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MITIGATING THE LIABILITY OF NEWNESS: ENTREPRENEURS IN AN ONLINE PEER-TO-PEER LENDING MARKET (SUMMARY)

Jay O'Toole

University of Wisconsin-Madison, jotoole@bus.wisc.edu

Michael P. Ciuchta

University of Central Florida

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≈ SUMMARY ≈

**MITIGATING THE LIABILITY OF NEWNESS: ENTREPRENEURS
IN AN ONLINE PEER-TO-PEER LENDING MARKET**

Jay O'Toole, University of Wisconsin-Madison, USA
Michael P. Ciuchta, University of Central Florida, USA

Principal Topic

New ventures must compete for scarce resources and often face a liability of newness (Stinchcombe, 1965). Whereas much of the research on the liability of newness contrasts young versus old organizations, we examine whether similar mechanisms apply to organizations that do not yet exist. We focus on these yet-to-be organizations' ability to garner support from key resource providers. In addition, whereas prior research has examined the likelihood of garnering stakeholder support primarily as a function of how stakeholders perceive opportunities (e.g., Zacharakis & Shepherd, 2001; Choi & Shepherd, 2005) we focus on the actions that can be taken by would-be entrepreneurs during the resource seeking process itself to mitigate their underlying disadvantage (Wiklund et al., 2010).

Method

We test our hypotheses using a sample of 512 peer-to-peer online loan applications downloaded from the Prosper.com web site. Online peer-to-peer lending markets enable borrowers and lenders to engage in credit transactions, thereby cutting out more traditional middlemen such as banks and credit unions. It is a nascent but growing industry. The data contains descriptions connected to the loan requests as well as important data points for lenders (e.g., credit grade, debt-to-income ratio, homeownership, etc.). Data also includes key outcome measures such as the number of loan bids and dollars received, and whether the loan request was funded.

Results and Implications

Our study explicitly examines the support garnered from a unique sample of stakeholders. Whereas much important prior work has studied the support generated from high profile stakeholders such as venture capitalists, it is well known that most new ventures obtain funding from more mundane sources. Importantly, in these more common settings entrepreneurs compete for resources not just with other entrepreneurs but with existing organizations as well. Our study offers insights as to what actions might prove advantageous to entrepreneurs during the resource seeking process itself. Our study also contributes to theories of entrepreneurship that demonstrate that the liability of newness is a relevant perspective but one that has important boundary conditions. We offer mixed evidence that entrepreneurs can employ buffers to mitigate the liability of newness.

CONTACT: Jay O'Toole; jotoole@bus.wisc.edu; (T): 608/554-4608; 975 University Avenue; Suite 5268; Madison, WI 53706.