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THE INFLUENCE OF STRATEGY AND HUMAN CAPITAL ON NEW VENTURE FAILURE MODES (INTERACTIVE PAPER)

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Principal Topic

Research relating to why some new businesses fail while others succeed has interested entrepreneurship scholars for decades. Due to different types of business failure varying substantially in degree of seriousness for founders and their surroundings, there is an increased awareness of the need to consider different modes of business failure. This research aims to contribute to increased knowledge about different new business failure modes by addressing two research questions: 1) Which of the entrepreneurs’ human capital attributes are associated with different modes of new venture failure? And 2) Which aspects of new firms’ domain definition strategy are associated with different modes of new venture failure? Three failure modes will be explored: 1) Firm closure vs. survival, 2) Firm closure including dormant firms vs. survival including mergers, and 3) Firm bankruptcy/forced liquidation vs. all other outcomes.

Method

The sample consists of 194 limited liability companies that entered a business register in May/June 2002. Respondents returned, shortly after firm registration, a mail questionnaire that included questions concerning the founders’ human capital and firms’ domain definition strategy. The final data collection from an archival source took place in October/November 2012. This included information about eventual date of firms’ bankruptcy/liquidation/voluntary closure etc.

Results and Implications

Information from the archival source showed that 51.3% of the firms in the sample had survived the ten-year period. Moreover, 19.5% had closed due to bankruptcy or forced liquidation. Logistic regression analyses were employed to address the two research questions. Results indicate that human capital and strategy variables are better in predicting bankruptcy than they are predicting the other modes of firm closure. Further, the analyses suggest that human capital in terms of high education and forming a team (strategy variable) are negatively related to the chance of bankruptcy. These two variables were, however, not significantly related to the two other modes of closure. An important implication relates to that the results seem sensitive to the different definitions of firm failure employed. Hence, future research needs to carefully define the types of business failure that are addressed and preferably distinguish between different modes.

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