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Creating Innovative New Firms: Is Less More?

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Principal Topic

Innovative start-ups play an important role in the economy as they create new industries as well as revitalize and reshape existing ones. A minority of innovative start-ups, however, manage to survive (e.g., Nesheim, 2000). An important reason for low survival rate is that innovative start-ups, almost by definition, lack the resources they need to successfully develop and commercialize their new product or service. Hence, a critical capability of nascent entrepreneurs is to organize access to and manage the resources required to achieve the goals of the fledgling firm. However, scarcity and resource constraints may also give start-ups a competitive advantage. Necessity may spur creativity and result in the discovery of technologies, product designs, and business models that outsmart incumbent competitors (e.g., Baldwin, 2010). This paper contributes to the debate on the value or the liability of slack versus scarce resources by focusing on the gestation and the start-up phase of innovative new firms. In particular, little is known about how innovative start-ups accumulate (human, financial, physical, and social) resources over time. Hence, this study asks the following questions: how do innovative entrepreneurs build their firms in terms of resource accumulation, and what are its implications for the ability of firms to become profitable and to survive?

Method

To address our research questions and apply our sequence analysis we use data from all five waves of the Panel Study of Entrepreneurial Dynamics II (PSED II). To analyze the data we have reduced the heterogeneity of the gestation processes by distinguishing specific clusters of gestation processes. The input for the cluster analysis is a matrix of Levenshtein distances that reflect the interval-level measures of resemblance/distance between sequences (Brzinsky-Fay, Kohler, and Luniak, 2006; Salvato, 2009).

Results and Implications

Our study makes important scientific contributions. First, by focusing on the resource accumulation of nascent firms over time, we provide a theoretical and empirical contribution to the literature on the role and the value of slack versus constrained resources. Second, by applying a novel methodological approach, this paper provides a better understanding of the gestation process and contributes to and extends process theories.

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