an entrepreneur needs to manage effectively.

## LIMITATIONS

Although the theoretical perspective and empirical findings presented in this paper have strong merit, a few limitations deserve mentioning. First, the definition of entrepreneurship being used here is focused on new venture creation and there are other streams of entrepreneurship research that are equally viable. More specifically corporate, franchise and family-owned ventures (Dyer, G. J. and W. Handler 1994) are areas in the entrepreneurship literature that have their unique issues to be studied. Second, because the sample used in this project did not include a control group, only the correlation relationships can be applied. Now that a correlation has been established between full-time employees and performance, causality will have to be further investigated. Finally, the sample size was significantly reduced when the number of employees was used as a basis for analysis (n=35). Further research with a larger sample could strengthen the support for these findings.

## CONCLUSION

The model presented here offers several contributions to our understanding of entrepreneurs. First, it more clearly defines the “background” of the entrepreneur’s experience by investigating the *type* of educational courses and the *functional* area of work experience obtained by entrepreneurs that might help in the start-up process of new ventures. Although there was no relationship present here, the introduction of the categories will spawn future research to consider these variables. In addition to identifying functional areas of education and experience, a new category of “start-up” courses is presented. Others interested in applying the RBT component of “bundling resources” will find this additional category helpful. The most important implication of this project is the addition of full-time versus part-time employees as an important component to new venture creation. Entrepreneurs who grasp the value of human capital should consider the potential benefits of full-time employees, as reflected in this study, and expend the necessary resources to attract full-time, rather than part-time, employees.

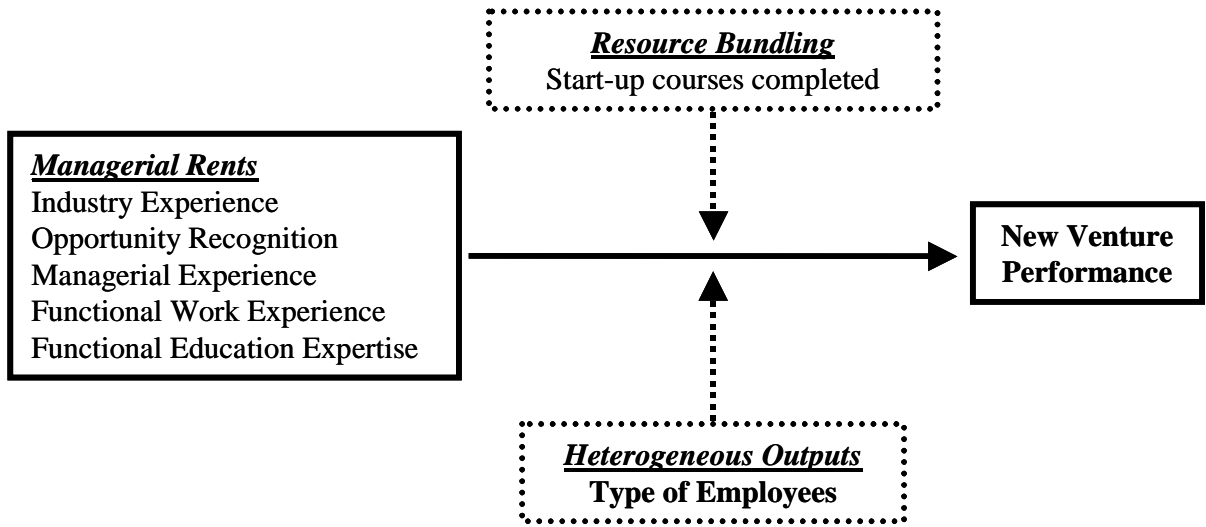
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**Figure 1: Proposed Research Model**



**Table 1: Descriptive Statistics**

**Age**

		Frequenc	Percen	Valid	Cumulativ Percen
Valid	18-24	63	5.0	8.3	8.3
	25-34	206	16.3	27.1	35.4
	35-44	238	18.9	31.3	66.7
	45-54	182	14.4	23.9	90.7
	55-UP	71	5.6	9.3	100.0
	Total	760	60.3	100.0	
	DK/R/MISSI	7	.6		

**Education Level**

		Frequency	Percent	Cumulative Percent
Valid	High school diploma	144	18.7	19.1
	Bachelor's or Technical Degree	494	64.4	83.1
	Graduate Degree	115	15.0	98.1
	DK/NA	14	1.8	100.00
	Total	767	100.0	

**Ethnic Background**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	WHITE	470	37.3	62.1	62.1
	BLACK	209	16.6	27.6	89.7
	HISPANIC/LATINO	52	4.1	6.9	96.6
	OTHER	26	2.1	3.4	100.0
	Total	757	60.0	100.0	
	DK/NA	10	.8		

**Gender**

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	389	30.8	50.7	50.7
	Female	378	30.0	49.3	100.0
	Total	767	60.8	100.0	

**Table 2: Correlations**

Variables	Sales	Industry Experience	Supervised Employees	Start up courses	PTE's	FTE's	Desire vs. Opportunity
	1						
Industry Experience	0.209*	1					
Supervised Employees	0.069	0.154**	1				
Start up courses	0.068	0.174**	0.116**	1			
PTE's	0.072	-0.075	0.106	0.262**	1		
FTE's	.303**	0.184	.185	.173*	0.331**	1	
Desire vs. Opportunity	0.157*	.112	0.017	0.024	-0.057	-0.116	1

\*Significant at the 0.05 level

\*\*Significant at the 0.01 level

**Table 3: Regression Models**

Original Model	R <sup>2</sup>	F(3,79)	Sig
Model 1: Managerial Rents - Sales (Original Model)	0.098	2.846	0.043
Start-up Courses	R <sup>2</sup>	F(1,78)	Sig
Model 2: Start-up Courses - Industry Experience Interaction	0.098	2.113	0.087
Model 3: Start-up Courses - Opportunity Recognition Interaction	0.09	1.382	0.245
Model 4: Start-up Courses - Supervisory Experience Interaction	0.098	2.125	0.086
Type of Employees	R <sup>2</sup>	F(1,32)	Sig
Model 5: Full-Time Employees - Supervisory Experience Interaction	0.184	1.751	0.038
Model 6: Part-Time Employees - Supervisory Experience Interaction	0.061	0.506	0.866