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STAKEHOLDER INFLUENCE STRATEGIES AND VALUE CREATION BY NEW VENTURES

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ABSTRACT

New ventures bring the founders' visions to fruition, creating positive benefits for entrepreneurs and stakeholder groups. Simultaneously, these efforts may disrupt and destroy existing means of production, distribution, and consumption thus imposing- costs, or even creating negative values for stakeholders. This paper describes the types of value that are likely to be created and destroyed, and examines the value-related interactions between stakeholders and new ventures. We draw upon entrepreneurship literature, stakeholder theory, and the resource dependence perspective to develop a framework illustrating these interactions, then we explore the effects of stakeholder salience and dependence on influence strategies that new ventures may employ under conditions of low agreement of value goals, and suggest propositions for different influence strategies and value outcomes.

INTRODUCTION

New ventures bring the founders' ambitious visions to fruition and create significant benefits or positive values for entrepreneurs and other diverse groups such as investors, customers, employees, suppliers, and communities (Cooper & Gimeno-Gascon, 1992; Acs & Audretsch, 1992; Kirchoff & Phillips, 1989; Shane & Venkataraman, 2000). New ventures may simultaneously disrupt and destroy existing ways of production, distribution, and consumption (Christensen, 1997; Schumpeter, 1934), thus imposing costs, "destroying" value or even creating negative values. Therefore, groups facing negative value consequences may attempt to influence the firm's strategic choices to create positive value for their groups (Freeman, 1984). In turn, the entrepreneurs may attempt to influence these groups so that positive values are maximized for the venture, while at the same time the interests of key stakeholders are met. Thus the new venture seeks to "manage" its relations with key stakeholders in order to maximize the positive values created for itself.

Historically, research focused on the creation and destruction of *economic* value (Chrisman, Bauerschmidt & Hofer, 1998; Schulz & Hofer, 1999; Stevenson & Jarillo, 1990). However, value consequences reach beyond the economic, and encompass a variety of non-economic dimensions (Bird, 1989; Shane & Venkataraman, 2000). The degree to which new ventures satisfy the interests of diverse parties can vary widely, although research examining value consequences other than economic is limited. Similarly, there is substantial literature exploring product/market and competitive strategies of new ventures (McDougall & Robinson, 1988; Carter, Stearns, Reynolds & Miller, 1994), but there is less examining broader objectives and consequences of new venture strategies.

This paper examines the value-related interactions between stakeholders and new ventures, and explores the influence strategies adopted by the new venture to manage stakeholder demands. We begin with a description of the different types of value likely to be created and/or destroyed for the key stakeholders of new ventures, then develop a framework illustrating these relationships by drawing upon entrepreneurship literature, stakeholder theory, and the resource dependence perspective. We explore the effects of stakeholder salience and dependence on the influence strategies that new ventures may employ and explore their value outcomes. Here we adopt the widely *accepted definition of stakeholder as any group or individual that can affect or is affected by the new venture's actions* (Freeman, 1984; Thompson, 1967).

BACKGROUND

Value creation occurs through the different functional strategies adopted by the new venture. For example, competitive strategies produce superior customer value and assure market leadership (Porter, 1980; Shepherd & Shanley, 1998), efficient operational strategies lead to high profitability for investors (Timmons & Sapienza, 1992) and effective human resource strategies provide the benefits that attract scarce personnel (Aldrich, 1999). Ideally the new venture prefers functional strategies that emphasize positive values for itself, and would like to use influence strategies to persuade stakeholder groups to accept its value goals as their own. If this proves difficult and powerful stakeholders pressure the firm to cater to their value objectives, the new venture's influence strategies aim at minimizing "value destruction" to its own goals while meeting these external demands. Then the entrepreneurial venture readjusts the functional strategies as needed. This inquiry is a useful contribution to literature since research hitherto has emphasized influence strategies of the large, mature, established corporation (Frooman, 1999). The next section explores the types of value created and destroyed by new ventures.

