6-8-2013

HOW ENTREPRENEURS’ FAIRNESS PERCEPTIONS INFLUENCE COOPERATION PROCESSES

Elco van Burg
VU University Amsterdam, j.c.van.burg@vu.nl

Isabelle Reymen
Eindhoven University of Technology

Victor Gilsing
Tilburg University

Georges Romme
Eindhoven University of Technology

Recommended Citation
van Burg, Elco; Reymen, Isabelle; Gilsing, Victor; and Romme, Georges (2013) "HOW ENTREPRENEURS’ FAIRNESS PERCEPTIONS INFLUENCE COOPERATION PROCESSES," Frontiers of Entrepreneurship Research: Vol. 33: Iss. 7, Article 1. Available at: http://digitalknowledge.babson.edu/fer/vol33/iss7/1

This Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
HOW ENTREPRENEURS’ FAIRNESS PERCEPTIONS INFLUENCE COOPERATION PROCESSES

Elco van Burg, VU University Amsterdam, The Netherlands
Isabelle Reymen, Eindhoven University of Technology, The Netherlands
Victor Gilsing, Tilburg University, The Netherlands
Georges Romme, Eindhoven University of Technology, The Netherlands

Abstract

We study how fairness perceptions during the early development of a technology venture do influence the degree of cooperation with the university, drawing on a sensemaking perspective. The analysis of the startup processes of 17 new ventures, consisting of 232 events, suggests that perceptions of unfairness tend to delay the new venturing process, as a result of decreasing cooperation. By contrast, perceived fairness involves a more rapid pattern of development. In general, this study shows how fairness perceptions co-evolve with the accumulation of experience, and how perceived fairness can turn into perceived unfairness and vice versa, and how this influences entrepreneurs’ cooperative behavior.

Introduction

Small, resource-constrained new ventures usually have to cooperate with large, established organizations to get access to key resources. Whereas this suggests a strong rationale for collaboration between new ventures and resource owners, it also involves a high degree of asymmetry and low levels of interdependency. Lack of interdependency in collaborative processes suggests fairness perceptions are critical (Husted & Folger, 2004), as these perceptions influence the degree of cooperative behavior between both parties and hence affect the venturing process. In fact, previous studies show that fairness perceptions of relationships appear to influence the micro-dynamics of cooperative behavior of entrepreneurs much more than the factual term sheets (Das & Teng, 2000; Ness, 2009; cf. Ariño, Ragozzino, & Reuer, 2008).

Whereas previous studies have shown that fairness perceptions matter for cooperative behavior and for venture performance, the key mechanisms and conditions determining how and when different types of fairness perceptions (i.e., distributive, procedural, informational and interactional) influence cooperative behavior are still largely unknown and unexplained (De Clercq & Sapienza, 2006; Shepherd & Zacharakis, 2001). Furthermore, some studies have shown that fairness perceptions are not static but tend to change over time (Monin, Noorderhaven, Vaara, & Kroon, 2013). This implies that fairness perceptions may evolve and change along the new venturing process, and that in turn changes in the venturing process can affect fairness perceptions and the degree of cooperation. To explore the linkage between fairness perceptions and its influence entrepreneur’s cooperative (re)actions within a particular context, we draw on a sensemaking perspective, following recent studies (Brockner, 2002; Monin et al., 2013). Therefore, we pay in particular attention to how entrepreneurs make sense of their fairness perceptions with
regard to cooperating with the university and how their sensemaking of the cooperation and venturing process also impacts their fairness perceptions.

To capture changes in fairness perceptions and the implications for their sensemaking and the degree of cooperation, we employ a process study design, based on event data (Van de Ven & Engleman, 2004). This study addresses the following question: how do fairness perceptions during the early development of a technology venture influence the degree of cooperation with the university? By answering this question, we contribute to the entrepreneurship literature by explaining how and when fairness perceptions – and changes in those perceptions – influence the cooperative behavior of entrepreneurs and the progress of their new ventures. In particular, we demonstrate the effect of fairness perceptions on the degree of cooperation and new venturing progress and we show that fairness perceptions and the effect of these perceptions are influenced by a sensemaking process that co-evolves with the accumulation of experiences, the venturing progress and is influenced by external stakeholders. As a result, perceiving fairness can turn into perceptions of unfairness and vice versa. Negotiation processes with the university appear to be key episodes in which these fairness perceptions are dominant.

