

# Sport Startups

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# **Sport Startups: New Advances in Entrepreneurship**

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## Chapter 1

# Sport Startups: What are They?

### Abstract

Sport startups are a specific form of new business venture that enters the market in a fast manner. There has been more emphasis on sport startups due to the need to capitalize on innovations particularly digital types in the global business environment. The increased competitiveness of the sport industry has meant a need for startups to fill gaps in the marketplace. As a result, more entrepreneurs have become interested in startups due to the way they offer quick market entry, which is particularly important in dynamic environments. This chapter highlights the role of sport startups in the global economy by focusing on their advantages in terms of usefulness thereby offering a new theoretical and practical approach.

*Keywords:* Business; digital economy; digitalization; entrepreneurship; global business environment; sport; sport management; startups; ventures

### Introduction

Since the digitalization era began, entrepreneurs have become more focused on sport ventures and have developed a keen interest in trying to start these kinds of businesses (Witt, 2004). This has resulted in the sport industry beginning to capture the imagination of entrepreneurs and scholars as an important market ripe for new growth opportunities. Over the past decade, the sport industry has been a major recipient of technological innovation, which has meant that inventive approaches to delivering new sources of value creation are important to its ongoing viability. In addition, several new trends in recent years have been changing the ways business is done in sport. This is due to the rapid advancement in digitalization providing tremendous new opportunities for sport business with information and communication technology evolving to make it easier to be a sport startup. Moreover, most people in the world have internet access making mobile commerce an important source of new sport-related business ideas.

As entrepreneurship scholarship expands its reach to sport, it is time for sport startups to be at the forefront of research discussions. This will change existing mainstream research and theories related to entrepreneurship and sport. As there is a paucity of studies on sport startups, there are multiple avenues for discussion so the objective of this chapter is to inspire sport and entrepreneurship scholars to adopt startups as a new research context.

This chapter is structured as follows. First, the role of startups in the global economy is discussed in terms of how they are defined and conceptualized. This leads to a focus on the role of sport innovation in impacting the development of sport startups. Next, the importance of maintaining and managing stakeholder relationships in the sport ecosystem is highlighted that reflects the importance of sport in society. The contributions of the book in terms of theory, education and practice are then addressed.

### **Startups**

Startups is a new word that is becoming more popular in society (Bliemel, Flores, De Klerk, & Miles, 2019). This is due to the need to start quickly businesses that respond to current social needs. The idea behind a startup is that a business idea can enter the marketplace in a quick manner thereby enabling the testing of ideas in an efficient way. In the past, entrepreneurship was considered as a bureaucratic process that required compliance with laws and regulations. While startups also comply with necessary standards, they can act in a more flexible way depending on market circumstances. This enables a startup to normally imply a low level of investment that is indicated by their more temporary nature.

Startups can be broadly defined as the creation of a new business in a quick manner. Previously it normally took some time for businesses to start due to the need to find a physical space and pass regulatory checks. With the advent of the internet and online commerce, startups have emerged as a fast way to establish a business. This has meant that startups are needed in today's global economy that is characterized by time-based competition. The advantage of startups is that they can quickly test market potential by offering new products or services. This enables the process of establishing a business to be fast and enables ideas to get into the marketplace.

Startups are normally small but can develop into larger organizations if they find success in the market. In addition, startups are agile and flexible in terms of being able to change based on customer feedback. This enables startups to trial the market and gather market intelligence before fully entering the commercial world. Normally most startups tend to be in the technology sector although they can also be in other sectors such as food and tourism. The entrepreneurs involved in startups tend to have a specific purpose in mind when they begin the startup, which helps them to focus on key markets (Coelho, Marques, Loureiro, & Ratten, 2018).

Compared to other types of business ventures, startups tend to have specialist knowledge that enables them to develop products at a faster rate. This is important in the technologically turbulent environment. This permits startups to

produce more creative business models due to their ability to be flexible. Large corporations tend to partner with startups to obtain their innovations as it can be more cost efficient in terms of assessing new ideas (Ellwood, Grimshaw, & Pandza, 2017). It also benefits the startup as they receive help and advice from the larger company.

Sport organizations are developing a portfolio of activities related to innovation and create startup companies around these ideas (Kim, Chiu, & Chow, 2019). The success of an innovation approach in sport plus the nimbleness of startups has led to more focus on startups. In order for a startup to progress in the market, entrepreneurs are needed in order to leverage capabilities (Miller & Bound, 2011). This means entrepreneurs are able to attract the right people for the sport startup and manage expectations. This can be a hard process as startups need to balance financial and strategic goals. This means putting innovation into practice by actively managing growth (Dierickx & Cool, 1989).