Types of Value Created and Destroyed

In creating a new venture, entrepreneurs seek multiple types of *values* for themselves, their firms, employees and other groups (Cooper & Gimeno-Gascon, 1992; Schulz & Hofer, 1999). However, first we need to define the term value (Sewall, 1901; Young, 1978). Philosophers and ethicists define it normatively to separate the *rights* from *wrongs*. Economists, in contrast, are interested in the value of *things*, and distinguish between "value in exchange" and "value in use" (Sewall, 1901). Baier defines value broadly along the same lines as a "thing's capacity to confer a benefit on someone, and to make a favorable difference to his life. The magnitude of its value is the measure of that capacity" (1969: 40). Drawing on this, we define value as *"the capacity of a good, or service, or activity (ies) to satisfy a need, or provide a benefit to a person or entity"*. This definition is broader than the traditional economic concept of value, because it not only covers market-based value, but also non-market value benefits like quality of life, safety, prestige, etc. (Haksever, Chaganti & Cook, 1999). Further, we recognize negative values as comprising of economic and non-economic costs and risks imposed by an activity, good, or service, and we emphasize the value consequences to owners/investors, customers, employees, suppliers, and the society at large. The term "society at large" encompasses both the general public and members of surrounding communities (Aldrich, 1999).

Hence, the new venture creates value for a stakeholder group every time it satisfies a need or provides a benefit to that group. Similarly it "destroys" value or creates negative value whenever its actions--however unwittingly--reduce the satisfaction of, or impose costs on a group in some way. Examples of these different types of value, considered across three perspectives, *1. Economic, 2. Non-economic, and 3.Time*, are illustrated in Tables 1-2. Time dimension has been included because some benefits/ rewards as well as costs/ risks can be short-lived while others extend into the long-term (Eisenhardt, 1989; Slevin & Covin, 1997; West & Meyer, 1997). Some of the value consequences that accrue to each of the five stakeholders are laid out in Tables 1 and 2.

Table 1: Value Creation for Owners/Investors, Customers and Employees

Table 1a: Owners/ Investors		
Value Dimension	**Value Created (Benefits/Rewards)**	**Value Destroyed (Costs/Risks)**
Economic	Profits, dividends, wealth appreciation through stock price increases etc.	Loss of investment, low rate of return, bankruptcy, etc.
Non-Economic	Sense of well-being and security, pride and autonomy, etc.	Stress from uncertainty about firm's future, sense of embarrassment from firm's missteps and scandals
Time	Long-term wealth and income increases, investment in new technologies, and enhancement of economic prosperity	Uncertainty about the long-term viability of firm
Table 1b: Value Creation for Customers		
Economic	Superior use-benefits, reliability and durability of goods, lower cost.	Price, cost of defective good, repair and disruption costs, maintenance costs etc.
Non-Economic	Ease of use, support services, convenience, sense of security, product image and prestige	Difficulty in getting product knowledge, harmful effects, loss of prestige, etc.
Time	Time saved in product use, durability of benefits, etc.	Learning time, delays in repair and replacement etc.
Table 1c: Value Creation for Employees		
Economic	Wages, monetary benefits like pension, insurance, profit sharing, etc.	Opportunity costs of jobs foregone, costs of working like commute, child care, etc.
Non-Economic	Sense of well-being, job security career advancement, pride and empowerment, recognition etc.	Stress, monotony, lack of challenge, loss of personal time, harmful effects of work, hurt from unethical behavior of firm
Time	Long-term wealth and income increases, career advancement, long-term pride in firm, and increased self-esteem	Risk of loss of marketability, lack of skill development, long-term loss of personal well-being, etc.

Table 2: Value Creation for Suppliers and Society at Large

Value Dimension	Value Created (Benefits/Rewards)	Value Destroyed (Costs/Risks)
Table 2a: Value Creation for Suppliers		
Economic	Revenue, profit, stable business financial assistance from customer firm, etc.	Price and other concessions extracted by firm, slow payments, loss of revenue from failure of customer firm, cost of meeting other customer firm demands, etc.
Non-Economic	Stability of business relationship, greater innovation, technical and managerial assistance, prestige, etc. from customer firm	Uncertainty of relationship with customer, damage from customer firm's unethical behaviors, etc.
Time	Long-term business stability, high rate of growth and profitability, innovativeness, contribution to economy, etc.	Risk to long term viability of supplier from loss of contract, learning and other costs in long-term adaptations to customer
Table 2b: Value Creation for Society at Large		
Economic	Job creation, tax revenues, more functional products, firm's charitable donations, etc.	Tax abatements, costs of pollution reduction, costs of infrastructure facilities, increased cost of living, etc.
Non-Economic	Stable healthier economy, non-monetary contributions of firm, community pride, etc.	Pollution, congestion, social problems like increased crime, etc.
Time	Greater economic prosperity long-term, social benefits of long-term growth	Risks of long-term loss to economy from downsizing of firm, reduced quality of life, etc.