**New Venturing Processes and Fairness Perceptions**

Fairness refers to the subjective assessment by individuals of what is just in a certain relationship or transaction. Organizational justice research on fairness perceptions distinguishes four different dimensions, of which distributive and procedural fairness are most frequently studied (Colquitt, 2001). Distributive fairness refers to the perceived fairness of the allocation of outcomes in an exchange; it is enhanced when implicit norms of equity are met. Procedural fairness refers to the perceived fairness of the process and is, for example, fostered by applying procedures consistently during the decision making process. Regarding the cooperation with external parties, research has demonstrated that positive procedural fairness perceptions influence the quality of this cooperation, resulting in higher performance (Busenitz, Fiet, & Moesel, 2004; 2008). In addition, detailed analysis of business ownership negotiations shows procedural fairness perceptions influence sustained cooperation and affect satisfaction (Howorth, Westhead, & Wright, 2004). Here, perceptions of procedural unfairness can cause entrepreneurs to reduce cooperation, even if this harms the venturing process (Kim & Mauborgne, 1998). The effect of procedural fairness perceptions on cooperation is stronger than the impact of distributive fairness (Sapienza & Korsgaard, 1996; Busenitz, Moesel, Fiet, & Barney, 1997; Busenitz et al., 2004).

Status recognition (or dignity and respect) and neutrality (or bias suppression) are central drivers of how the procedural fairness of relationships is perceived (Busenitz et al., 2004; Colquitt, 2001). Influential stakeholders in a venture – for example, university incubators and venture capitalists – are often able to impose their views on the entrepreneurs, because they have more power and resources (Cable & Shane, 1997). Particularly in such cases of unequal power distribution, perceptions of fairness are influential (Lind & Tyler, 1988). This may result in violating the fairness rule of respectful treatment, and as such reduce the fairness perceived by the entrepreneur. Furthermore, the neutrality of for example the incubator implies impartial treatment of the ventures (cf. Busenitz et al., 2004). Violating this fairness rule can reduce commitment of the entrepreneurs to cooperate voluntarily and creatively, and cause the relationship to break down (Kim & Mauborgne, 1998; Sapienza & Korsgaard, 1996; Husted & Folger, 2004). On the other hand, enhancement of fairness increases cooperation, trust and commitment of the entrepreneurs.
with their stakeholders, which increases the quality of the entrepreneurial process and thus the
performance of the venture (Busenitz et al., 2004). Similarly, studies have shown that perceived
fairness increases the cooperation between subsidiaries and their corporate management, resulting
in higher performance (Kim & Mauborgne, 1998). In a corporate context, perceived fairness
influences the quality of social interactions, involving knowledge exchange that contributes to the
development and performance of new ventures (De Clercq & Sapienza, 2006; De Clercq, Dimov,
& Thongpapanl, 2010).

Organizational justice theory, based on laboratory experiments and surveys, investigates
fairness formation in the context of hierarchical employer-employee relationships. Some studies
have extended this setting to different areas where a degree of interdependence exists, such as
the relationship between corporate headquarters and subsidiaries (Kim & Mauborgne, 1993) or
between alliance partners (Luo, 2005), and also to cooperation in the entrepreneurship context
(Sapienza & Korsgaard, 1996; Busenitz et al., 1997; Busenitz et al., 2004). Yet, the collaboration
between entrepreneurs and resource owners is characterized by a large power asymmetry between
the two partners, suggesting an even larger role for fairness perceptions (Sapienza & Korsgaard,
1996; Husted & Folger, 2004). In addition, the wish of the entrepreneur for ownership and control
(Kirzner, 1989; 2002) may trigger fairness perceptions (Rappert, Webster, & Charles, 1999).

Entrepreneurship is a process that is characterized by high degrees of uncertainty, among
which is unforeseeable uncertainty (Loch, Solt, & Bailey, 2008). Fairness studies have shown in
laboratory experiments that feelings of uncertainty increase the effects of fairness perceptions
on human behavior and result in using different fairness rules, for instance distributive instead
of procedural justice rules (Van den Bos, Lind, & Wilke, 2001; Van den Bos & Lind, 2002; Lind &
van den Bos, 2002). As a consequence, unforeseen events and changes in perceived uncertainty
may trigger changes in fairness perceptions. Such changes and the drivers of those changes
have remained unexplored (Ariño & Ring, 2010), though experimental studies have concluded
fairness perceptions are not static but tend to change over time, particularly when experience
accumulates and reference frames change (Kahneman, Knetsch, & Thaler, 1986; Lehner, 2000).
In this respect, research suggests that the changing degree of experience could be an important
factor as experience determines the frame of reference against which the transaction is evaluated
(Shepherd, Zacharakis, & Baron, 2003; Burmeister & Schade, 2007).

