The Impact of Virtual Embeddedness on New Venture Survival: Overcoming the Liabilities of Newness

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In this article, we examine the impact of virtual embeddedness—the establishment of inter-organizational connections through the use of electronic technologies—on the likelihood of new venture survival. We explore the effects of recent technological and social changes on traditional conceptions of the liabilities of newness. We argue that virtual embeddedness positively affects new venture survival by decreasing the liabilities of newness associated with a new venture’s need to create and manage new roles and systems, lack of extant trust relationships, lack of social capital, and lack of economic capital. This argument has important implications for both the study and management of contemporary new ventures.

The concept of liabilities of newness (Stinchcombe, 1965) has been a key element in scholars’ understanding of the emergence and growth of new ventures for the past 40 years. Liabilities of newness are recognized as a major contributing factor to the failure of new ventures, and venture survival often depends on the ability to overcome or compensate for liabilities of newness (Bruderl & Schussler, 1990; Freeman, Carroll, & Hannan, 1983). Current conceptions of liabilities of newness were developed before recent technological advancements including the Internet, telecommunications, and powerful microprocessors, which are disrupting markets and industries (Atkinson & Court, 1998; Bettis & Hitt, 1995; Shapiro & Varian, 1999). Not only are these technological developments creating new markets and new product possibilities, but they are also fundamentally changing the ways in which firms are able to emerge, organize, and compete (Tapscott, 1999; Teece, 1998). These changes have created opportunities for new ventures to establish and dominate new industries (Atkinson & Court, 1998; Shapiro & Varian, 1999), challenging traditional conceptions of the liabilities of newness. Because vulnerability to

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