There is a difference in opinion about the failure rates of firms in the global economy. Much depends on the definition of failure and the time spans imposed. In some countries, failure can be a badge of honor, while in other cultures, it can be a stigma. In the United States, there has tended to be more acceptance of failure because of the need to try multiple times in order to succeed. This has led to a more entrepreneurial culture that accepts failure as a part of doing business. Other countries such as the United Kingdom have tended to be less accepting of failure although this has changed in recent years. Part of the reason for this change has been an increase in the popularity of entrepreneurship and the startup culture. This is evident in shows like the *Apprentice* and *Dragons Den* highlighting the importance of entrepreneurs in society.

The actual proportions of businesses that fail change over time depend on market conditions. This has resulted in no consensus about the actual rates of failure. This means that the first year of a business's operation is the most important. As a result, the rate of startups has increased due to the focus on the first stage of a business's lifecycle. Kirchhoff (1997) suggested that 44% of firms succeed and this tends to be an optimistic rate. However, failure is not necessarily a negative thing as it can lead to subsequent business success. This means there should always be a degree of experimentation in terms of new business development. In addition, some businesses cease trading not because of failure but because of a multitude of other reasons such as retirement and lifestyle factors. Thus, failure needs to be considered not as just financial unfeasibility but also as social unfeasibility. This is due to technological change making some businesses obsolete in the global economy. Headd (2003) suggested that one-third of businesses were profitable when they closed. This means there are other factors such as a lack of suitable premises or people that make a business close.

Prior to undertaking any type of financial arrangement, a sport startup needs to engage in a process of due diligence. This means checking facts and figures to make sure they are accurate. To do this requires the help of accountants and lawyers who can forensically examine key documents. This helps to ascertain the validity of what is reported is actually a true representation of the facts. The due diligence process also focuses on intellectual capital such as patents and

copyrights to ensure they have been filed in a proper manner. In addition, the backgrounds and professional qualifications of individuals need to be checked. Part of this process can also involve checking with customers and suppliers in order to better understand the supply chain.

Founders of startups need to ensure they build their businesses in a responsible manner and are not overconfident. This is due to mistakes being made when individuals are overconfident and do not consider other factors. Overconfidence can be characterized as predictive or personal (Sarasvathy, Menon, & Kuechle, 2013). Predictive overconfidence involves overestimating a favorable outcome (Griffin & Varey, 1996). This can be detrimental to startups as it leads to complacency. For this reason, it is important to be on the lookout for risks or other factors that might impact the progress of a startup. By taking a cautious approach, it can lead to a better long-term performance for the startup. In addition, instead of predicting events, founders of startups need to focus on the reality and what is actually occurring in the marketplace. This means not looking too much to the future but taking each day as it comes and focusing on the current market conditions. This will lead to a more credible and safer outcome. The other type of overconfidence is personal. Personal overconfidence is defined as “the overestimation of the validity of one’s judgement” (Griffin & Varey, 1996, p. 228). People can think they have all the necessary tools and skills to run a business. However, in most cases this is not true as there will always be new updates that they need to keep up-to-date with such as new economic policies. This makes it important for startups to think in a holistic manner about what kind of professional help such as accountants they need for their business. This will lessen the emphasis on one individual and instead take into account other people’s opinions.

Startup founders need to be resilient in order to overcome obstacles and hardships they face. This means adapting to new situations by transforming their initial business ideas. This will enable more positive outcomes to emerge. As startups are often vulnerable due to a lack of market knowledge, they need to be resilient. Some entrepreneurs are more resilient than others, and this will influence how many startups they start. In times of market uncertainty, there may be a need for more startups to emerge in the global economy. This is due to the need for entrepreneurship as it brings life to economies.

Startups are a form of entrepreneurship and enable communities and regions to grow. The concept of resilience is important in understanding the success rate of startups. This is due to resilience meaning preparedness and persistence in times of uncertainty. When entrepreneurs have more self-efficacy, they are likely to be more involved in startup activity. This is due to startups requiring individuals to have a self-belief and independence in their business idea. By fostering resilience, it enables startups to adjust to new circumstances and contribute to more long-term innovation.

Dynamic capabilities are needed in startups in order to adapt to the marketplace. Broadly defined, dynamic capabilities in startups involve abilities to change based on market need. Conboy, Mikalef, Dennehy, and Krogstie (2020) suggest dynamic capabilities involve three main distinct activities: sensing, seizing and transforming. Sensing means searching for opportunities then scanning the environment for

their potential. This involves a degree of exploration to find relevant opportunities. Seizing means taking advantage of an opportunity when it presents itself in the marketplace. This involves investing in certain technologies and equipment that are needed to make the opportunity a reality. Transforming involves changing existing business models in order to derive new ones. This includes continually adapting a business idea in order for it to fit better into the marketplace.

