COMPETITORS AS ADVISORS: HOW COOPERATIVE ENVIRONMENTS IMPACT TRUST AND KNOWLEDGE AMONG SMALL BUSINESS ENTREPRENEURS (SUMMARY)

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ENTREPRENEURIAL NETWORKS

• SUMMARY •

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Principal Topic

Entrepreneurial firms are often highly dependent on external resources and networks when seeking assistance in the form advice and support. Advice from peer business owners is frequently sought to provide this resource, yet the businesses in which these peers operate may play a critical role in dictating the quality and positive impact of that advice. In this study we use the knowledge-based view to examine when advice from direct and indirect competitors is utilized and how advice from these different sources impacts firm growth. We further examine how trust and the perceived knowledge of the advisor impacts the advisee's reliance on advice and the subsequent performance of the firm.

Method

We test our hypotheses using a cross-sectional survey of over 600 small business entrepreneurs across a variety of industries in a Midwestern US state. We use three dependent variables to explore these questions: 1) the extent to which entrepreneurs relied upon advice in the previous year from direct and indirect competitors, 2) the extent the founder believed that the company had grown the previous year, and 3) the actual growth of the firm as measured by number of new employees hired the previous year.

Results and Implications

We find that the benefits of peer advice and support are contingent on mitigating factors such as trust and the perceived knowledge of the advisor. Advisees often rely on advice and support from direct and indirect competitors when these advisors are perceived as knowledgeable, or they are trusted. However, for performance outcomes, we find that the perceived knowledge of an advisor is a stronger force than trust. While founders believe that advice from trusted direct competitors has a positive impact on overall firm growth, we find that trust has no impact on actual growth. In contrast, perceived knowledge of both direct and indirect competitors is not significantly related to perceptions of growth; yet it has a positive impact on actual growth in firm size. Thus, it appears that the value of this advice may often be underestimated.

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