THE IMPACT OF THE AMOUNT OF START-UP FINANCING ON ENTREPRENEURIAL MANAGEMENT AND FIRM PERFORMANCE (SUMMARY)

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SUMMARY

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Principal Topic

Business start-ups typically lack prior history and reputation, generate low internal cash flows and are often unable or unwilling to attract sufficient external financing. These characteristics make it difficult for new ventures to acquire the necessary resources for their development and growth. We propose that initial resource endowments may help to overcome these difficulties by imprinting their mark on a firm’s strategy and ultimately on firm development. This study examines the extent to which initial financial, human and social capital predicts the probabilities of firm survival and, conditional on surviving, firm growth. We expand the existing stream of research that explores the effect of entrepreneur characteristics on start-up performance (e.g. Burke et al., 2001; Taylor, 2001; Colombo et al., 2004; Åstebro and Bernhardt, 2005) by integrating financial capital, generic and specific human capital and bridging and bonding social capital in one model.

Method

A longitudinal research design is used combining data from different sources. First, the START 2005 questionnaire has been sent out mid-2005 to a sample of Belgian ventures founded between September 2003 and September 2004, measuring initial human and social capital. Second, the questionnaire data were supplemented with information from the financial accounts of the ventures from 2005 to 2009, including data on financial capital at start-up and on subsequent survival and growth. Longitudinal data were available for 111 ventures. Multivariate Cox regressions were used to analyse survival probability and multivariate OLS regressions were used to analyse growth in value added.

Results and Implications

Results demonstrate that ventures founded by entrepreneurs with a high level of education or with experience in the same sector have a higher probability of survival, but social capital variables and the amount of financial capital have little impact on the probability of survival. Interestingly, the amount of financial capital has a positive effect on growth. The impact of human capital variables on growth is mixed and social capital has no effect on growth. Drivers of new venture survival are hence not the same as drivers of new venture growth.

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