CREATING INNOVATIVE NEW FIRMS: IS LESS MORE? (INTERACTIVE PAPER)

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CREATING INNOVATIVE NEW FIRMS: IS LESS MORE?
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Principal Topic
Innovative start-ups play an important role in the economy as they create new industries as well as
revitalize and reshape existing ones. A minority of innovative start-ups, however, manage to sur-
vive (e.g., Nesheim, 2000). An important reason for low survival rate is that innovative start-ups,
almost by definition, lack the resources they need to successfully develop and commercialize their
new product or service. Hence, a critical capability of nascent entrepreneurs is to organize access to
and manage the resources required to achieve the goals of the fledgling firm. However, scarcity and
resource constraints may also give start-ups a competitive advantage. Necessity may spur creativity
and result in the discovery of technologies, product designs, and business models that outsmart
incumbent competitors (e.g., Baldwin, 2010). This paper contributes to the debate on the value
or the liability of slack versus scarce resources by focusing on the gestation and the start-up phase
of innovative new firms. In particular, little is known about how innovative start-ups accumulate
(human, financial, physical, and social) resources over time. Hence, this study asks the following
questions: how do innovative entrepreneurs build their firms in terms of resource accumulation,
and what are its implications for the ability of firms to become profitable and to survive?

Method
To address our research questions and apply our sequence analysis we use data from all five
waves of the Panel Study of Entrepreneurial Dynamics II (PSED II). To analyze the data we have
reduced the heterogeneity of the gestation processes by distinguishing specific clusters of gesta-
tion processes. The input for the cluster analysis is a matrix of Levenshtein distances that reflect
the interval-level measures of resemblance/distance between sequences (Brzinsky-Fay, Kohler, and
Luniak, 2006; Salvato, 2009).

Results and Implications
Our study makes important scientific contributions. First, by focusing on the resource accu-
cumulation of nascent firms over time, we provide a theoretical and empirical contribution to the
literature on the role and the value of slack versus constrained resources. Second, by applying
a novel methodological approach, this paper provides a better understanding of the gestation
process and contributes to and extends process theories.

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