Chapter 1
Young Firms Sustainability and Corporate Reputation: A Comparison of the Survival Rates in the US and EU

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ABSTRACT

Although young firms are very vulnerable, significant differences emerge by comparing the survival rates of the companies in the first stage of life in different countries and industries, of different sizes, and with different characteristics of the leader (team of co-founders): education, previous entrepreneurial experience, reputation, etc. Many variables influence the performance of the companies and their chances of survival. Each enterprise is a singularity. Thus, it is methodologically wrong and naive any attempt to define ideal models and general “recipes” to reduce the vulnerability of the young firms. This hypothesis is confirmed by the analysis of the survival rates of the young firms born in the USA and in EU. The variance of the five-year survival rate is very high by comparing companies from different nations, of different size classes, those operating in different industries, and those whose leaders have or not have any previous entrepreneurial experience.

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The lack of corporate reputation is the only weakness common to the young firms. Since these companies do not have a history that can prove their ability to satisfy their commitments toward the stakeholders, they haven’t a reputation and therefore are very weak their bonds of trust with stakeholders. The first difficulty, these weak bonds of trust are broken and young businesses collapse in on themselves. To achieve sustainability, young firms must quickly build a corporate reputation to strengthen the bonds of trust with the stakeholders. By this way, they will be more resistant to the difficulties. This is the only effective general “recipes”. (Nicolò 2015; Nicolò & Ferrara 2015).

BACKGROUND

Companies are very fallible in their first stage of life (Reynolds & Miller, 1992; Van de Ven, 1992; Van de Ven et al., 1989; Venkataraman et al., 1990; Knaup, 2005; Knaup & Piazza, 2005). High vulnerability is a distinctive feature (general trait) of young companies (Nicolò 2015; Nicolò and Ferrara 2015).

According to the literature, the principal causes of weakness of young firms are:

1. Context variables (Mintzberg, 1973; Dubini & Schillaci, 1988; Buttà, 2003; Moore, 2006; Adner & Kapoor, 2010; Moss Kanter, 2012);
2. Strategic choices and the suitability of those choices to meet the characteristics of the industry (Biggadike, 1976; Miller & Camp, 1985; Cooper et al. 1986; Sandberg, 1986; McDougall et al. 1992);
3. Activities of the founder to give life to the company by spending the appropriate amount of time on essential processes before and after its foundation (Gartner, 1988; Bygrave, 1989; Timmons, 1990; Vesper, 1990; Longsworth, 1991; Cooper, 1993);
4. The sequence in which key start up processes are performed (Gartner, 1985; Van de Ven, 1992; Van de Ven & Poole, 1995; Van de Ven & Engleman, 2004; Carter et al., 1996; Aldrich, 1999; Delmar & Shane, 2002; Liao et al., 2005);
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