ORGANIZATIONAL EMERGENCE: THE IMPACT OF ENTREPRENEURS' BEHAVIORS ON EXTERNAL FINANCING (SUMMARY)

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Recommended Citation
Frid, Casey; Schjoedt, Leon; and Gartner, William B. (2012) "ORGANIZATIONAL EMERGENCE: THE IMPACT OF ENTREPRENEURS' BEHAVIORS ON EXTERNAL FINANCING (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 32: Iss. 3, Article 9.
Available at: http://digitalknowledge.babson.edu/fer/vol32/iss3/9

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SUMMARY

ORGANIZATIONAL EMERGENCE: THE IMPACT OF ENTREPRENEURS’ BEHAVIORS ON EXTERNAL FINANCING

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Principal Topic

This study investigates whether and, if so, when nascent entrepreneurs receive money from outside investors relative to other start-up activities undertaken during the venture creation process. By mapping individual start-up actions over time we provide a window into the micro-foundational behavioral variables that underlie financial resource acquisition.

Method

The Panel Study of Entrepreneurial Dynamics II (PSED II) tracks 1,214 individuals starting new ventures in the United States from 2005 to 2011. Respondents report the month and year of completion of 39 discrete start-up activities. Through life tables, we explore the shape of individual hazard functions (the probability that an individual will experience a target event) to create a statistical model for studying hypothesized relationships between the receipt of external funding and predictor variables. The target event in this study is receipt of external funding, the starting point for each trajectory is the date of the start-up’s conception, and time is measured in monthly intervals.

Results

Previous research on external financing has found that tangible organizing and marketing activities attract outside investors. This study finds that a majority of nascent entrepreneurs have developed prototypes, patents, and promotional strategies only after receiving external financing. Furthermore, it is only after receipt of external funds that 33 percent of nascent entrepreneurs formalize financial projections, and 50 percent devote full-time to the venture. Yet, on average, nascent entrepreneurs receive outside investment late in the start-up process. Overall, 343 (28.3 percent) respondents have sought external financing and 243 (20 percent) have received it. The average length of time from conception of the business idea to external financing is 2 years, 5 months. The successful creation of a new firm occurs 8 months after financing, while abandoning the start-up occurs 2 years, 5 months later.

This study sheds light on the individual heterogeneity of actions undertaken during the creation of a new venture, one of the micro-foundations of entrepreneurship. By mapping these actions over time we provide insight into the creation of variables that can inform how financial resources are obtained during the earliest stages of organizational creation.

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