In sum, previous research demonstrated the importance of fairness perceptions in the context
of new venturing processes. As such, the significance of (effects of) fairness perceptions has mainly
been established on the basis of cross-sectional data, which do not provide an understanding of
the dynamics and the effects of changes in fairness perceptions (Busenitz et al., 2004; Hollensbe,
Khazanchi, & Masterson, 2008; Ambrose & Cropanzano, 2003; Truxillo, Bauer, Campion, &
Paronto, 2002). The question therefore is how, during the early stages of development of a venture,
fairness perceptions affect cooperation and subsequent venture progress.

Methodology

This study aims to understand how and when fairness perceptions influence the development
of new ventures over time. Here, a comparative case study approach serves to conduct an in-depth
process analysis of individual perceptions (Van de Ven & Engleman, 2004; Eisenhardt & Graebner,
2007). The effect of fairness perceptions has been studied primarily by laboratory experiments
and surveys. To explore how and when these perceptions influence the entrepreneurial cooperative process, more inductive accounts are needed (cf. Busenitz et al., 2004). We therefore adopt an in-depth qualitative approach to study fairness perceptions (cf. Ariño & Ring, 2010; Hollensbe et al., 2008). Qualitative procedures serve to combine different types of data. Thus, we can combine interviews with archival documents and performance data covering diverse venturing events (cf. Gartner & Birley, 2002). In addition, qualitative procedures are instrumental in studying micro interactions between people (Lee, 1999).

**Setting and Sample**

The empirical setting of this study involves new ventures commercializing technology from a technology university in Europe. This particular entrepreneurship context provides an excellent setting to develop theory about fairness perceptions of entrepreneurs. First, it provides a setting where fairness perceptions are particularly important. Second, our empirical design enables us to control for a number of contextual variables such as local and national context. The entrepreneurs and ventures are relatively homogeneous, all exploiting technology from the same university.

Theoretical sampling served to select 17 new ventures drawing on university IP. Such a small sample is needed in an in-depth longitudinal study, as it allows detailed comparison of poorly understood phenomena. As such, we aimed at understanding the effects of dynamics of fairness perceptions in the venturing process which apply to similar cases, rather than gathering a widely representative sample (Eisenhardt, 1989; Van de Ven & Engleman, 2004; Lichtenstein, Dooley, & Lumpkin, 2006). The companies were selected from the database of the office for entrepreneurship support and technology transfer (TTO) at the university. In total, the database contains 71 spin-offs (in the period 1993-2008), of which 43 fit the definition of university spin-off as a new company established to exploit university IP. In consultation with the spin-off advisors from the university, cases were selected according to the following criteria that are theoretically relevant for the research question. First, we included different types of entrepreneurs with distinct backgrounds; exploiting technologies from different departments and disciplines; and with variety regarding survival and failure of the ventures. Second, to be able to compare the different ventures, we selected spin-off companies on which data covering at least two years of the startup process was available. As information on the venture situation and the background of the academic entrepreneur was not complete, the final case selection was iteratively composed during the process of interviewing and analyzing. This resulted in selecting 17 ventures, constituting a sample that incorporates the required variation and thus is adequate to generate reasonably textured theory (Eisenhardt, 1989).

**Data Collection**

Data were collected from two main sources: 1) open-ended interviews with entrepreneurs and university officials and 2) archival data. In addition, we directly observed a large number of one-to-one interactions and meetings with entrepreneurs and university officials between August 2006 and December 2008. Face-to-face interviews (in total 28 interviews) with the lead founders were performed in a semi-structured way, using a topically structured interview guide. In five cases, post-interview telephone or personal conversations served to clarify ambiguities. In three cases, the entrepreneurs were at the very beginning of the startup process in August 2006, so we conducted multiple interviews to cover the subsequent two years as well. In these second and third interviews, the interview protocol started with a general question about how things had progressed.
since the last interview, followed by specific questions about the aspects of the entrepreneurial process that has also been discussed in the first interview. These repeated interviews, together with frequent interactions with entrepreneurs and support staff, mitigated the bias of retrospection by combining older with current data (Leonard-Barton, 1990).

