THE IMPACT OF START-UPS INITIAL FINANCIAL STRATEGY ON THEIR PERFORMANCE (INTERACTIVE PAPER)

Arnout Seghers
Ghent University, Belgium, Arnout.Seghers@UGent.be

Recommended Citation
Available at: http://digitalknowledge.babson.edu/fer/vol30/iss2/7

This Interactive Paper is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
INTERACTIVE PAPER

THE IMPACT OF START-UPS INITIAL FINANCIAL STRATEGY ON THEIR PERFORMANCE

Arnout Seghers, Ghent University, Belgium

Principal Topic

Finance decisions are key decisions made by entrepreneurs, which bear significant implications for the operations, risk of failure, performance and future growth potential of ventures (Michaelas et al., 1999; Cassar, 2004). Researchers traditionally assume that cash flow constrained ventures experience difficulties in their development and growth if they are unable (e.g. Hubbard, 1998) or unwilling (e.g. Kaplan and Zingales, 1997) to attract sufficient external financing. More specifically, due to problems of adverse selection and moral hazard (Gompers, 1995), investors may ration capital and ventures may only be able to obtain certain types of funding (Carpenter and Petersen, 2002). As a result, entrepreneurial ventures often face financing constraints that may lead to underinvestment problems (Hubbard, 1998) and thereby constrain growth (Carpenter and Petersen, 2002).

A firm’s initial financial resources may hence imprint their mark on the firm’s other resources and capabilities and ultimately on firm performance. However, much remains to be discovered on the relation between a firm’s initial resources and performance (Cassar, 2004).

In this study we will examine whether the initial financial strategy of the start-up company has an impact on the start-up performance.

Method

In order to test the research question a longitudinal research design is used combining data from different sources so as to avoid common method problems. First, financial strategies are measured through a questionnaire that has been sent in 2005 to a sample of Belgian ventures founded between October 2003 and October 2004. A total of 119 usable questionnaires were returned.

Second, survey data on the financial strategies are supplemented with data from the 2004-2008 financial accounts of the start-up companies.

We use several output and performance measures as dependent variables. The type of financier and the amount and type of the firm’s financial resources are independent variables. Numerous control variables are included, a.o. characteristics of the entrepreneur, and characteristics of the start-up.

Results and Implications

The results indicate that the start-ups were primarily funded with equity and to a lesser degree with debt. On average the entrepreneurs possess 80% of the shares. VC’s/BA’s, pension funds, banks and insurance companies possess only a very limited portion of the shares. This paper will contribute new insights to the start-up financing literature.

CONTACT: Arnout Seghers; Arnout.Seghers@UGent.be; (T): +3292643507; Ghent University.