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CONSULTANTS, OUTSIDE BOARD MEMBERS, OR BOTH? AN EMPIRICAL INVESTIGATION OF THE IMPACT OF EXTERNAL KNOWLEDGE SOURCES ON NEW FIRM GROWTH (SUMMARY)

Stephan Weemaes

KU Leuven, Belgium, stephan.weemaes@kuleuven-kulak.be

Ann Gaeremynck

KU Leuven, Belgium

Johan Bruneel

KU Leuven, Belgium

Arnt Verriest

EDHEC Business School, France

Jonas Debrulle

IÉSEG School of Management, France

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~ SUMMARY ~

CONSULTANTS, OUTSIDE BOARD MEMBERS, OR BOTH? AN EMPIRICAL INVESTIGATION OF THE IMPACT OF EXTERNAL KNOWLEDGE SOURCES ON NEW FIRM GROWTH

Stephan Weemaes, KU Leuven, Belgium

Ann Gaeremynck, KU Leuven, Belgium

Johan Bruneel, KU Leuven, Belgium

Arnt Verriest, EDHEC Business School, France

Jonas Debrulle, IÉSEG School of Management, France

Principal Topics

The knowledge based view of the firm states that knowledge is the foundation for the rent earning potential of all resources. In the context of start-ups, several authors mention the existence of a knowledge gap, which can be filled by using external sources of knowledge. In this study, we consider two important sources of external knowledge: (1) external advisory services (EAS) such as lawyers and consultants and (2) outside members in the board of directors of the firm (OBM). We argue that the impact of external advisory use on start-up growth will dominate the impact of the presence of OBM due to the higher accuracy and timeliness of the EAS. In addition, we introduce two contingencies, rooted in organizational learning theory: absorptive capacity (AC) and congenital learning (CL). Higher AC allows the firm to use external knowledge more effectively. As a result, AC will increase the impact of EAS on new firm growth. CL is the firm's stock of knowledge at founding. We expect that the relationship between EAS and firm growth will be stronger when the level of CL is low.

Method

This study builds on a cross-sectional survey of start-ups located in Flanders, Belgium. The survey data was supplemented with publicly available financial data.

Using hierarchical regression modeling, we find a positive significant effect of the use of EAS on firm employment growth, contrary to the presence of OBM, which turns out not to be significantly related to employment growth in new firms. The analysis of the interaction effects shows that the impact of EAS on firm growth is *higher* when AC is high and *lower* when CL is high.

Results

This investigation leads to the conclusion that, when compared to the use of EAS, the role of OBM as providers of advice and counseling in start-ups is not as crucial as frequently argued in corporate governance research. Our results further show that AC and CL are important contingencies. These findings have important implications for entrepreneurs and policy makers.

CONTACT: Stephan Weemaes; Stephan.Weemaes@kuleuven-kulak.be; T: 32-56-246466; Etienne Sabbelaan 53, BE-8500 Kortrijk, Belgium.