FACTORS INFLUENCING VALUE-RELATED INTERACTIONS

The entrepreneurial team is cognizant of value impacts resulting from stakeholder interactions, and hence seeks to maximize the positive values and minimize the negative values. Accordingly, entrepreneurs try to influence the stakeholder value demands to maximize net positive values to the new venture, and at the same time, each external stakeholder also makes demands on the venture. However, because not all stakeholders have equal power, those that have highest power or control over the new venture's actions would shape the entrepreneurs' decisions, capturing the greatest positive values for themselves. Hence the power or *salience of a stakeholder* determines the degree to which the entrepreneurs yield to its demands. Further, the stakeholders also depend on the new venture to produce desired value outcomes, and this *stakeholder dependence* varies among stakeholders. The interplay between stakeholder salience and dependence of the stakeholder on the venture determines the types of influence strategies adopted by the entrepreneurial venture and the resulting value outcomes.

New Venture Perspective

Stakeholder Salience. The term stakeholder "salience" signifies that the entrepreneurial venture perceives the importance, approval or cooperation from a particular group as essential for its well being. However, the entrepreneurial team may not always be cognizant of the total spectrum of value consequences from its actions and there could be several unintended consequences (Mintzberg & Waters, 1982). Still, in the majority of cases the entrepreneurs do perceive the importance of a stakeholder accurately, and will strive to cater to its value demands. Research points to several factors that influence stakeholder salience (Agle, Mitchell & Sonnenfeld, 1999; Frooman, 1999; Mitchell, Agle, & Wood; 1997; Pfeffer &

Salancik, 1978). This paper will focus on two factors, namely, resource dependence of the new venture and its value goals.

Resource Dependence of the New Venture. Resources and capabilities are critical to organizational success because these enable a firm to establish sustainable competitive advantages relative to its key rivals, and generate above-normal returns (Barney, 1991; Conner, 1991; Mahoney & Pandian, 1992; Oliver, 1997; Peteraf, 1993; Wernerfelt, 1984). As Stevenson and Jarillo (1990) point out, the impetus for creation of a new venture is the innovative idea that embodies hitherto undiscovered opportunities and can be transformed into a potentially successful enterprise. While the new venture may have the edge in its unique and superior idea, it often lacks the many complementary resources necessary for bringing these ideas into fruition (Mosakowski, 1993). Thus the new venture is in continual pursuit of diverse inputs, and is highly dependent on the resources and commitments from several stakeholders (Bruno & Tyebjee, 1982). For instance, it must attract investors and creditors' commitments for its capital needs (Brophy, 1992). It needs suppliers for its material and physical capital, talented employees for managerial and technical expertise, and it needs to win the loyalty of growing numbers of customers to ensure the success of its products and services (Cooper & Gimeno-Gascon, 1992; Greene & Brown, 1997). Therefore, those stakeholders that provide the most vital resources gain the most power over the venture and this makes them the most salient/influential players (Agle, et al., 1999; Freeman, 1984; Frooman, 1999; Mitchell, Agle, & Wood, 1997; Pfeffer & Salancik, 1978).

Value Goals of the New Venture. The new venture is a product of the entrepreneur(s)' goals, effort and values, and, therefore, these have a substantial role in shaping the firm's strategies and success (Begley & Boyd, 1987; Stewart, Watson, Carland, & Carland, 1999). The entrepreneurs' values and perceptions often determine perceived salience of stakeholders. Agle and colleagues (1999) confirm that the leader's values on self-interest versus other-regarding interest influence the firm's interest in catering to non-investor stakeholders.

