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CAPITAL STRUCTURE AND NEW VENTURE PERFORMANCE (SUMMARY)

Manjula S. Salimath
University of North Texas, Manjula.Salimath@unt.edu

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SUMMARY
CAPITAL STRUCTURE AND NEW VENTURE PERFORMANCE
Manjula S. Salimath, University of North Texas, USA

Principal Topic
The decisions on funding a new venture provides the entrepreneur with choices related to the composition of the firm’s capital structure. Obtaining adequate, timely and appropriate financing is a challenge faced by any new firm, and is a major hurdle that needs to be effectively navigated by the entrepreneur or the owner of the new venture. Apart from the legitimacy concerns faced by all new ventures in obtaining external funding, there are additional challenges in capital intensive sectors. Specifically, new ventures tend to suffer from information asymmetry and are therefore more likely to tread the path of least resistance in raising capital funding. Despite prior research on start up financing, several gaps exist in our understanding of the firm-financing interface. Specifically, we are relatively uninformed about financing needs and challenges of new firms in capital intensive industries and their effects on performance. We explore the firm-financing interface, to understand the effects of capital structure decisions on new venture performance. The primary logic is derived from the well known Capital Structure Theory (Modigliani and Miller theorem) and one variant, i.e., the Pecking Order Theory popularized by Myers (1984).

Method
Pecking order theory, a variant of capital structure theory, provides the foundation for the model and empirical design. The research examines the unique context of entrepreneurial new ventures, with specific attention to the implications for funding new ventures in capital intensive industries. We utilize secondary data that is primarily from new ventures and small businesses located in the United States. Propositions are tested using statistical techniques along with relevant and appropriate controls in the analysis.

Results and Implications
The lack of adequate and ongoing capital for new ventures is a widely recognized problem. Less recognized however, is the possibility that capital structures may affect firm performance. By testing this relation, we shed light on path dependencies created by capital structure choice among new ventures, and create the basic framework upon which future examinations of the relation between capital structure and performance may be understood. Research will help firms understand, manage, and negotiate external exchanges with financial institutions. Implications of capital structure on firm growth and success are also discussed.

CONTACT: Manjula Salimath; Manjula.Salimath@unt.edu; (T): 940-565-4937; University of North Texas, Denton, TX 76203.