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THE DYNAMICS OF FINANCIAL SLACK IN YOUNG VENTURES (SUMMARY)

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THE DYNAMICS OF FINANCIAL SLACK IN YOUNG VENTURES

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Principal Topic

A significant stream of research has focused on the performance effects of slack resources—those resources in excess of resource demands from current business (Bradley et al., 2011; George, 2005). Despite the importance of slack resources, current work only describes some relatively simple patterns of how slack resources evolve in firms. For example, the accumulation of slack resources is described as “age-dependent” (Sharfman et al., 1988). Hence, our theoretical and empirical understanding of how slack resources evolve as firms age remains limited. We use imprinting theory as a theoretical lens to increase our understanding of the dynamics of financial slack. We propose that the level of financial slack at founding will be an important determinant of future levels of financial slack because consensus may develop around the suitability of this level of slack. We further propose that founder-CEO departures lead to a decay of the imprint formed at founding and the formation of a new imprint on entrepreneurial firms’ levels of financial slack.

Method

We study the evolution of financial slack in the 15 years after startup, using a unique multiwave panel of 4,962 Belgian firms that were founded between 1996 and 1998.

Results and Implications

Our findings show that the level of financial slack at founding significantly affects firms’ future levels of financial slack. The relationship between the level of financial slack at founding and future levels of financial slack becomes weaker after the departure of the founder-CEO. The departure of the founder-CEO provokes a sensitive period where a new imprint is marked on firms. Specifically, the level of financial slack after the departure of the founder-CEO becomes one of the most important determinants driving future levels of financial slack (while the effect of the level of financial slack at founding, although still significant, becomes economically less impactful).

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