Interviews within the university were conducted to observe the institutional environment of the university and to triangulate the stories of the entrepreneurs (Jick, 1979). Using a similar protocol as for the entrepreneurs, we interviewed 9 people in 14 meetings, including the director and several other staff members of the technology transfer office, the director of one of the main academic departments, and entrepreneurship trainers and advisors. All interviews were recorded and fully transcribed. In total, we collected 40 hours of interview data, providing 536 pages of text. Data collection and analysis occurred concurrently: we analyzed the data directly after the interviews and used this preliminary analysis to identify additional questions and probes to refine the codes, and to iteratively test the emerging patterns and relationships.

Three categories of archival data were collected and analyzed. First, for each of the companies in the sample we collected company related documents and performance data, such as business plans, funding proposals, and annual reports. Second, the technology transfer office gave access to all written correspondence (such as emails and proposals) and the contracts with the companies. Furthermore, we collected documentation on university policies, plans and protocols as well as annual reports and descriptions of the university’s history. Third, newspaper articles, interviews, brochures and website information regarding the specific companies were consulted.

Data Analysis

The first step in the analysis was to build a description of the university’s practices and procedures with regard to commercializing technology, including any recent developments. This description was built on the documents outlining the strategy and procedures in combination with the interviews with university representatives. In this stage, interviews with the entrepreneurs were only used to check the consistency of the procedures as written in documents. Subsequently, this description was discussed with two officers of the technology transfer unit to correct any misunderstandings.

The second step in the analysis was to analyze the interviews with the entrepreneurs, to identify the key events in the startup (and in two cases the early decline) of the venture. Here, we employed the coding technique developed by Van de Ven and Poole (1990) in coding the key startup events as identified in the accounts of the entrepreneurs, including events related to the relationship and cooperation with the university. These codes were iteratively refined, discussed among the authors, and aggregated into 25 distinct startup events. The different dimensions of fairness perceptions (distributive, procedural, interpersonal and informational fairness) were coded using the measurement items of Colquitt (2001) as code definitions. Moreover, overall assessments of fair and unfair were coded. To test the reliability of the final coding, two independent coders unfamiliar with the study applied the codes for fairness assessments. We used the same procedure to check the accuracy of the coding into the categories of fair versus unfair perceptions, which resulted in 100% agreement. Subsequently, we triangulated the identified 232 key events and the coded perceptions with other data sources, such as interviews with the university representatives, email conversations and press releases.
The third step was to analyze the event series of each of the cases. We started with graphical representations of the events to discern different patterns of venture startup processes (Langley, 1999). One graph depicted differences in the sequence of events (e.g., ABC or BCA), another graph depicted the time between events for each of the cases. These graphical representations served to identify three different patterns. Subsequently, we refined the sequence analysis by conducting a gamma analysis of the sequence of the events (Poole, Van de Ven, Dooley, & Holmes, 2000; Pelz, 1985).

The fourth step in the analysis was to relate the identified patterns and the underlying events to fairness perceptions. We analyzed around which events these perceptions play a role and how this relates to the development of the ventures. Furthermore, we analyzed the experience of the founders as a condition for the venturing process and fairness perceptions. Subsequently, for each of the ventures and related patterns, we analyzed the data to identify characteristics of the venturing process and we combined these patterns with the performance data on progress of the new venturing process. This analysis of the performance data, in combination with interview data and other sources, served to build theory on how and when fairness perceptions affect the venturing process.

**Findings**

To explore how entrepreneurs make sense of the cooperation process in terms of fairness perceptions and how this influences their cooperative attitude, we first identified and described three cooperative behavior patterns. In our analysis, we focus on explaining differences in venturing progress from the interaction between sensemaking of the cooperation and the degree of cooperation of the entrepreneur, in particular in terms of perceived fairness of the relationship with the university. The three patterns identified correspond with differences in the interaction between fairness perceptions, cooperation and venture development. The three observed patterns are: steady development, increasing cooperation, and decreasing cooperation.

**Pattern 1: Steady Development (fair-fair)**

This pattern is characterized by a relatively early establishment of the company and early and smooth strategic cooperation. In this respect, business organizing activities precede negotiations and agreement about formal cooperation with the university. With regard to fairness perceptions, these entrepreneurs perceive the procedures and policy of the university and the (negotiation) behavior of its representatives as rather fair. The fairness evaluation is primarily based on distributive fairness, with a secondary role for procedural fairness and/or informational and/or interpersonal fairness. An important aspect in their sensemaking of the cooperation is the future-oriented evaluation; based on the future benefits of the cooperation, they perceive a need to have a good relationship with the university. The ventures following this pattern show steady development and continuous turnover growth, while critical positive events in the development curve – the filing of the first patent and the start of production – also influence how they perceive the cooperation.