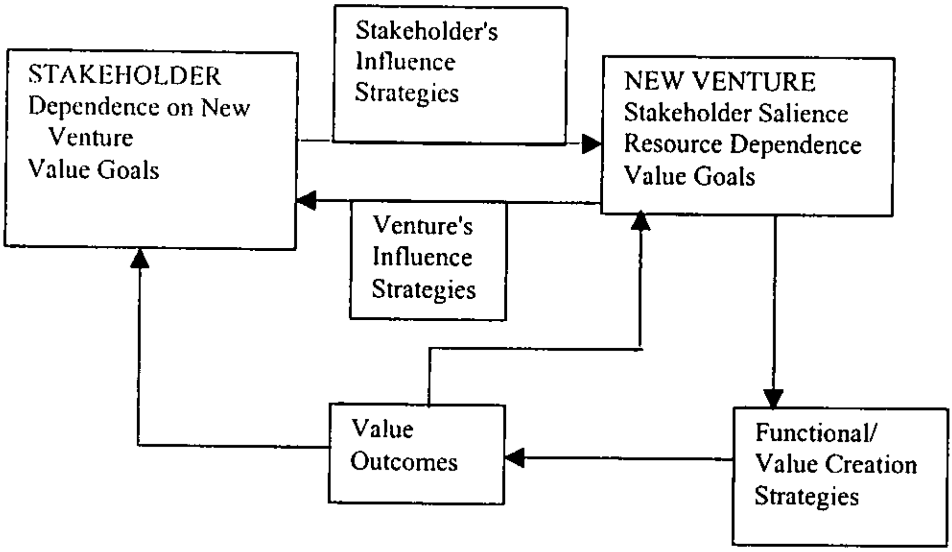
The entrepreneur of this venture is pre-occupied with achieving rapid growth, competitive superiority, economic success, and preparing for the anticipated future of the firm (Lumpkin & Dess, 1996). Her attention is wholly centered on the players that contribute to the venture's growth success. Hence, unless the entrepreneur has strong altruistic motivations to begin with, or is obliged to address these issues, attention to the non-economic value outcomes tends to be minimal. The entrepreneur may consciously or unintentionally defer value enhancement for the less salient stakeholders. Only paying attention to the "stakeholders that matter" seems to make good business sense (Freeman, 1984; Jones, 1995).

Stakeholder Perspective

Stakeholder Dependence. Dependence occurs when the new venture provides essential value outcomes to the stakeholder group and few others can satisfy this stakeholder's value needs. Rephrasing in terms of power, "power is defined in relative terms - that is, A has power over B if B is more dependent on A relative to A's dependence on B" (Frooman, 1999: 196; Lawler & Yoon, 1996). Hence, the venture has greater power and the stakeholder may yield more to the venture under these conditions compared to those where the dependence is more balanced. An example would be a biotech new venture that holds a patent for a new medical formulation for say lung cancer. Assuming that FDA has approved this new drug, the new venture is in a position of advantage when it is negotiating with another firm, say a pharmaceutical company, for assistance in manufacturing and marketing.

Stakeholder Value Goals. Stakeholder literature (Freeman, 1989; Frooman, 1999; Jones, 1995) analyzed the value goals and their priorities for different constituents of the new venture like investors, customers, employees, suppliers communities, and competitors. Agreements and disagreements occur between each constituent's value goals *vis a vis* the entrepreneurs' goals on the one hand and between the goals of the disparate stakeholders on the other. Prior research on large corporations has shown much interest on how low compatibility in goals between a stakeholder and the organization affects their interactions (Freeman, 1984; Frooman, 1999; Oliver, 1991; Pfeffer & Salancik, 1978). Figure 1 presents a general framework that graphically summarizes this papers' view of the possible interactions between the new venture and its stakeholders.

Figure 1: Interactions between New venture and Stakeholders



Within this general scheme, the new venture adopts influence strategies that enable it to pursue those value creation strategies that meet its own value goals. Under certain conditions, the new venture may be obliged to completely concede to the stakeholder demands, and resign itself to receiving a lower share of positive values than the stakeholder receives. But, in the long run the new venture seeks to increase its autonomy from stakeholders with incompatible value interests. As Pfeffer and Salancik (1978) note, "firms do not merely respond ...through compliance to environmental demands. Rather, a variety of strategies may be undertaken to somehow alter the situation....and make compliance less necessary" (pp. 197). Next we elaborate the concept of agreement between stakeholder and new ventures on value goals.

Agreement on Value Goals

Prior research points that the level of compatibility of interests between the organization and its stakeholders strongly influences their interactions (Freeman, 1984; Frooman, 1999; Jones, 1995; Oliver, 1991; Pfeffer & Salancik, 1978). Hence the presence of high versus low agreement regarding the value goals (or the desired value outcomes) between the two parties is an important moderator of stakeholder-and-entrepreneur interactions. For the stakeholders and the entrepreneurs, value goals would match value outcomes when the venture's value creation strategies succeed in achieving the desired values of each group. Here we posit that for the entrepreneurs, the economic value goals of survival, growth and continued profitability

(Shane & Venkataraman, 2000) are primary, along with the non-economic value goal of personal satisfaction (Cooper & Artz, 1995).

