Chapter 17
How Do Starting Attributes Impact the Economic Performance of Young Innovative Companies?

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ABSTRACT
The purpose of this chapter is to study the effects of the starting attributes on the economic performance of the Young Innovative Companies (YICs) in France. The economic performance is measured by two traditional indicators: the sales turnover (after three and five years) and the mortality rate. The indicators of performance diversity make it possible to identify specificities in terms of economic development patterns. To undertake the empirical study, the authors use a database from the French Ministry of Research. The results show that the initial conditions do not have the same impact on both performance indicators. The legal status and the level of initial equity capital mainly influence the mortality rate. The 3-year-turnover can be explained by the previous activities (1-year-turnover and initial equity capital), the age of the entrepreneur, and the sector. The 5-year-turnover depends on the previous activities, the age of the entrepreneur, and the type of legal status. These results may have important implications in the strategy of the new entrepreneurs.

1. INTRODUCTION
New innovating firms are regarded as a major source of competitive dynamism because of their competitive advantage on nowadays-technological changes and international competition. Their size and the specificity of the products and/or services that they propose allow them a great flexibility, often considered as an essential asset, insofar as it enables them to better adapt and react to the requirements of the market. Moreover, these companies present a stronger probability to introduce new innovations, in particular radical innovations, which will have positive effects on
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The economic activity of the firms in place (Schneider & Veugelers, 2008). They thus generate direct and indirect effects on the economic growth. The creation of young innovating companies then is strongly encouraged by the public authorities. However, if there seems to be a consensus about the role of these companies in the economic activity, it also appears that a large number of young innovative companies encounter difficulties to remain active. A better understanding of the relation survival-growth on companies is needed in order to provide entrepreneurs, their advisors, venture capitalists, and policy-makers with key insights about the opening of new businesses and a successful evolution.

The economic literature stresses that the initial conditions are crucial in the future success of Young Innovating Companies (YICs) (Cooper, et al., 1994; Dahlqvist, et al., 2000; Honjo, 2004). The studies in different countries show that the impact of the initial conditions can vary according to the sectors or the countries. In that context, the purpose of this chapter is to analyze the determinants of the successful YICs in France. Although the French government strongly supports the creation of YICs, there are no studies that analyze the economic performances of these companies in France thoroughly. The main reason is the absence of statistical data on this population, making the identification process of YIC difficult. This chapter follows the seminal work by Copper et al. (1994) about the effects of initial conditions on new venture performance (Cooper, Gimeno-Gascon, & Woo, 1994). This study has later been adapted in the Swedish context by Dahlqvist et al. (2000) and in the Japanese context by Honjo (2004). We propose to study the effects of the initial conditions on the economic performance of the YICs in France. In that respect, according to the literature, we study the impact of the characteristics of the entrepreneur and of the initial conditions of the company.

In line with these works, two traditional indicators come out to measure the economic performance: the sales turnover (after three and five years) and the mortality. The former gives us information on the intensity of the activity of the firm, while the latter indicates the success rate of new YICs in terms of staying in the market. These two indicators pinpoint different information. This difference is particularly important in countries like France, where SMEs find it difficult to expand. The diversity of the indicators of performance makes it possible to identify specificities in terms of economic development patterns. These results can have major consequences for public policy.

To undertake our empirical study, we have used a database from the French Ministry of Research, identifying the young innovating companies. This base is merged with the DIANE database, which provides us with information on the sales turnovers of the studied companies. The econometric analysis is based on the Ordinary Least Square and logit methods. Our results confirm some of the results obtained by Cooper et al. (1994), but other parts could not be replicated in our research. To some extent, this may be due to difficult operationalization of certain indicators as well as differences in the data sample and countries. The turnover of the YICs in our sample is strongly influenced by the previous economic activities, the age of the founder and partly by the legal status of the firm. On the other hand, the level of initial equity capital and the legal status influences the exit rate.

This chapter is organized as follows: in the first section, we discuss the most relevant indicators and their explanatory factors that come out of our literature review on the success factors and the factors of survival of the young innovating firms. The following section 3 is dedicated to our statistical analysis: we specify our methodology, as well as our data and variables. We then present the main results. We finally conclude and present the limits of our study.