"NEVER GO INTO BUSINESS WITH FRIENDS": WHEN ARE PRIOR TIES BENEFICIAL FOR ENTREPRENEURS? (INTERACTIVE PAPER)

Ruth Blatt

University of Illinois in Chicago, USA, rblatt@uic.edu

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INTERACTIVE PAPER

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Ruth Blatt, University of Illinois in Chicago, USA

Principal Topic

Economic approaches to the question of how to reduce uncertainty in economic transactions, particularly with respect to economic partners’ motives and one’s own vulnerability to opportunism, have focused on the role of governance mechanisms, such as hierarchy and contracts, as safeguards against these sources of uncertainty. In contrast, economic sociologists have argued that when economic actors have embedded, rather than arms’ length, relationships, built through a long history of exchanges and demonstrations of goodwill, the trust that is built reduces the need for such governance mechanisms. Contracts are deemed unnecessary and too rigid for uncertain environments. Moreover, contracts may undermine trust, thereby hurting the relational fabric between partners. The present research explores a third alternative, based on the practice perspective, of contracting as an ongoing practice in organizational life.

Method

Study 1 was a longitudinal qualitative study of 20 young knowledge-based startups founded by teams. Study 2 was a mail survey of 122 young knowledge-based new ventures founded by teams.

Results and Implications

Findings from the two studies suggest that contracting practices matter more for entrepreneurial team performance than either prior ties or a priori contracts. The results support the primacy of dynamic contracting processes for facilitating economic relationships in uncertain environments. Moreover, the results counteract the lay wisdom that contracting is unnecessary or hurtful among embedded actors.

CONTACT: Ruth Blatt; rblatt@uic.edu; (T): 734-546-0503; (F): 312-996-3559; Department of Managerial Studies, University of Illinois in Chicago, University Hall, 2215, 601 South Morgan St., Chicago, IL 60607.