STAKEHOLDER INFLUENCE STRATEGIES AND VALUE OUTCOMES

New venture's stakeholder management consists of actions or steps taken by the venture to influence its relations with key stakeholders. As mentioned earlier the underlying purpose of these influence or management strategies is the creation of maximum possible amounts of positive values and minimum amounts of negative values for the firm under the given circumstances. Oliver (1991) identified influence strategies in the context of an organization responding to external hostile pressures. She posits the five strategies of acquiescence, compromise, avoidance, defiance, and manipulation. Similarly, Pfeffer and Salancik (1978) point out that organizations seek to minimize dependence and manage the environment through strategies such as avoidance, compliance, managing by controlling access, and managing and avoiding dependency by actions such as buffering, and diversification.
Drawing from this research, we identify five types of influence strategies that a new venture may adopt to manage stakeholder demands for value creation: 1) compliance, 2) negotiation/compromise, 3) alliances, 4) replacement, and 5) defiance. We interpret these strategies for the purposes of this study as follows:

1. *Compliance* strategy signifies that the new venture consents to fully implement strategies conforming to stakeholder demands. Thus the new venture gives priority to meeting this group's value goals over its own.
2. *Negotiation/ compromise* strategy involves the entrepreneurs bargaining with the stakeholder to persuade it to be less demanding and modify the terms of its value demands. The negotiation may result in a contractual agreement.
3. *Alliance* strategy refers to entering into formal or informal joint ventures, equity stakes, shared purchasing or other types of cooperative arrangements.
4. *Replacement* strategy is adopted when the new venture seeks to procure from others the inputs provided by the pressuring stakeholder to avoid transactions with this group.
5. *Defiance* strategy is adopted when the new venture ignores the stakeholder's value goals and pursues its own.

These strategies can be differentiated on a scale of activism, where activism refers to the extent to which the new venture can exercise its strategic choices autonomously or without concern for stakeholder demands. Compliance would be the least active strategy, while defiance would be the most active. A new venture may adopt one or more of these strategies and also reinforce them with other complementary strategies such as communications aimed at concealing dependence, or for exaggerating the appearance of compliance, or building buffers to reduce dependence on the particular resource provider (Pfeffer & Salancik, 1978). The entrepreneurial venture deals with several stakeholders at any given time and hence tailors the influence strategies to suit the different constituents. In this mix of influence strategies, the new venture will on the whole pursue strategies that minimize its dependence on those stakeholders whose value goals are incompatible with its own.

To illustrate, a new venture may agree with one group of stakeholders, namely, investors' demand for more efficient operations and thus takes steps to reduce new product testing costs. But other stakeholders like the new venture's consumers may view this as being harmful. And this group could experience some value decrease, even if the new product adds value in other ways. Thus the new venture's actions simultaneously affect some groups positively and others negatively. In fact, the same group might receive both positive and negative values. In the case of the new venture mentioned above, employees may receive several job related benefits like better wages and career advancement, when the new venture achieves profitable growth with the new product. However, these employees may at the same time be dissatisfied that the firm is skimping on new product testing.

Overall, the new venture employs different strategies with different stakeholders with the aim of maximizing the positive values created for the firm while minimizing any unavoidable negative consequences. For example, it might comply with the investor group's demands for economy, and also issue communications to customers stressing product's superiority and the venture's concern for product safety. If this communication strategy suffices, economic and non-economic value outcomes could be quite positive for the venture. However, if customers are not satisfied with these moves, they may pressure the venture over time to reverse the cuts, and this could eventually adversely affect the value received by the firm, and another of its stakeholder groups, namely its investors. The following sections explore some of these stakeholder influence strategies in greater detail. We focus on the scenario where the new venture's management and its stakeholders in question have a low level of agreement on the types of values that should be created by the firm.

New Venture Influence Strategies under Conditions of Low Agreement on Value Goals

Situations of low agreement on value goals are clearly less desirable, and scenarios where the firm is highly dependent are particularly problematic and unstable. When stakeholder influence is high, compliance may be unavoidable in the short run, and this imposes substantial costs on the new venture. In the long run, the venture may be able to actions that produce more autonomy from the hostile but dominant stakeholder. Empirical research shows that organizations resist external pressures (Covaleski & Dirsmith, 1988; Powell, 1988) when agreement is low, and resistance is more successful when the dependence is mutual between the organizations so that the power of each is roughly in balance. Ideally, the new firm would like to move to a situation of low dependence. While attempting to reduce its dependence, the firm still needs to pursue strategies that accommodate the interests of a powerful stakeholder.

