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RAPID GROWTH AND NEW VENTURE FAILURE (SUMMARY)

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≈ SUMMARY ≈

RAPID GROWTH AND NEW VENTURE FAILURE

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Principal Topic

In this paper, we introduce an additional reason for new venture failure that has been given little attention in the literature; liquidity problems that arise when new ventures ‘take off’ and enter a phase of exponential growth. We address this gap by integrating the more-recent research on new venture liability of newness (Shepherd, Douglas and Shanley, 2000; Wiklund, Baker, Shepherd, 2010) with the literature on new venture growth (Davidsson, Steffens and Fitzsimmons 2009). Drawing upon literature within financial accounting and research in marketing on new product diffusion patterns, our paper problematizes why seemingly successful new ventures might be suddenly blindsided by extreme liquidity problems and subsequently experience “death by success”.

Methods

We use a database on all new privately owned independent incorporated firms in Sweden, with full accounting data for these firms. We model the risk of financial imbalances and implications of liability of newness for new firms for the period 1995 to 2002. Empirically, we use hazard models to test hypotheses concerning the effects of financial imbalances related to (i) accounts payable, (ii) accounts receivables, and (iii) stock turnover on new venture survival.

Results and Implications

Our research contributes to the discussion on new venture failure in the management sciences by explicitly integrating the role of financial imbalances as an important but unrecognized ‘liability of adolescence’ for high-growth firms. Empirically, we show that unlike other new venture risks that decline as time passes and as sales accumulate, ‘financial imbalances risk’ appears and becomes critical at a later juncture when the firm is growing rapidly and seems to have already become successful. Theoretically, this suggests several important avenues to integrate research in accounting into the rapidly growing entrepreneurship field. Even though markets, products and management skills are important new venture liabilities, future research would benefit from learning more about the financial risk strategies used by entrepreneurs in high-growth firms.

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