The experienced entrepreneurs in this pattern apparently make sense of the transaction with the university within the broader context of those reference transactions as well as in view of future cooperation. Thus, they believe the distribution itself is not that important, but cooperation is. These entrepreneurs evaluate the wish of the university to have a certain stake in the company
more in terms of aligning different interests and consider it as a form of commitment from the university as well.

**Pattern 2: Increasing Cooperation (unfair-fair)**

This pattern is characterized by a relatively long period of negotiations with the university, involving many iterations. Finalizing these negotiations is essential to be able to attract pre-seed funding. As a result of the long negotiation process, funding events occur in a relatively late phase. In the first phase of startup activities, the entrepreneurs perceive the university’s rules and the behavior of its representatives as unfair. In the majority of the cases, procedural fairness, in combination with interpersonal and informational fairness guides the initial perceptions of unfairness. Moreover, they feel the balance between their effort and what they can acquire from the university is unfair in terms of distributive fairness. However, around or after finalizing the negotiations, this perception changes. The turn towards fair perceptions is associated with more emphasis on distributive fairness (“win-win”). These entrepreneurs believe they finally got a good agreement that is beneficial for the development of the company. After the hurdle of the negotiations is taken, the development of the company progresses in a moderately paced manner.

The analysis of the cases shows that the entrepreneur’s perception of both distributive and procedural unfairness in the first phases of the venturing process causes a delay in the venture development with respect to the acquisition of funding. This is also reflected by the finding that the negotiations in the increasing cooperation pattern on average last longer than in the two other patterns: the time between the start of the negotiations with the university and reaching an agreement is 9.2 months versus respectively 6.5 and -0.2 months. Also other important venturing activities, such as finding the first client and hiring personnel take place later than in the other two patterns. This coincides with the entrepreneur’s perception of the cooperation as unfair, which motivates the entrepreneur not to be very cooperative. However, when the deal is finally finished and they start to perform these subsequent venturing activities, all of the entrepreneurs experience the university as helpful and relatively fair, and they would like to build a long-term cooperative relationship with this university to acquire future benefits, and evaluate the contract also in more positive terms.

An important condition affecting this pattern is that most of the entrepreneurs are relatively inexperienced. These entrepreneurs were still graduate students or recently completed their studies when starting their company, so did not have any substantial business experience or experience with large, externally funded, projects. This lack of experience influences the speed in which venturing processes proceed, because the entrepreneurs engage much more in exploration and search (e.g., for the right direction of their venture) than, for example, most of the entrepreneurs in the steady development pattern. Furthermore, this lack of business experience appears to influence their fairness perception, as their evaluation of the university’s rules and the behavior of its representatives as being unfair is based on a comparison to other entrepreneurs cooperating with the university or with other universities. After having finalized negotiations, the entrepreneurs refer more to market transactions, arguing that the university was a rather reasonable partner. As such, the shift to perceiving the situation as fair can be interpreted as a gradual shift in how they make sense of the cooperation and negotiation process. Triggered by their need for resources and a formal collaboration, and building on increasing business experience and more and more transactions with other parties, the entrepreneurs perceive the university’s actions as more and
more reasonable and fair. In general, this can be modeled as a learning process (van Burg & van Oorschot, 2013).

Pattern 3: Decreasing Cooperation (fair-unfair)

This pattern is characterized by a relatively straightforward and quick start of the venture after a short period of negotiations with the university. In the first phase of the startup, the entrepreneurs perceive the university’s rules and behavior as fair and they are happy with the agreement obtained. However, when their perceived environmental uncertainty increases due to a challenging first or second investment round, they start perceiving their previous agreement with the university as a heavy burden in terms of distributive fairness. Moreover, with regard to procedural fairness they experience the course of the renegotiations as unfair and decrease their cooperative efforts with the university. In two of the four cases, this combination of events – investment round, renegotiations, and decreasing cooperation – is related to a downturn in the venture’s performance. The case analysis shows that in the first venturing phase of the decreasing cooperation pattern the venture process and cooperation go rather smoothly, and funding is acquired relatively early. But around the second and third round of investments, the negotiations with the university – perceived as unfair – are delaying the investments in these crucial phases. In the three cases exhibiting this pattern, this perception of procedural unfairness resulted in decreased or ceased cooperation with the university. These companies then have to find other – “better” – partners, which also delays the commercialization process.