Overall, the new venture's value goals are constrained by the necessity to interact with powerful and incompatible stakeholders. A new venture in this predicament works hard to change this situation, and tries different solutions. It might disguise its dependence, when it complies, it may pretend to be more compliant than it actually is, build internal buffers to decrease its vulnerability to stakeholder threats, look for powerful and supportive allies, develop substitutes, or seek alternative providers of the specific resources. The following sections describe in more detail the influence strategies attempted by the firm in the four types of low agreement scenarios. Figure 2 summarizes these four situations.

<u>Cell A: Dominant Stakeholder</u>. ***Strategies***. *Compliance* though reluctantly offered is the most feasible option for the firm faced with a hostile and powerful stakeholder. The latter threatens to, or actually withholds valuable financial, material or other resources like legitimacy if the focal firm fails to meet its demands (Frooman, 1999; Meyer & Scott, 1983; Oliver, 1991). The new venture, finding itself vulnerable, complies. For instance, a new software venture that is planning to introduce a promising PC-based computer game will have to abide by the conditions imposed by a dominant producer of operating software for PCs. Compliance may remain 100 percent even in the long run if the applications software venture has few alternatives to this [stakeholder] dominant producer of operating systems. This situation would be particularly unattractive if the dominant company can easily monitor the new venture's actions and punish instances of low compliance. This situation was perhaps similar to that experienced by ISV [independent software vendors] ventures in their relations with Microsoft in the early 1990s when they were trying to bring out new and popular

software applications for the PC. But where the stakeholder's control is not complete, the new venture.

Figure 2: Stakeholder Influence Strategies of New Venture Under Conditions of Low Agreement

Dependence of Stakeholder on New Venture

		Low	*High*
Salience of Stakeholder to New Venture	***High***	***Cell A: Dominant and Incompatible Stakeholder*** Strategies: V complies in short run, uses also buffering and concealment. Long run V seeks replacement of this SH and also alliances with other SHs. Value Outcomes: Higher negative values for V and higher positive value for SH in short run. In long run, positive values may decrease for SH when SH is replaced.	***Cell B: High Interdependence with Incompatibility*** Strategies: V and SH negotiate and compromise in short run. Also use concealment. Long run SH and V seek alliances with other SH, and replacement. Value Outcomes: Positive and negative values high for V and SH. Long run negative values may decrease for both with replacement.
	Low	***Cell D Low Interdependence with Incompatibility*** Strategies: Defiance and minimal exchange in short run. .Long run, SH and V seek replacement. Value Outcomes. Some negative value impacts for SH and V. Long run, net positive values increase for V and SH with replacement.	***Cell C: Dominant Venture with Incompatible Stakeholder*** Strategies: SH accommodates in short run, seeks alliances in long run. V defies SH. Value Outcomes: Limited negative values for V, but negative value high for SH. In long run, SH's alliances may increase negative values for V.

NOTE: V = New venture SH = Stakeholder

may go along with the dominant stakeholder's conditions, but may simultaneously make attempts to reduce its dependence. To begin with, it may make exaggerated statements regarding its compliance with the dominant company's conditions and also "engage in window dressing, ritualism, ceremonial pretense or symbolic acceptance" (Oliver, 1991: 155). Further, the new firm might manipulate communications to minimize the hostile stakeholder's knowledge of its dependence, and where possible it may build buffer stocks. Trust is clearly absent and opportunism is common (Jones, 1995) in such cases. Then the stakeholder may find it necessary to institute monitoring mechanisms to verify compliance by the new venture. This might increase transaction costs for both the stakeholder and the firm (Williamson, 1975). Thus this imposes some negative values for the dominant stakeholder too. In the long run, the new venture will pursue *Replacement* of interactions with the hostile stakeholder. For instance it could seek out other market segments to sell to, invest in internal supply sources, search for alternative suppliers, or develop substitutes to the inputs through its own research and development efforts (Pfeffer & Salancik, 1978). The new venture's attempts may be aided or impaired by the state of interrelations among the various stakeholders (Rowley, 1997) the firm deals. If the venture is dealing with a hostile, powerful and close knit network of stakeholders, then few options to compliance exist either in the short or long run. In fact, as the experience of music industry newcomer Napster suggests, an entrepreneurial venture can jeopardize its very existence if it fails to recognize the potential negative values feared by key stakeholders.

