

You Went to Harvard, So What? How Founder Prestige Can Help Start-ups Better Appeal to Job Seekers and Recruit Them at Lower Cost

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“You can dream, create, design, and build the most wonderful place in the world... but it requires people to make the dream a reality.” - Walt Disney

As noted by Walt Disney, people are integral to building a successful business. This is especially the case for start-ups since they lack other forms of resources such as reputation and financial capital. However, hiring talent is a particularly challenging task for start-ups for several reasons. First, unlike large and established firms, start-ups cannot pay their employees high salaries and large bonuses. Second, start-ups cannot rely on their reputation to attract job seekers. Third, job seekers often view a job at a start-up as less secure. In fact, according to a survey by Silicon Valley Bank of more than 1,000 start-up executives, more than 90 percent of the respondents stated that they find it challenging to hire talent.

Given the importance of people for start-ups and the disadvantages they face in attracting talented individuals to join them, what can start-ups do to hire talented employees?

One strategy may be to target young people such as recent college graduates. Young people may be particularly attractive to start-ups as they tend to demand lower salary, have higher tolerance for risk, and enjoy working in a dynamic and flexible environment.

However, although young people may be more willing to join start-ups, how can start-ups effectively signal their quality and convince young individuals to join them over others? Answering this question is particularly challenging given that job seekers have limited sources from which to obtain information about start-ups. In our study, we find that having a founder with a prestigious background can be one way to attract young job seekers to join your start-up.

Whether it is worthwhile for entrepreneurs to obtain prestigious credentials such as education from an Ivey League school or a work experience from a prestigious employer is an ongoing debate. On the one hand, stories of well-known entrepreneurs with prestigious credentials such as Bill Gates, Mark Zuckerberg,

Sergey Brin, and Larry Page seem to suggest that having prestigious credentials may be beneficial. In fact, whenever we visit a start-up's website to read about the founder(s), it is easy to find them highlighting their education and work experience from prestigious institutions

Despite the apparent value entrepreneurs and the media seem to place on prestige, not everybody agrees. Vivek Wadhwa, a Distinguished Fellow at Harvard Law School argues that there is no value in attending prestigious schools for those who aspire to be entrepreneurs as he failed to find large differences in the performance of ventures founded by those with Ivy League education and those without. Others who side with Mr. Wadhwa also cite the fact that entrepreneurs do not need to appeal to employers who may use the prestigious background information to make hiring decisions. The arguments against the importance of prestige also seem to make sense as some of the world's most famous entrepreneurs such as Richard Branson, the founder of the Virgin Group, as well as David Karp, the founder of Tumblr are high school dropouts who don't have such prestigious credentials.

In our study, we asked 80 undergraduate business students who are nearing graduation to evaluate a start-up whose founder differed only in terms of the level of prestige associated with their education and work experience. The results showed that, compared to an otherwise identical start-up, a start-up with a prestigious founder scored about 17 percent and 29 percent higher in intention to apply and organizational attractiveness, respectively. Not only that, but the students were also willing to accept about 12 percent lower salary to work for a start-up with a prestigious founder.

While the findings are great news for those who have prestigious backgrounds, what can entrepreneurs do if they lack such prestigious credentials? Fortunately, there is a way for those without such prestigious credentials to overcome the disadvantage. In follow-up studies, we recruited an additional group of 160 students to understand how founder prestige attracts job seekers. The results suggest that founders can substitute for a prestigious education and work experience with other forms of personal achievements such as placing well in a pitch competition and having successful entrepreneurship experience. On the other hand, highlighting the achievements of the venture such as reaching the break-even point, obtaining significant venture capital funding, hiring many employees, and being featured in a business magazine did not replace the benefits of having a prestigious founder.

Being able to hire talented employees is critical for a start-up's success.

However, we should also remember that it is a necessary but not a sufficient element for building a successful start-up. Successful start-ups will not only hire talented employees but also complement them with a clear vision and innovative products.

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