HONEYMOONS AND HARD TIMES: THE DYNAMICS OF NEWNESS AND ENVIRONMENTAL JOLTS ON INDEPENDENT AND SUBSIDIARY FIRMS (SUMMARY)

Steven W. Bradley  
*Indiana University, swb@indiana.edu*

Dean A. Shepherd  
*Indiana University*

**Recommended Citation**

Available at: http://digitalknowledge.babson.edu/fer/vol26/iss9/2

This Summary is brought to you for free and open access by the Entrepreneurship at Babson at Digital Knowledge at Babson. It has been accepted for inclusion in Frontiers of Entrepreneurship Research by an authorized administrator of Digital Knowledge at Babson. For more information, please contact digitalknowledge@babson.edu.
SUMMARY

HONEYMOONS AND HARD TIMES: THE DYNAMICS OF NEWNESS AND ENVIRONMENTAL JOLTS ON INDEPENDENT AND SUBSIDIARY FIRMS

Steven W. Bradley, Indiana University
Dean A. Shepherd, Indiana University

Principal Topic

This paper explores the differential effects of an environmental jolt on nascent firms. Unlike much of the previous literature, the analysis simultaneously examines: (1) organizational form - independent versus subsidiary (2) the organizational context of the exogenous event, (3) the effects of resources and their influence on the liability of newness/adolescence, and (4) the subsequent timing of the environmental jolt relative to firm age. Our findings support recent calls for the examination of organizational forms as a fruitful avenue for research in the population ecology literature. In addition, our work suggests that further integration of levels of analysis and theoretical perspectives centered on both populations and organizations may be necessary to explain organization survival and mortality.

Method

We developed a panel sampling frame (1994 to 2002 inclusive) of all new Swedish firms established in 1994 from 30 selected two-digit ISIC industries. Firm information was drawn from a leading credit rating firm (KreditFakta) on the basis of various government data registers. We used an event history approach with discrete time logit hazard models for analysis that do not make prior assumptions regarding the parametric shape of the hazard function.

Results and implications

Our findings build on prior research indicating that firms with a smaller initial resource stock have shorter honeymoon periods with higher initial exit rates. In particular, independent firms have higher initial hazard rates with less initial capital, fewer employees, and less financial slack than subsidiary firms. However, the subsequent environmental jolt of a severe economic downturn in 2001-2002 indicates that hazard rates rise more rapidly for subsidiary firms than independent firms. Analysis of environment and slack by age prior to the environmental jolt suggest that independent firms build buffering capacity and a greater ability to cope with their environment with age. We suggest that higher exit rates for subsidiary firms from an environmental jolt are explained by a resource dependency framework with the parent firm.

CONTACT: Steven Bradley; Kelley School of Business, Indiana University, 1309 East 10th Street, Bloomington, IN 47405-1701; (T): 812-855-1953; (F): 812-855-4246; swb@indiana.edu