This pattern is associated with founders with substantial entrepreneurial and business experience, who experience specific situational conditions and/or extreme uncertainty combined with time pressure at a critical stage of their venture’s development. Three companies (Eta, Epsilon, Theta) exhibit a venturing process in which large investments are done at an early stage, and for one company (Zeta) funding is needed in an early phase. This creates rather independent and viable companies and also reinforces the founders’ initial experience. The early success in attracting funding affects the attitude of the founders toward the university, which is evaluated regarding its contribution to the venture, in comparison to VC’s and market parties. For example, as the founder of Epsilon reported:

*The average VC does not ask so many clauses as the university. (...) The approach is: if the university gets such a percentage for actually nothing, what should I tell this VC three months later? That the company’s value has increased twenty times? That doesn’t work. It is just not correct.*

However, these entrepreneurs have to (re)negotiate with the university in settings characterized by high uncertainty and pressure. As such, the entrepreneurs perceived the university as not dealing flexibly and quickly with these negotiation processes under high pressure. By contrast, university representatives felt that procedures had to be appropriately dealt with, and believed it was in the interest of the university to assure its integrity and exposure.

Toward a Model of Fairness Effects in New Venturing Processes

To summarize our findings in a process framework, Figure 1 connects the key findings. This figure highlights the central role of previous experiences as well as the role of the accumulation of experiences, progress and external effects during the new venturing processes, which constitutes key drivers of how the perceived fairness of the relationship affects cooperation in a new venturing...
process. The reversed effect is also the case: the degree of cooperation, and the cooperation logic used by entrepreneur, impacts the progress of the venture (in terms of events that must be accomplished to start the venture). Our findings, as summarized in the model, point at four important overall dynamics that are essential to understand how entrepreneurs make sense of the cooperation process in terms of fairness perceptions and how this influences their cooperative attitude over the course of the venturing process.

**Experience, fairness and ‘mutual benefits’ logic.** One of the key findings of this study involves the role of experience. Our analysis implies that experienced entrepreneurs use different fairness rules to evaluate the transaction, as they use both distributive and procedural rules, which increases the likelihood of evaluating the procedure and agreement as fair (cf. Hollensbe et al., 2008). Fairness evaluations appear to influence cooperation. Evaluating the relationship as fair is important for constructive cooperation. Also the founder of Gamma expressed the importance of cooperation, which is clearly influenced by his perception of fairness:

> I think this is a good deal. (...) Before I established the legal entity of my company, I already made a cooperation agreement with the department, which says that I can have up to five employees using the university lab. That’s fantastic, because I now don’t have to invest [in labs] myself. (...) Besides that, I prefer to be embedded within the research group. That I could talk with researchers at the coffee table. That’s of much value for me.

We also observed that experienced entrepreneurs tend to assess cooperation with the university as more important than their inexperienced counterparts, using a ‘mutual benefits’ logic. They want to get technology and knowledge from the university and are prepared to pay for it. Even though the revenues will be in the future, they consider that cooperation with the university is a *sine qua non*. For example, the founder of Lambda reported:

> For me, the long term cooperation is very important. It goes without saying that the university will get a certain return.

Thus, experienced entrepreneurs evaluate the relationship with the university more often as fair and tend to more easily and quickly accept the terms under which the university would allow them to exploit the technology.

**Inexperienced entrepreneurs, unfairness and ‘proprietary’ logic.** In contrast to experienced entrepreneurs, inexperienced entrepreneurs are more likely to perceive the relationship with the university as unfair, partly because they have different reference transactions in mind, such as with other (inexperienced) entrepreneurs within the same university. They use a ‘proprietary’ logic in which they argue that they have already put a lot in working on their invention, and have at least the right to use it, while the university has not contributed a lot. They expect more a supportive role from the university and less negotiations, which is related to their perception of procedural fairness:

> I know that a lot of entrepreneurs are not happy with this situation. I think it is stupid that I had to negotiate with the university” (Founder of Epsilon).

