

Exploring Firm Emergence: Initially Conditioned or Actively Created?

Erno T. Tornikoski, Ph.D.

Seinäjoki University of Applied Sciences, Finland

&

Vesa Puhakka, Ph.D.

University of Oulu, Finland

Introduction

Previous research has established a connection between initial conditions and new firm performance. For example, the study conducted by Bamford et al. (1999) showed a clear and substantial effect on performance caused by the initial environment, strategy, and resources. As such, the early decisions of nascent entrepreneurs seem to have a long-lasting impact on the future of the nascent firm. On the other hand, research on gestation activities of nascent entrepreneurs (Reynolds & Miller 1992; Carter et al. 1994; Delmar & Shane 2004) has demonstrated the potential importance of active behaviors on firm emergence. So, rather than arising as the result of initial conditions, new firms seem to emerge through a set of active behaviors. Since no research has addressed the effects of these two constructs on firm emergence in an empirical fashion, we frame this paper as an exploratory study designed to answer the following research question: To what extent do initial conditions or active behaviors explain firm emergence?

Methodology

We used a French national business plan competition to identify nascent firms. The submitted business plans of nascent firms were rated against dozens of items by experts. These expert ratings were used as initial conditions of nascent firms. Further, a follow-up study was conducted around 2.5 years after the business plan competition to collect information about active behaviors and the dependent variable, firm emergence. The comparison of respondents and non-respondents revealed that the two groups are similar to each other. In addition, we tested the possible effects of common method variance using Harman's one-factor test (Harman 1976), and concluded that common method variance bias is not a threat to the validity of the analysis.

The dependent variable of the study, firm emergence, was built on items representing new firm makers (Gartner et al. 2003). More specifically, a new firm is here seen to have been born when it has succeeded in creating boundaries, acquired resources, and exchange with the outsiders has been started. In regard to the initial conditions, the factor analysis of expert ratings produced a four-factor solution. The factors reflected, (1) competitive advantage of the nascent firm; (2) qualities and characteristics of the lead entrepreneur and the founding team; (3) the level of technology of the

nascent firm; (4) the founding team and environmental conditions; and (5) the existence of important others and board of directors. In regard to the questionnaire items related to the active behaviors, a five-factor solution was accepted. The factors reflected behaviors related to (1) improvising ; (2) enlarging ones network; (3) resource combination; (4) technology development; and (5) using ones existing network.

We used standard linear regression to estimate the hypothesized effects of the independent variables on the dependent variable. To execute the statistical procedure, SPSS 13.0 program was used. We did the analysis in two steps. First, we tested the initial conditions model made of the identified five independent variables. Second, we tested the model related to active behaviors, which consists of five independent variables.

Results

What comes to the model based on initial conditions, the model statistics do not indicate statistical significance. What comes to the model based on active behaviors, the model statistics suggest statistical significance. There is one variable, which shows statistically significant effect on Firm Emergence, namely Resource Combination.

Discussion

We have undertaken this study in an attempt to explain why some nascent firms emerge while others do not. We have argued that new firms emergence by relying on initial conditions or through active behaviors. Both perspectives have found support from studies related to new or young ventures. In this study, we wanted to explore these ideas in the context of nascent firms. As a preliminary finding, it seems that only the model related to the active behaviors make a statistically significant impact on firm emergence, while initial conditions do not. Therefore, our tentative proposition is that a firm emerges merely through active behavior of entrepreneurs rather than as an outcome of initial conditions.

The preliminary findings offer some insight into the idiosyncrasies between those factors that facilitate firm emergence and those that facilitate survival/performance of newly founded firms. Many studies of new firms have examined the constructs tested herein and have shown significant relationships between each variable and the survival and performance of existing firms. The fact that we do not seem to find compelling relationships between such constructs and firm emergence suggests that the dynamics faced by nascent firms are different than those faced by new firms. The study will have implications to offer to both scholars and practitioners.

Implications for practice

Based on our findings it seems that what nascent entrepreneurs do may be more important than whom they are, how they look like or what are the industry conditions for firm emergence. We believe this finding is important in that it provides hope for all nascent entrepreneurs in that firm emergence does not seem to be a function of their backgrounds or industry preferences, but rather of their efforts. Specifically, the present study suggests that those nascent entrepreneurs willing to engaging in activities aimed at combining resources (such as buying or renting space and getting equipments) may be more likely to convince potential customers, employees, and financiers to engage in exchanges with the nascent firm. Such result suggest that nascent entrepreneurs who lack a substantial business or educational background and an experienced management team and who do not intend to compete in a new, innovative product-market may well succeed in creating an operational organization to the degree that they effectively combine available resources.

Implications for scholars

Based on the results presented above, it seems that active behaviors, specifically resource combination behavior, are significantly more important in explaining firm emergence than initial conditions. Thus, it seems that new firms emerge via active efforts than by relying on the passive characteristics of the individual, organization, and environment. Such a conclusion is important in that it provides a framework with which to understand firm emergence and in so doing advances our knowledge of this important process.

The present finding also enable the evaluation of prior studies to our understanding of firm emergence. By including both initial conditions and behavior in the analysis, we find that the fate of nascent firms may be less a function of their static characteristics than of the dynamic behaviors of their entrepreneurs. Such a conclusion challenges prior studies of firm emergence that have focused on some combination of the individual, organizational, and/or environmental dimensions and, in so doing, have ignored the process dimension. For, to the extent that such studies have found significant relationships between firm emergence and characteristics of the founder, the team, and/or the environment, such findings may be biased in that they have not controlled for what have been found herein to be the more significant effects of behavior. It is important to note that although this argument is not new (see Gartner (1985) for example), attention to it is nonetheless critical in furthering our understanding of the firm emergence phenomenon.