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## MODELING THE RELATIONSHIP OF EMPLOYEE DEFERRAL AND NEW FIRM SURVIVAL (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**MODELING THE RELATIONSHIP OF EMPLOYEE  
DEFERRAL AND NEW FIRM SURVIVAL**

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**Principal Topic**

This paper is an exploratory study examining the willingness of employees to deferral their salary and the affect such an act has on the survival rate and sustainability of new firms. The employees initially hired by new firms are relied upon heavily to design and build the firm's first products. In return for their assistance, these employees require compensation from the firm. Higher qualified employees require higher compensation than lower qualified employees or they will possibly leave the firm (Mincer, 1962; Becker, 1965). However, new firms have trouble accessing financial capital (Ang, 1991; Berger and Udell, 1998), and thus have difficulty paying higher wages. New firms thus resort to using bootstrapping methods to stay alive (Van Auken and Neeley, 1996). Bootstrapping methods entail a set of processes through which firms creatively find resources, increase resource efficiency, and minimize explicit costs (Bhide, 1992; Freear, Sohl and Wetzel, 1995; Winborg and Landstrom, 2001). A bootstrapping option that is being seen as an interim fix to the firm's cash flow issues is employee salary deferment. If employees are willing to defer their salaries for a limited period of time, then the firm could continue to operate and pursue the main funding options. Thus, we examine the research question, *why are employees willing to defer their salaries when working with a new firm, and how salary deferral affects new firm survival?*

**Method**

To explore the research question, we use an organizational behavior and human resource theoretical framework to build two agent-based simulation models. Simulation has been suggested as a means for building theory, especially for exploratory research (Davis, Eisenhardt, and Bingham, 2007; Axelrod, 1997). The first simulation models a new industry where the new firms are creating the industry. The second simulation models an established industry with established incumbent firms. Both models examine if and when employees are willing to defer their salaries and how the employee's decisions affect the survival rate of the firms.

**Results and Implications**

In our model, we suggest that the employees' willingness to forgo their salary is contingent on at-work job satisfaction, the founder giving up his/her salary, and their goal alignment with the firm, as well as their perception of the potential success of the firm and what other job opportunities they have. These contingencies can be explained in light of several existing theories, including job satisfaction (O'Reilly, Chatman, Caldwell, 1991; Cable and Judge, 1996), goal-setting (Locke and Latham, 2004), equity (Adams, 1963, 1965; Scholl, 1981), and opportunity cost. The results of the simulation analyses show how employee salary deferral can positively affect the performance of new firms, as well as have a counter effect of prolonging the inevitable death of the firm and leaving the employee without the salary they deferred.

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