Entrepreneurs who perceived the relationship as unfair reduced or abandoned cooperation with the university drawing on this proprietary logic:

> For me, it was especially painful that [the university representative] said that he would look to our interests as well. But it appeared that such a statement counts for nothing. To put it like this: I was not amused. (...) Then I said: I don’t want to continue this cooperation; I will look for an alternative. (Founder of Zeta)
These unfair evaluations apparently delayed the negotiation process as the entrepreneur became quite uncooperative. Subsequently, longer negotiation processes lead to evaluating the relationship as even more unfair. For example, the founder of Sigma said (in the second interview):

*In the second negotiation discussion, the TTO director said: we will make a small adjustment to our claims. But, this way, the process keeps going on. I get very tired of it. ... I feel they make many claims, but they give little in return.*

The degree of cooperation, particularly in the negotiation process, had a direct influence on the pace of venture development. As negotiations with a key partner (e.g., university in case of an academic entrepreneur) lasted longer, the venturing progress is delayed.

*Increasing experience, changing fairness perceptions and ‘mutual benefits’.* Experience is not a static factor. The venturing process led to new experiences, resulting in learning by the entrepreneur. In particular, the increasing cooperation pattern shows a learning pattern arising from the accumulation of experience, which is related to changes in fairness perceptions. In combination with the need for a formal contract in order to proceed with next venturing steps, the entrepreneurs motivate their more cooperative attitude using a ‘mutual benefits’ logic. As the founder of Rho reflected in a second interview, just after he completed the negotiations:

*We were maybe a bit naive in the beginning. (...) More experience would definitely have helped. (...) The most important difference is: we were quite negative in the beginning and now we’re more positive.*

This suggests the founders learn and their experience grows while working on their new ventures, which in turn influences perceived fairness and the degree of cooperation. Becoming more cooperative has a direct positive effect on the length of the negotiation process, which in turn further increases the perceived fairness and the cooperative attitude.

*Lack of progress, changing fairness perceptions and ‘proprietary logic’.* In three cases we observed that a lack of progress, in combination with increasing uncertainty, leads to shifts in fairness perceptions and a different cooperative attitude. Using ‘proprietary logic’ these entrepreneur argue that in difficult circumstances the university should be on their side rather than preserving the university’s interests. Interestingly, it is not the sheer amount of experience that changes – as these entrepreneurs already were quite experienced – nor the university’s attitude has changed, but external circumstances and the lack venturing progress lead to a different perception of the relationships with the university. The founder of Epsilon argued:

*I think that the principle is wrong. ... The university should have said: ‘You know what? We will just give you the technology for a symbolic fee.’ The university does not need to make profit, do they? ... Finally, we cooperate with three universities, with exclusive cooperation agreements. A very tiny bit with [this university], a lot with Leeds and very much with London. And why? Because they were just not very ‘charming’ at [this university]. I am really fed up with them.*

This finding is in line with studies that show that the perceived degree of uncertainty is an exogenous factor that impacts fairness perceptions (e.g., Van den Bos & Lind, 2002), and moreover shows that changes in perceived uncertainty lead also to changes in perceived fairness and changes in cooperative attitude.
DISCUSSION AND CONCLUSIONS

This study contributes to the entrepreneurship literature by explaining how entrepreneurs make sense of their fairness perceptions in the context of a collaborative process which is of key importance for their venture. This study, first of all, demonstrates that fairness perceptions influence new venturing processes, by way of their impact on the cooperative behavior. As such, our findings confirm earlier studies pointing at the importance of fairness in cooperation processes, particularly in the formation phase of such cooperative interorganizational relationships (Ariño & Ring, 2010; Luo, 2008; Ring & Van de Ven, 1994; Sapienza & Korsgaard, 1996).

More importantly, our study shows how fairness perceptions influence new venturing processes and how these fairness perceptions are subsequently also affected by the new venturing process. The findings imply that when the early relationship with the university is experienced as fair, the entrepreneurs are more likely to cooperate with the university. This positively influences the ability to acquire funding and engage in strategic cooperation, which in turn enhances progress with the venture. Moreover, if the relationship with the university is perceived as fair, the agreement will be reached earlier and negotiations will be less intensive (i.e., negotiation process speed will be higher). Conversely, unfair perceptions delay productive cooperation with the university, resulting in delayed business start-up activities and acquisition of funding, and postponed efforts to build external relationships. In addition, unfair perceptions are associated with low negotiation process speed, causing similar delays in the new venturing process.