Startups can pave the way for a more flexible and dynamic society built on the basis of innovation. Despite the proliferation of studies on startups, the term startup remains poorly defined. This is due to startups being referred to as any kind of quick and new business activity. Startups engage in a continual process of innovation based on acting boldly without exhibiting any limitations. This means a startup can learn through economic changes how it can fit better into the market climate.

Contemporary entrepreneurship practices have acknowledged startups as a key strategic asset for the sport industry. Sport startups comprise three interconnected by distinct elements: sport, entrepreneurship and competitiveness. The value derived from these elements is evident in the way sport startups contribute to global economic development. The concept of sport startups is significant for practitioners as it is related to the effectiveness of entrepreneurship, innovation and competitiveness, marketing activity and customer interest. The way to measure sport startups is still inconclusive and is a broad term used to describe sport-related businesses that have begun in a quick manner. This means the measurement and theoretical foundation of sport startups is still vague and needs further attention. There is no agreement in the literature as to whether sport startups are different to other types of startups. This means there is some hesitation about which measurement approach is better for evaluating sport startups. Most approaches tend to focus on financial-based views that consider profitability and growth as the key measurement items. Other approaches use a learning perspective for understanding sport startups and focus more on customer-based approaches such as value co-creation.

## **Sport Innovation and Services**

Sport startups involve some form of innovation whether it be radical or incremental. Radical innovation results in a big change to existing sport services and normally requires fundamental industry change. For this reason, incremental innovations are more common in sport startups as they focus on smaller changes. [Thornhill \(2006, p. 689\)](#) describes innovation as “a strategic choice—a firm level behaviour that is an outcome of firm and industry level characteristics as well as a determinant of firm performance.” Entrepreneurship research has flourished in recent years due to the emphasis on global issues such as innovation and sustainability. This has resulted in an increased interest in what entrepreneurship is and how it can be studied in different contexts. [Shane and Venkataraman \(2000, p. 218\)](#) view entrepreneurship research as “the scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated and consequently exploited.” Sport startups are a form of entrepreneurship as they enable bricolage to be conducted. The concept of bricolage is

useful in times of market and technological turbulence (Wu, Liu, & Zhang, 2017). This is due to bricolage referring to “making do with whatever is at hand by reuse and recombination” (Baker & Nelson, 2005, p. 333). Bricolage enables viable solutions to sport startups in times of resource and market constraints. This means sport startups can use bricolage as a way to innovate using new materials.

Bricolage allows sport startups to improvise and use whatever resources are available. This enables them to cope in times of uncertainty by facilitating new product outcomes. This can let them satisfy immediate needs using available resources. However, there have been criticisms of bricolage due to its association with second best solutions. This is due to the perception that the use of available resources might not present the most optimal solution in that it results in imperfect products. This is not always true as bricolage can result in good results that are achieved through previously unconsidered means. Thus, there may be a need for sport startups to use bricolage to conduct more experimentation. This can be achieved through trial and error learning or constant testing.

Due to shifting economic conditions there is more dynamism existing in the sports sector (Molan, Kelly, Arnold, & Matthews, 2019). Dynamism is defined as “the degree of uncertainty and turbulence in market and industry conditions including the state of technology and overall economic performance” (Thornhill, 2006, p. 690). This means there is a high level of uncertainty about future market conditions, which makes sport startups focus on innovation. As more technological innovations enter the market, sport startups are alert to their market potential. This helps to build a sport startup’s innovation capability in order to maintain or improve their competitive position. Some sport startups are better at innovation and this is reflected in how rapidly they can bring innovations to the marketplace. Thereby the rate of inventive output is higher in sport startups that focus more on innovation.

It can be hard to measure the quality of sport services due to differences in opinion about what makes a service good (Pedersen, 2013). For some, having a variety of services means good quality, while for others the level of attention to detail is important. This means when implementing quality initiatives some thought is required in terms of what makes a service good. Services are different to manufactured goods but are an integral part of the sport industry. Chelladurai and Chang (2000, p. 2) state that “services differ from manufactured goods in terms of how they are produced, consumed and evaluated. More specifically, services are intangible, heterogenous, and they are produced and consumed simultaneously.” Sport services can be divided into participant and spectator services (Chelladurai, 1992). Within participant services they can be further divided into consumer-pleasure, consumer-health/fitness, human skills, human excellence, human sustenance and human curative (Chelladurai & Chang, 2000).

The customer services quality scale was developed by Howat, Absher, Crilley, and Milne (1996) as a way to measure sport services. This scale focuses on four key aspects of service delivery in sport: core services, staff quality, general facility and secondary services. Core services involve the essential elements covered by a sport center, which include comfort and value. This helps to understand customer perceptions about the range of activities covered at the sport facility (Vamplew, 2019).

Staff quality involves the knowledge and responsiveness shown by staff members. This is important in evaluating how much information staff are willing to share with customers. General facility means the common services available to all customers of a sport center, such as cleanliness. In addition, other aspects such as parking and storage might be deemed as relevant. Secondary services involve other services that are provided at cost to customers such as childcare and food services. Providing services in a sport club involves a system approach as commitment is needed to ensure all services are designed together in a satisfactory manner.

