THE IMPACT OF SOCIAL FACTORS ON EXTERNAL FINANCING OF NEWLY FOUNDED BUSINESSES (SUMMARY)

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SUMMARY

THE IMPACT OF SOCIAL FACTORS ON EXTERNAL FINANCING OF NEWLY FOUNDED BUSINESSES

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Principal Topic

The principal topic in this paper is to investigate how social factors including gender, culture, education and motives affect financial decisions in newly formed businesses.

Access to capital is a fundamental requisite for the startup process of new firms. Earlier researches indicate that social factors can affect both the possibility to access financial capital and the attitude to accept external financing, for instance gender, ethnicity or cultural background of the entrepreneur. Understanding of these social and cultural barriers is important in order to take advantage of the full entrepreneurial potential in the society.

Methods/Key Propositions

The data for this study is collected from a survey to a large (stratified) sample of newly registered companies in all industries in Sweden. The total sample size was approximately 25000 companies. Response rate (after all adjustments) was 46 percent, giving us at total analyzable sample of 11398 firms.

Our dependent variable is degree of external financing, which is how large share (0%, 1-25%, 26-50%, 71-75% and 76-100%) of the startup capital was coming from external financing.

Our independent variables were gender, immigrant, education, experience, entrepreneurial motives and control variables age, industry, turnover.

In our paper we test five hypotheses that might affect use external financing (based on our independent variables). We analyze our data using a multinomial logit model.

Results and Implications

We found support for our hypotheses that female entrepreneurs are less likely to use external financing. Our results do not support the hypothesis that immigrant entrepreneurs are less frequent users of external financing. Entrepreneurs with higher education use more external financing and motives to start a business affects willingness to accept external financing. Moreover, we found some evidence but not general support for the hypothesis that entrepreneur with previous experience of starting a business use external financing to a higher extent than persons with no previous experience. Finally, we also found evidence that age, industry, region and turnover may matter for the choices of external finance.

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