A key driver of changes in fairness perceptions is formed by the level of experience of the entrepreneur. In this respect, our study makes an important contribution to both the entrepreneurship and organizational justice literature. Previous work demonstrated that experienced entrepreneurs are more effective in developing and sustaining relationships (Lee & Tsang, 2001). The combination of previous experiences and relationship-specific experience enables the effective design and adaptation of cooperation (Reuer et al. 2002). Our study explains, at the micro-level, how experience may influence performance through the formation of fairness perceptions. Experienced entrepreneurs apparently have large numbers of reference transactions in mind that can guide their decision making (cf. Larkin, McDermott, Simon, & Simon, 1980) and thus are more likely to accurately assess and identify the key features of the transaction. As such, experienced entrepreneurs appear to place the relationship with the university in the broader context of other market transactions, and to more highly appreciate cooperation with the university (Westhead, Ucsbasaran, & Wright, 2005), whereas their inexperienced counterparts refer more to local and inexperienced peers. As a result, experienced entrepreneurs are less influenced by potentially ‘unfair’ aspects of the relationship (e.g., the specific distribution of revenues), and are better able to understand and acknowledge the importance of valuable cooperative ties.

By employing a process perspective, we gained a deeper understanding of the dynamics of fairness perceptions in two ways. First of all, experience is not a static but a dynamic condition, which evolves over time. Thus, experience cannot be measured at one single moment, but should be treated as a process variable that involves a learning curve. The increasing cooperation pattern we found shows that a difficult start, with unfavorable conditions (inexperienced entrepreneurs, unfair perceptions), does not necessarily lead to poor performance in the long run. The learning curve implies that not only the initial conditions are critical, but also the learning capacity (e.g., Doz 1996). Since the experience condition evolves over time, fairness perceptions cannot be exclusively...
studied in a cross-sectional manner (cf. Ambrose & Cropanzano, 2003; Truxillo et al., 2002). Moreover, Luo (2008) demonstrated that fairness perceptions influence the cooperative behavior evolving in interorganizational alliances, and Ariño and Ring (2010) observed how different and changing types of fairness affect decision making logics in the formation stage of an alliance, particularly the decision whether or not to continue the formation process. Thus, cooperation in (inter)organizational relationships should be understood from a process perspective: fairness perceptions are dynamic phenomena, to be connected to how the relationship develops over time (Ariño et al., 2008; Reuer, Ariño, & Mellewigt, 2006).

This study also shows when fairness perceptions influence the development of new ventures. Fairness perceptions especially play a key role at two important points in time: when negotiating with the university for the first time, and when renegotiating for the second time. After these (re)negotiations, the entrepreneur is likely to rationalize the agreement obtained and how (s) he perceives it, and to accept the terms of the relationship and agreement. We observed these negotiations especially during the beginning of the start-up process and these renegotiations when the company is facing survival problems or needs more financial capital. As such, this study highlights the importance of negotiation processes for new venture development, confirming results from previous studies (Doz, 1996; Reuer & Ariño, 2002). Most previous studies focused on contractual dimensions, whereas our study implies process characteristics such as the speed of the negotiations, rather than explicit contracts, more profoundly affect new venturing progress. More specifically, the role of procedural fairness stands out as the most important single form of fairness. So, how you cooperate is much more important than what you actually negotiate (distributive fairness). Ariño et al. (2008) found small firms’ alliance dynamics in terms of contractual renegotiations parallel those of larger firms, with one important difference: small firms are less likely to adapt contracts when collaborative interactions result in governance misalignment. Our study shows that in these cases the cooperation is likely to deteriorate.

This study therefore contributes to the entrepreneurship literature by demonstrating the effect of fairness perceptions on new venturing progress; by identifying that fairness perceptions may change over time and co-evolve with the level of experience; and by showing the key role of negotiation processes in the cooperation process. Besides demonstrating the dynamics and effects of changes in fairness perceptions, we also found cooperative behavior and experience of the entrepreneur as endogenous sources of these changes.

CONTACT: Elco van Burg; j.c.van.burg@vu.nl; (T): +3120598251; VU University Amsterdam, Faculty of Economics and Business Administration, De Boelelaan 1105, 1081 HV Amsterdam, The Netherlands.

ACKNOWLEDGEMENTS

We are grateful to Fred Langerak, Lou Marino, Steve Michael, Rhonda Reger and Jeff Reuer for helpful comments on earlier versions of this paper. The TU/e Innovation Lab at Eindhoven University of Technology provided financial support for this research.
References


---

**FIGURE 1**

A Process Model of Fairness Effects on New Venturing Processes

---

Frontiers of Entrepreneurship Research 2013