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## Resources of the firm, Russian high-technology startups, and firm growth

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### Abstract

Russia possessed many world-class technologies prior to the break up of the Soviet Union. Entrepreneurial endeavors resulted from this technological ability as market forces encouraged individuals to leave the large state enterprises that produced those technologies. Founding characteristics of the firm impact the resources that are available to the startup firm. This study investigates the extent to which founding factors in Russia help high-technology firms to prosper. It was found that the team establishing the business mitigated the liability of newness. However, in contrast to the US, the culture of Russia does not produce negative results if the founding team grows very large. Additionally, it was shown that firms that pursued more technological products and enter the market later performed best.

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### 1. Executive summary

Firms can be viewed as composites of various resources. In stable economies, it has been argued that young firms do not do as well as more mature firms. The underlying reason for such a liability of newness is the limited resources available to young firms. This emphasis on

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resources is supported in the entrepreneurship literature, which records that a principal cause of high-technology firm failure is a lack of financial resources. However, Eisenhardt and Schoonhoven (1990) argued that liability of newness of young high-technology firms could be mitigated by the nature of the firm's founding characteristics. Particularly, the characteristics of the founding team, the innovativeness of the firm's product(s), and the firm's position as a first mover can mitigate the liability of newness since these characteristics impact the accessibility of resources.

Prior to its economic transition, Russia produced many world-class technological products. Many of those individuals who left the technology-based state companies and research laboratories have gone on to found their own high-technology-based new ventures. But, in general, Russia's transition to a market economy has been tumultuous. For example, the monetary system of the country reflected an exchange rate for the ruble of 35 per US dollar in April 1991 and this expanded to upwards of 26,000 per US dollar during November 1999 (in nonredenominated terms). Additionally, the industrial output of the country has been continuously falling since economic liberalization began. If Russia is to be a constructive member of the world economy, it is critical that its high-technology entrepreneurs succeed.

This research found that the size of the team establishing the business can mitigate the liability of newness in Russia. The larger the team, the greater the financial resources that can be generated and the easier it is to accomplish the myriad administrative tasks associated with starting a high-technology venture since there are more individuals available to do the work. Additionally, it was found that the greater the technological innovativeness, the better the performance of the startup. However, due to the limited resources available to high-technology startups in a transitional economy such as Russia, later entrants perform better than do earlier entrants. In a transitional economy, many resources that first movers can obtain, such as dominance of distribution channels, can be illusionary and disappear over time. Thus, before moving into a market in such settings, it is important that firms ensure that the role and strength of various resources have been established before entrepreneurial firms seek to control them.

The implications for Russian high-technology policymakers and entrepreneurs from these findings are significant. Entrepreneurship in Russia offers a significant means for the economy to reverse its decline. The mean increase in employment among the 45 firms examined was 239%. Thus, the evidence presented here is that entrepreneurial startups have the potential to provide significant employment opportunities for the nation. Additionally, for entrepreneurs, it clearly signals that they can increase their chances of success by ensuring certain characteristics are present as they establish their firm. High-technology entrepreneurs in Russia would be well served by focusing their resources on building large founding teams, seeking to ensure they have an innovative product, and building their competitive resources.

## **2. Introduction**

The resource theory of the firm has gained increasing usage in the management literature (Hoskisson et al., 1999). However, there has been only limited investigation of the theory in

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