

Friendships factor into start-up success (and failure)

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New research co-authored by Cass Business School academics has found entrepreneurial groups with strong friendship bonds are more likely to persist with a failing venture and escalate financial commitment to it.

Hundreds of thousands of [new businesses](#) are registered in the UK every year but 20 per cent fail within the first 12 months and 60 per cent are terminated within their first three years.

Decisions to terminate a venture typically occur as financial losses increase, and founding entrepreneurs typically face the decision to escalate their [commitment](#) to a failing venture multiple times before finally terminating it.

Against this backdrop, researchers Tori Yu-wen Huang and Vangelis Souitaris of Cass Business School and Sigal G. Barsade of The Wharton School, University of Pennsylvania, sought to understand how entrepreneurial teams react when their venture's finances begin to suffer.

The study found that the stronger the friendship bond among the team members, the more likely the teams were to escalate their commitment to failing ventures rather than terminate them.

"Our results indicate the importance of entrepreneurs understanding and managing their team emotions for best decision making," write the researchers.

"It also helps explain the continued engagement of entrepreneurial teams who, even when fearful, have hope."

Emotions have been shown to be important in entrepreneurial decision-making, and those emotions are strongly felt when ventures face termination.

"We focus on the influence of group fear and group hope because, compared to other emotions, fear and hope are more associated with uncertainty, which is inherent to the decision to escalate commitment to a venture," write the researchers.

"We compare a founding team's fear that a currently failing venture will ultimately increase financial losses to their hope that the venture can be turned around, recover the losses, and ultimately make money."

Using a simulation based on data from 66 entrepreneurial teams across 569 decision-making rounds, they found that "hope trumps fear"—that is, the relationship between group hope and escalating commitment to a failing venture is stronger than the relationship between group fear and terminating that venture.

Since entrepreneurs invest not only money but time, effort, and attention in their ventures, the researchers examined the team's engagement as a mediator between fear and hope and escalation of commitment versus termination and found that it explained the results.

"We employed an immersive laboratory methodology to realistically simulate and observe teams of three business students serving as co-founders of a computer startup," write the researchers.

"To examine the dynamic nature of these decisions, we longitudinally tracked each team's joint level of [fear](#), hope and behavioural engagement through multiple rounds of simulation."

The researchers conclude that although escalating commitment to what is forecasted to be a failing [venture](#) can be costly, persistence is a quality widely valued in business and entrepreneurial contexts.

"Distinguishing 'problematic' escalation from 'fruitful' persistence is kind of an art, and a skill that entrepreneurs have to develop," Professor Vangelis Souitaris said.

The paper 'Which Matters More? Group Fear versus Hope in Entrepreneurial Escalation of Commitment' is published in the *Strategic*

Management Journal.

More information: Tori Y. Huang et al, Which matters more? Group fear versus hope in entrepreneurial escalation of commitment, *Strategic Management Journal* (2019). [DOI: 10.1002/smj.3051](https://doi.org/10.1002/smj.3051)

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