

6-9-2012

DETERMINANTS OF NEW VENTURE EQUITY DISTRIBUTION: UNDERSTANDING THE IMPACT OF PSYCHOLOGICAL OWNERSHIP, UNCERTAINTY, AND SAMENESS (SUMMARY)

David Noack

Washington State University, david.noack@wsu.edu

Douglas R. Miller

Washington State University

Jonathan Arthurs

Washington State University

Recommended Citation

Noack, David; Miller, Douglas R.; and Arthurs, Jonathan (2012) "DETERMINANTS OF NEW VENTURE EQUITY DISTRIBUTION: UNDERSTANDING THE IMPACT OF PSYCHOLOGICAL OWNERSHIP, UNCERTAINTY, AND SAMENESS (SUMMARY)," *Frontiers of Entrepreneurship Research*: Vol. 32: Iss. 5, Article 18.

Available at: <http://digitalknowledge.babson.edu/fer/vol32/iss5/18>

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≈ SUMMARY ≈

**DETERMINANTS OF NEW VENTURE EQUITY DISTRIBUTION:
UNDERSTANDING THE IMPACT OF PSYCHOLOGICAL
OWNERSHIP, UNCERTAINTY, AND SAMENESS**

*David S. Noack, Washington State University, USA
Douglas R. Miller, Washington State University, USA
Jonathan Arthurs, Washington State University, USA*

Principal Topic

The majority of new ventures are started by a group of entrepreneurs, rather than a lone individual. Prior research suggests that entrepreneurs use ownership distribution and equity to attract quality team members and form partnerships. Though scholars have contended that equity distribution takes place at a later stage in the new venture process when conditions are more certain and objective performance assessments are possible, a large percentage of new ventures assign ownership at the formation of the new venture when conditions are most uncertain. Additionally, despite possible negative outcomes of unequal pay dispersion, a considerable portion of lead founders choose to disperse the new venture's ownership shares unequally among members of the founding team. Equal distribution of ownership has been reasonably examined but characteristics driving unequal distribution of ownership have received only a cursory explanation. We offer a framework describing the dilemma of equity distribution and present and test specific characteristics that impact a lead entrepreneur's willingness to share his or her equity stake. We hypothesize that psychological ownership will negatively impact a founder's willingness to distribute ownership shares evenly. We also predict that lead entrepreneurs distribute equity more evenly when perceived environmental uncertainty is high and when the founding partners are ethnically similar to the lead entrepreneur.

Method

We test our hypotheses on a sample of 93 lead entrepreneurs, currently in the early stages of launching their new venture. Through an online survey, we utilize established scales to assess each entrepreneur's psychological ownership and perceived environmental uncertainty toward their new venture. We also measure each founding team's equity split along with the ethnicity of each team member and conduct a confirmatory factor analysis to assess the validity of our model.

Results and Implications

We find strong support for our hypotheses such that high psychological ownership will decrease a lead entrepreneur's willingness to share their equity with co-founders and perceived uncertainty and ethnicity are negatively related to equal equity distribution. Findings provide keen insight into the mind of the lead entrepreneur and the timing of founding team equity distribution.

CONTACT: David Noack; david.noack@wsu.edu; (T): 509-335-8842; Washington State University Management, PO Box 644736, Pullman, WA 99164.