Frontiers of Entrepreneurship Research

Volume 35 | Issue 16
CHAPTER XVI. ENTREPRENEUR OTHER

Article 11

6-13-2015

FOUNDER INVOLVEMENT IN RESEARCH AND DEVELOPMENT: IMPLICATIONS FOR FIRM SURVIVAL AND GROWTH (SUMMARY)

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SUMMARY

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Principal Topic

Many new firms are created by founders with sophisticated technical skills. But founders' focus of attention and responsibilities may change when the firm progresses along its life cycle. The objective of this paper is to investigate to what extent the involvement of founders in R&D activities changes over the life cycle of a firm and how such changes impact the success of that firm.

Method

Our analysis is based on information for all German firms founded in knowledge-intensive industries between 1998 and 2007 for which we have annual information from start-up to 2007. We combined firm-level data from the Mannheim Enterprise Panel, which contains detailed firm characteristics such as name of the owners and managers, turnover, employees, and legal form with patent data to arrive at a final sample of 1466 firms, which have at least one patent application.

Results and Implications

Applying event-history techniques, we find that firms with a founder involvement in R&D activity survive longer compared to firms without founder involvement. Using quantile regressions, we observe that founder involvement spurs growth for firms in medium and higher growth trajectories. Thus, there is no tradeoff in terms of growth between founders who remains active in research versus ones who focus on the general management. We further provide insights into the operating mechanisms by interacting founder involvement with external investors. A VC investment positively moderates the impact of founder involvement in the middle and high growth-quantile, whereas we find no such interaction effect for other equity investors. Hence, for fast-growth firms, VC-financing is best leveraged when it supports the founder to continue inventive activity.

Our results offer various implications for the entrepreneurship literature. We build on and extend competence-based theory by offering a framework in which particularly the idiosyncrasy of founders' technological competence is a key success factor for firms. In addition, we link competence-based theory with the 'founder's dilemma' according to which founders need to decide between keeping control or growing the firm. Our results indicate that though founders give up control when accepting VC, the positive effect of founder involvement in R&D is leveraged.

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