WHY DO NEW VENTURES GROW? THE IMPACT OF FOUNDERS’ KNOWLEDGE AND MOTIVATION ON NEW VENTURE GROWTH (INTERACTIVE PAPER)

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Principal Topic

Penrose’s (1959) theory of firm growth suggests that knowledge is necessary for exploiting the firm’s underutilized resources, understanding the competitive environment and building unique capabilities, which foster the growth of the firm. These arguments are in line with previous research that has argued that innovation and consequently firm growth is mainly driven by the commercial use of knowledge and human capital (Lucas, 1988; Romer, 1990). However, the question remains how founders’ different “knowledge vectors” (Garud & Nayyar, 2006) work together and impact firm growth.

In fact, technological knowledge has increasingly been identified as a distinct form of knowledge, especially in the new knowledge economy (Baird, 2002; Hitt 2000). However, the extent to which these knowledge vectors will be exploited will depend on founders’ motivation (Osterloh & Frey, 2000; Baum & Locke, 2004). Building on the theoretical perspectives of the knowledge-based theory of the firm (Grant, 1996) the firm is conceptualized as an institution for integrating knowledge. The primary contribution of the paper is in exploring the coordination mechanisms through which firms integrate the specialist knowledge of their members. In contrast to earlier literature, knowledge is viewed as residing within the individual, and the primary role of the organization is knowledge application rather than knowledge creation. The resulting theory has implications for the basis of organizational capability, the principles of organization design (in particular, the analysis of hierarchy and the distribution of decision-making authority and motivation theory (Deci & Ryan, 2010; Osterloh & Frey, 2000), we hypothesize that founders’ technological knowledge is especially important to firm growth and that founders’ motivation moderates this relationship.

Method

To answer our research questions, we employ a longitudinal dataset of 13,352 German start-ups that were founded between the period 2005 and 2012 provided by the Centre for European Economic Research (ZEW). We employ generalized estimation equation regressions to determine the influence of founders’ knowledge on firm growth.

Results and Implications

Preliminary results confirm a strong and significant relationship between founders’ technological knowledge and firm growth. We further find evidence that this relationship is reinforced in case founders’ motivation is high. The study extends prior research on the importance of founders’ knowledge for new venture growth (Delmar & Shane, 2006; Toft-Kehler, Wennberg, & Kim, 2014) by showing the particularly positive influence of founders’ technical knowledge on new firm growth. In addition we show that founders’ motivation is necessary to exploit knowledge resources. We offer important implications for public policy as Germany has seen rising levels of entrepreneurship in the past decade, however, the share of firms with high growth rates remains limited.

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