Anton, Camarero, and Laguna-Garcia (2014, p. 4) described satisfaction as “a post-purchase evaluation made by consumers concerning their experience with the product and emerges from comparing the latter with previous expectation.” This means that the level of satisfaction perceived by a consumer influences the amount of repeat business. Thus, satisfaction is important in affecting loyalty rates and subsequent economic performance. Consumers are likely to be more satisfied when their expectations have been achieved. This enables them to be pleased with a service or product based on their engagement in stakeholder relationships (Vereb & Ferreira, 2018).

## **Stakeholder Relationships**

Stakeholder relationships can be used to identify and implement opportunities for innovation (Phillips, Alexander, & Lee, 2017). The opportunity identification process includes a number of steps from accessing new markets to sharing risk. Relationships are needed in order to understand the potential of new markets and then to access relevant market information. This involves cultivating relationships with key stakeholders such as government institutions and public agencies in order to facilitate market entry (Pitelis, 2012). To do this, support is required from local communities and organizations. This will enable partnerships to develop that minimize risk. After an opportunity has been identified, steps then need to be taken in order to implement the solution. This involves developing knowledge about the relationships required in order to access the market (Roundy, 2017). These relationships can provide relevant knowledge and support the development of new skills.

Stakeholder relationships provide a source of shared value as they are based on common goals (Sunder, 2016). Creating value through sport innovation is important. The way value is defined depends on its context. Generally, value is associated with a particular outcome in terms of satisfaction. Value is defined as a “consumer’s overall assessment of the utility of a product based on a perception of what is received and what is given” (Zeithaml, 1988, p. 147). This means the concept of value is often subjective and hard to assess (Trieu, 2017). One way to understand value is to contrast the perceived benefits/advantages with the perceived sacrifices/loses (Monroe, 1991). This will enable a better understanding of what has been achieved in terms of its usefulness. When an individual is satisfied with what they have received or achieved they are likely to consider that as indicative of a value creation activity (Ratten, Costa, & Bogers, 2019). Satisfaction is defined as “a judgment that a product/service feature, or the product or service itself, provided (or is

providing) a pleasurable level of consumption related fulfillment, including levels of under- or over-fulfillment” (Oliver, 1997, p. 13). In a sport startup it is important to understand whether consumers are satisfied with the idea in order to facilitate the development of more sport startups.

Sport startups facilitate stakeholder engagement through the use of social networks that can be characterized by their transactional content, nature of the links and structural characteristics (Tichy, Tushman, & Fombrun, 1979). The transactional content refers to four main types of exchange such as expression of affect, influential affect, firm formation exchange and type of exchange. This means that in every social network there is a reason or motive behind the information being exchanged. This can occur through direct or indirect means depending on the intent of an individual. The nature of the links in a social network can be differentiated by intensity, reciprocity, clarity of expectations and multiplexity (Tichy et al., 1979). The intensity refers to the frequency and type of interaction occurring between individuals in a network. For some the intensity is high due to repeated interactions that occur on a daily basis. This means there is a likelihood that the interaction is required in order to fulfill societal or personal obligations. Reciprocity means that the information is exchanged based on mutual need. This means there is an emphasis on some form of exchange after an initial exchange has taken place. This perception helps to build a continual relationship. Clarity of expectations refers to how clearly individuals express their intentions and motivations. This helps to define the expectations others consider appropriate in the relationship. By having clearly expressed goals, it can help to build a better relationship. Multiplexity refers to how individuals are linked to others in a network based on multiple relationships. In some social networks, there can be a high level of interaction among network members reflected in the need to continually exchange information. The number of linkages in a network may also reflect how open or close the network is in terms of enabling new members to join. Structural characteristics involve size, density, clustering, openness, stability, reachability, centrality, star, liaison, bridge, gatekeeper and isolate (Tichy et al., 1979). Size refers to how big in terms of number of participants or geographic location. Some social networks are larger than others due to the number of people engaging in activity. Density refers to the level of connectedness in the social network. This involves focusing on which linkages are most important or result in the flow of useful information. Clustering refers to the number of dense relationships existing in a network. This can include industries, individuals or firms collectively sharing specific knowledge.

Openness indicates how freely people in a network share information or encourage the input of others. Due to intellectual property and copyright restrictions, not all information can be shared. Thus, it is up to network members to consider what type of information they feel comfortable sharing. Stability indicates whether a network stays the same or changes over a period of time. More stable networks have the same members interacting in a similar way. This helps to bring a sense of confidence to the relationships in the network. Reachability refers to whether others in a social network can contact each other. This impacts the way a network develops in terms of providing greater accessibility for network members.