Value Outcomes. The dominant and hostile stakeholder is the primary beneficiary in the interactions with the new venture, and receives significant positive values, though some negative values are incurred in monitoring costs. The entrepreneurial venture's positive values are severely reduced, and in fact, large negative values may accrue. Revenue growth and profitability of the firm may be severely jeopardized by the added costs of compliance. If the firm cannot reduce its dependence on the low agreement dominant stakeholders and if it has few supportive stakeholders, sometimes the firm's survival is jeopardized. Therefore,

Proposition 1: Under conditions of low agreement on values, the dominant stakeholder extracts significant concessions and compliance from the new venture in the short run. In the long run, the new venture will pursue negotiation/ compromise with this stakeholder, and also look to replacement strategies. Relative to the new venture, the hostile stakeholder receives a significantly greater share of the positive value outcomes, but some negative values may accrue to the stakeholder in monitoring costs.

Cell B: High Interdependence. ***Strategies.*** Here the new venture and its stakeholder are equally dependent on each other for satisfying their value goals, but their value goals differ significantly. In this case, in the short run, *negotiation and compromise* are appropriate for both. Because the stakeholder needs the firm to add important positive values, it will exert only moderate pressure. As Frooman (1999) states, this type of stakeholder is likely to provide resources but impose usage conditions - instead of withholding inputs. A hypothetical example would be the case of a new biotech venture that holds a patent on a proven new formulation for breast cancer that has been approved by the FDA for full-scale manufacture and marketing. This drug also promises to be a blockbuster in sales and profit production. This young biotech venture would prefer to go it alone to maximize the returns to itself, but can not pursue this option since it lacks the requisite resources and expertise. Then it would seek the assistance of an established pharmaceutical firm to make and market the new drug. Assume that the mature pharmaceutical firm needs the new drug desperately to replenish its depleting pipeline of lucrative products. Though this company also would have preferred to go it alone with the product introduction, that is not feasible, and hence the two parties need each other in significant ways. These two parties are thus reluctant partners that are mutually dependent in important ways. Then in the short term at least, the two firms may be willing to compromise (Oliver, 1991) and partially accommodate each other's interests. They may enter into a variety of agreements to collaborate, but each would also impose restrictions on the other, fearing opportunistic behavior by the other. They may concurrently use concealment strategies as well. If such arrangements prove unproductive to either of the partners, in the long run they would move towards *replacement strategy*, seeking other avenues for profits and growth and terminating agreements with the incompatible partner as soon as other options become viable. In cases where it is practical, each party may simultaneously try and build *alliances* with other stakeholders in the industry to build support to their demands and pit these influential and more supportive stakeholders against the less friendly party. That is, in such cases the entrepreneurial venture and its incompatible stakeholder would attempt to alter the nature of interactions over the long term. In the event the interactions can not be transformed, the uneasy alliance may continue.

Value Outcomes. In cell B, positive and negative values accrue to both venture and the salient unfriendly stakeholder in roughly balanced proportions. In a situation of mutual dependence, neither can extract an unduly high price in value share. If the firm and the stakeholder reach a stable compromise in the long run and each gives up some values for the sake of a sustainable relationship, then the decreases in negative values may offset the decreases in positive values. Hence, *Proposition 2. Under conditions of low agreement, negotiation and compromise strategy is appropriate for the highly interdependent new venture and stakeholder, but in the long run the venture and its stakeholder would opt for the replacement strategy. The shares of positive and negative values will be relatively balanced to each player.*

Cell C: Dominant Venture. ***Strategies***. *Defiance* is the preferred choice for the venture provided the weak and hostile stakeholder cannot build support from other groups that also interact with the new venture. This is an attractive situation for the new venture because it can act wholly autonomously of this unfriendly stakeholder. But, the stakeholder's predicament resembles that of the dependent new venture in cell A. Hence, *stakeholder compliance* would be in evidence. That is, this stakeholder group accepts the value goals of the new venture, but at the same time it may try to conceal its high dependence on the firm. In the long run the dependent stakeholder tries to increase its autonomy and or increase its clout over the dominant new venture by coopting other powerful stakeholders (Freeman, 1984; Frooman, 1999) through *replacement and alliances*. Success for this stakeholder depends on the density of links in the network of stakeholders and the degree of compatibility between the different stakeholders. An example could be a growing and profitable **e-commerce** company in a slow economy such as in the second half of 2001 - such as Amazon.com when dealing with its technical professional employees. Relative to past, these employees enjoy fewer attractive employment options, and hence while they may not be pleased with the terms offered by the venture's management, they may nevertheless accept them. These professionals would no doubt continue to look for emerging opportunities, and should the environment turn in their favor over time, they would either renegotiate the job conditions or leave this employer.

