
Entrepreneurship: Use symbols to attract resources



Fresh entrepreneurs face the same problem when starting out on their own: “When you are relatively young, with relatively little experience, and you are relatively poor, and you have an unproven new idea, what do you have to do to convince powerful and rich people to give you the first hundred thousand pounds so you can start developing your products?” says INSEAD Associate Professor of Strategy Quy Nguyen Huy. The answer is to pay attention to ‘symbolic management’ at the very earliest stages of a new venture.

The answer, it seems, is to pay attention to ‘symbolic management’ at the very earliest stages of a new venture. That’s what Huy and his INSEAD colleague, Associate Professor of Entrepreneurship **Christoph Zott**, found after studying 26 companies started by INSEAD MBA graduates in London over two years. So how did the young firms—in fields from travel to telecoms to alternative energy—get people, premises, and most importantly, cash?



Many entrepreneurs will instinctively dress smartly to impress investors. But they have to do more when they're long on ideas but short on resources. That can mean building models of proposed products, emphasizing the quality of the entrepreneur's education and contacts, and even creating

tough recruitment processes to impress potential employees that the founders mean business.

The INSEAD researchers focused on the seven most successful and least successful enterprises, using a technique pioneered by sociologists and anthropologists called grounded theory, that's still relatively unusual in business research. Instead of trying to find out if entrepreneurs behaved in ways that fitted existing theories, they went in with open minds, looking for fresh explanations about what activities differentiated the successful ventures from the rest.

“We just followed them throughout all the steps, from embryonic ideas to getting the first one hundred thousand pounds, the second one hundred thousand pounds, to getting the first paying customer,” Zott and Huy say.

“These people are trying to get the seed money to build the first product to sell. Without that money they will not be able to develop the product, therefore they will have nothing to sell.” The researchers also talked to resource providers to find out what impressed them enough to invest, and what didn't.



Conventional wisdom may suggest the most successful entrepreneurs in attracting investment would have the best traditional skills: writing good business plans, formulating strategy, or having a great product.

“But we found that it was not that simple for investors, because all entrepreneurs claim that they have fantastic new ideas, and many of them can present seemingly good business plans,” Zott and Huy say. To distinguish themselves from their competing peers, the successful entrepreneurs also paid a lot of attention building credibility with investors, customers and employees because they did things that were both practical – and symbolic. The research suggests there are four main types.

Conveying personal credibility. When an entrepreneur forgoes a salary, or gets paid a very low salary or low wages to work in his business, it has a functional dimension, Zott and Huy say. “It’s to cut costs or keep costs at a minimum. But it also has a symbolic meaning if it conveys that he’s fully committed to his business.”

Professional organisation. A well-appointed, large office in a good location is perhaps one obvious way for entrepreneurs to impress investors – but that can be expensive. They can rent shared guest offices in good locations. Other tactics include using elaborate and rigorous methods to select staff. One entrepreneur told the researchers that the start-up's recruitment process was deliberately made "absolutely gruelling" and "ruthless" to signal to engineers that the company was professional and serious.

Organisational achievement. Entrepreneurs often need to break out of a vicious circle when they start out: they need resources to develop a working product, but the best way to get resources is to show a product that's already working. "In our research we found that the more successful INSEAD MBAs are the ones who pay attention to this," the researchers say. "They develop some kind of mock product – perhaps with a software simulation – that can show to potential customers how this product might work or look like. It already gives these people an edge over those who just describe their product on a piece of paper. So they display symbols – symbols of achievement.

Quality stakeholder relationships. What can start-ups do when they have no track record in an industry? Zott and Huy say they can 'borrow' the reputation of established and successful business people such as CEOs by inviting them onto the board of the new company. "That makes the investors more comfortable," the researchers say. "So they [the board members] are symbols as well."

The INSEAD research found that all the entrepreneurs surveyed used symbolic management, but the most successful were acutely aware of its value. They're aware that they are actively shaping perceptions.

The biggest effects are early on in a new venture's life, when investors lack concrete information about founders and their teams. "Usually these symbolic management activities are important until the company can create a real working product and have a large base of paying customers," the researchers say. "At that moment symbolic management becomes less important."

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