6-8-2013

FOUNDING TEAM OWNERSHIP DISTRIBUTION: PERCEIVED JUSTICE AND COMMITMENT (INTERACTIVE PAPER)

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**Recommended Citation**

Noack, David; Miller, Douglas R.; Neale, Nathan; Sahaym, Arvin; and Arthurs, Jonathan D. (2013) "FOUNDING TEAM OWNERSHIP DISTRIBUTION: PERCEIVED JUSTICE AND COMMITMENT (INTERACTIVE PAPER)," *Frontiers of Entrepreneurship Research*  Vol. 33 : Iss. 9 , Article 5.  
Available at: [https://digitalknowledge.babson.edu/fer/vol33/iss9/5](https://digitalknowledge.babson.edu/fer/vol33/iss9/5)

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FOUNDING TEAM OWNERSHIP DISTRIBUTION: PERCEIVED JUSTICE AND COMMITMENT

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Principal Topic

Entrepreneurial team formation is a dynamic process that involves several cognitive and psychological motivators (Forbes et al., 2006; Zhao et al., 2012). Resource seeking behaviors and cognitive factors complicate the process of finding and retaining the right people for developing an effective founding team. Though scholars have demonstrated that tools such as issuing firm equity (DeTienne, 2010) and ownership shares (Reuer et al., 2006) help in attracting quality co-founders, literature has yet to focus attention on how the perceived justice of distributed ownership effects founding team member commitment to the startup and the resulting performance of the budding organization.

Commitment has typically been examined from the angle of career choices (Kolvereid, 1996) and literature has remained focused on understanding why individuals commit to a new venture lifestyle (Shane, 2008; Townsend et al., 2010). Such perspectives are useful but tend to limit our understanding of other factors influencing commitment during the formation and growth of a new venture. By adopting a multidimensional view of commitment (Meyer et al., 1993), we identify factors which impact commitment during the organization, launch, and growth of the new venture and how that commitment impacts the venture's performance.

Theory/Method/Hypotheses

This study builds on previous literature which has examined commitment and empirically examines co-founder perceptions of fairness, and firm performance (Ensley et al., 2002). Scholars have found that employee ownership plays a significant role in establishing employee commitment and serves as an effective incentive for increasing organizational citizenship (Klein, 1987). Furthermore, employee commitment and has been linked to new venture growth (Ensley et al., 2002). Using a survey methodology, we are able to empirically examine this relationship. In this manner, we address the effect that ownership distribution justice perceptions have on co-founder commitment and firm performance.

We test our hypotheses using a sample of 120 new ventures in the early stages of the startup process. We examine the impact that equity distribution has on co-founder perceived fairness and, subsequently, the effect that these perceptions have on team dynamics and firm performance. We measured co-founder perceptions of commitment and fairness using ownership data and co-founder responses to validated constructs utilized in previous literature. We controlled for other influences including psychological ownership, social capital, job embeddedness, and loyalty to the lead-founder. To measure firm performance we included total firm size, firm age, funding received, and sales revenue. Our initial results suggest strong support for our hypotheses.

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