Value Outcomes. As long as the conditions remain stable, the entrepreneurial venture is clearly in a position to seek and enjoy high positive values, and it is quite likely that it would receive a greater proportion of the total positive values created. In the long run the shares may become more balanced if the stakeholder can alter the situation in its favor. Accordingly,

Proposition 3: Under conditions of low agreement, the dominant new venture may pursue a defiance strategy and refuse to meet the demands of the weak and incompatible stakeholder. In the near term, stakeholder compliance may be in evidence, but in the long run, it may seek replacement of the venture, or increase its salience through alliances with others. Share of the positive value outcomes received by the new venture is significantly higher for the new venture and lower for the stakeholder.

Cell D: Low Interdependence. ***Strategies.*** The new venture and this stakeholder have limited need for each other, and given dissimilar value goals, both would prefer to exit the relationship. The firm would use *defiance* strategy, as would the stakeholder. If *replacement strategy* were possible, entrepreneurs managing the venture would terminate the relationship in the long run. If not, the transaction may remain a simple exchange. ***Value Outcomes.*** Both would receive slightly negative values on a net basis from the interaction, but the impacts on total values added may be minimal. Thus,

Proposition 4. Under conditions of low agreement, in a low interdependence situation the new venture as well as the stakeholder will pursue defiance strategy in the short run and replacement strategy in the long run. Value outcomes are not significantly impacted for either the venture or the stakeholder.

CONCLUSION AND IMPLICATIONS

Literature often addresses product/market strategies of entrepreneurial ventures, but seldom considers strategies required to "manage" stakeholders. Research regarding stakeholders is established in the context of large organizations, yet less studied in the new venture context. While the potential positive and negative effects of stakeholder management may be relatively more visible and consequential when the company is large and well established, such as StarKist (Frooman, 1999), the current growth of technology suggests that a better understanding of influence strategies might enhance new venture survival. Because new ventures face crises of legitimacy and resource scarcity if they choose to grow rapidly, obtaining capital, gaining customer acceptance, and accessing distribution mandates interactions with multiple stakeholders (Bhide, 2000).

Hence, a better understanding of the range of alternatives that a new venture might pursue is of practical, theoretical and empirical interest. Our purpose was to contribute to this gap in literature by outlining various scenarios that posited influence strategies and value outcomes. Further, we sought to go beyond economic value and broaden our understanding of all value outcomes. We began with the premise that new ventures may *at once* create and destroy value as founder's bring their ideas to fruition. We argued that the positive and negative values resulting from the new venture creation process varied for different stakeholder groups and over time.

Propositions put forth in this paper could be explored in greater depth to analyze the variations in interactions and influence strategies that occur for different types of entrepreneurial ventures. For example, when a start-up entrepreneurial venture enters the rapid growth phase, conditions may shift significantly. In particular, as a new venture gains market share, it becomes more visible in the investment community, in the eyes of competitors and of course, suppliers and customers. This enhanced visibility may lead to greater expectations for returns to investors, employee salaries, supplier contracts or to givebacks to society. Impacts of diverse and growing expectations on the new venture may be influenced by the foresight and proactiveness shown by the entrepreneurs in terms of the time or speed with which they identify and respond to the anticipated value demands of stakeholders.

Relatedly, the activities associated with stakeholder influence strategies may take place in arenas other than the marketplace; e.g. legislative, political, or social. With this in mind, it is reasonable to suggest that a variety of capabilities, skills and competencies may be more or less appropriate for these arenas. Resource-based theory and empirical investigations of this perspective show that there are relationships between resource capabilities, expectations of the manager for growth, and strategies (Penrose, 1959; Barney, 1991; Wernerfelt, 1984). Hence, an articulation of stakeholder influence strategies and the associated competencies or resources would be a welcome extension of the current work.

Finally, there may be close correlations between the influence strategies discussed in this paper, and the functional strategies pursued in the new venture. These need to be empirically investigated in order for the entrepreneurs to make effective strategic choices.

In sum, we believe entrepreneurs can achieve greatest possible positive values for their venture when they accurately forecast the stakeholder interaction environment and use this information to fashion influence strategies that prevent antagonizing powerful constituents. In the near term this might sometimes imply they compromise and give up some desired values, yet this may yield better results over the long term.

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