THE INFLUENCE OF PRIOR HIGH-GROWTH EXPERIENCE ON NEW HIGH-GROWTH OUTCOMES (SUMMARY)

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SUMMARY

THE INFLUENCE OF PRIOR HIGH-GROWTH EXPERIENCE ON NEW HIGH-GROWTH OUTCOMES

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Principal Topic

Prior research has discovered that high-growth firms contribute disproportionately to positive economic outcomes. Despite their significance, the high-growth periods that define these firms have proven difficult to predict. In this paper, we study the impact of human capital endowments of new ventures on their subsequent growth. In particular, we focus on prior experience in founding firms that have reached high growth. Several theoretical mechanisms suggest that founding teams with prior experience in founding high-growth firms are more likely to start new ventures that also become high growers. For example, members of these kinds of founding teams have arguably learned skills, gathered resources, built networks, etc., which can be critical for entrepreneurial success. Even if the founders depart shortly from the newly founded firm, the initiated structures and procedures can remain stable. Furthermore, these ‘elite’ entrepreneurs are likely to have a higher ability recognize high-potential opportunities and forgo the pursuit of lower potential ones.

Method

Our dataset utilizes the Finnish Longitudinal Employer-Employee Data (FLEED), and it consists of nine cohorts (1999-2007) of newly founded (focal) firms with each cohort consisting of approximately 1000 new firms. For each of these focal firms, we identify their founders, and identify the ventures they have previously founded over a nine-year rolling window. Thus, the dataset as a whole captures data from approximately 180,000 unique individuals and 80,000 firms over 24 years. We apply multiple criteria to identify high-growth, medium-growth, and survival outcomes, and control for the income, wealth, and education of the founders as well as several industry characteristics.

Results and Implications

Our results highlight the need to better take into account the nature of prior entrepreneurial experience when studying firm growth. In particular, we find that prior experience with high employee growth firms is associated with future high employee growth outcomes, whereas experience in founding medium employee growth or surviving firms were nonsignificant in explaining it. We were however unable to explain high revenue growth outcomes with any form of prior firm founding experience. On the other hand, higher industry growth and lower industry profitability at the time the new venture was founded do not significantly explain high employee growth outcomes, but do so for high revenue growth outcomes. In sum, our results suggest that high growth outcomes are influenced by the founders’ entrepreneurial experiences, but this applies only for the case of high employee growth.

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