

**SETTING UP A BUSINESS IN THE NETHERLANDS:
WHO STARTS, WHO GIVES UP, WHO IS STILL TRYING
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| Abstract | <p>Why does one person actually succeed in starting a business, while a second gives up, and a third is still trying? To answer this question, a longitudinal study was set up in which 330 nascent entrepreneurs (people setting up a business) were followed over a one-year period. After one year, 47% actually started a business, 27% was still organizing, and 26% gave up the effort. In comparison to the two other groups, starters are different in terms of gender, industry experience, start-up capital, use of third party loans, sector and current activity.</p> | |
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SETTING UP A BUSINESS IN THE NETHERLANDS:

WHO STARTS, WHO GIVES UP, WHO IS STILL TRYING

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SUMMARY. Why does one person actually succeed in starting a business, while a second gives up, and a third is still trying? To answer this question, a longitudinal study was set up in which 330 nascent entrepreneurs (people setting up a business) were followed over a one-year period. After one year, 47% actually started a business, 27% was still organizing, and 26% gave up the effort. In comparison to the two other groups, starters are different in terms of gender, industry experience, start-up capital, use of third party loans, sector and current activity.

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EXECUTIVE SUMMARY

The explanation of firm performance is a central issue in the field of entrepreneurship. Most research however deals with the success of existing firms. The first success of a firm is that it becomes one. What are the characteristics of the people that actually start a business in comparison to those who give up the effort or who are still busy organizing? This article investigates this question using a panel of Dutch nascent entrepreneurs (people currently busy setting up a business) over a period of one year.

We make use of the research design of the Entrepreneurial Research Consortium set up by Paul Reynolds of Babson College, which deals with nascent entrepreneurs in a number of countries. This design has a number of desirable characteristics. *First*, it avoids hindsight bias by collecting a sample of people currently setting up a business, making it possible to study the start-up process 'in real time'. *Second*, the study also takes into account people who fail in actually setting up a business, thus avoiding survivor bias. *Third*, it draws a representative and random sample by randomly calling a large number of phone numbers. *Fourth*, the research design is longitudinal as follow-up studies are made. Apart from scientific relevance, the results are also important for policy makers and practitioners who want to gain insight into the descriptive statistics and the success factors of the pre-start-up phase.

In the fall of 1998, 49,936 phone numbers of people in the Netherlands were dialed. Of this number 21,393 persons (43%) were interviewed and asked the question: 'are you currently, alone or with others, setting up a business?' This resulted in a sample of 526 nascent entrepreneurs (which amounts to 2.5% of the sample and which, in turn, indicates a prevalence rate of 2.5% of the Dutch population between 18 and 65). In comparison with a control group collected from the 21,393 persons not currently setting up a business, the sample of nascent entrepreneurs was relatively male, young, had followed higher education and earned a higher income. Of the sample of 526 nascent entrepreneurs, 330 (63%) were contacted one year later to assess the then current status of the start-up effort. Of these 330 persons, 47% actually started, 27% were still organizing, and 26% had abandoned the effort.

Our comparison of the characteristics of the three groups was based on an adapted model of new venture performance as presented by Chrisman, Bauerschmidt and Hofer (1998). We consider new venture performance as a function of the entrepreneur, industry structure, strategy, and resources. Given the scarcity of previous studies on success in the pre-start-up phase, our predictions are based on studies on (post-start-up) firm performance.

The differences in characteristics between the three groups (started, still busy, abandoned) were investigated univariately as well as multivariately using a multinomial logistic regression model. Some intriguing results from our analyses are the following. *First*, people who wish to start with large start-up capital and third party loans are more likely to give up. Several processes may be operating here: dreamers may give up after they realize their ambitions are not so easy to realize, realists may choose not to continue the start-up effort after establishing that the risks are too high, and banks and other financiers may rightfully or wrongfully reject requests for funding from people who wish to start out large. *Second*, women take a longer time to prepare for eventual startup. Again, different processes may be responsible. Women may have difficulties in getting access to resources. It is also conceivable that the longer start-up period is caused by differing values women lay on setting up a business when compared to men. *Third*, industry experience is a success factor, while work experience, management experience, and experience in setting up a business as well as education are not. Perhaps knowledge of a market and a network in a market are crucial for getting a business started, while after start-up, management experience takes over in importance. *Finally*, people who are already entrepreneurs manage to get their (new) business started relatively often.

Knowledge of predictors of pre-start-up performance has significant benefits for entrepreneurship practice, education, and policy measures. We hope the model described in this article will encourage the work yet to be done.

SUCCESS IN THE PRE-START-UP PHASE

Explaining firm performance is an important part of entrepreneurship research (Cooper and Gascon, 1992; Lussier, 1995; Honig, 1998; Boden and Nucci, 2000; van Gelderen, Frese and Thurik, 2001). Most research deals with the success of existing firms. However, the first success of a firm is that it becomes one. Entrepreneurs have frequently been compared with non-entrepreneurs (Baron, 1999; Kaufman, 1999), but not often with persons who wanted to start a business but did not succeed in doing so. Why does one person actually succeed in starting a business, while a second gives up, and a third is still busy organizing? Answers to this question are directly relevant for practitioners who want to evaluate their own prospects, chances and behavior. For example, in one of the few studies on the subject, Carter, Gartner and Reynolds (1995) report that both individuals who started their business as well as individuals who gave up the start-up effort undertook more activities to make their business real. People who were still trying to set up their business had undertaken fewer activities than the other two groups. Therefore, the authors advice individuals considering a business start-up to pursue opportunities aggressively in the short term, in order not to find themselves perennially still trying. Comparisons of nascent entrepreneurs who start, still try, or give up are also relevant for governmental agencies that deal with nascent entrepreneurs. Research on pre-startup failure variables gives insight into the factors that hinder aspiring founders from realizing their plans. This knowledge can guide policy measures that improve the general conditions surrounding start-ups, thus enabling a more effective use of the nascent entrepreneurs' potential (Chini, Frank, Korunka, and Lueger, 2000). Research by Chini et al. (2000) points to the importance of information use and availability. They found that people who had abandoned their start-up effort frequently indicated that information was unavailable or discouraging. Therefore, governmental agencies are heeded to make stimulating information and guidance available.

Finally, knowledge of the behavior of nascent entrepreneurs is important for those involved in creating and maintaining policy measures on a macro-economic level. The level of entrepreneurship, i.e., the number of business owners per work force, differs considerably across countries and periods (Thurik, 1999; Carree and Thurik, 1999). Both the causes and consequences of variation in the level of entrepreneurship are a matter of extensive scientific debate as well as of great policy importance. A high level of entrepreneurial activity is assumed and shown to contribute to innovative activities, competition, economic growth and job creation (Baumol, 1993; Thurik, 1996; Audretsch and Thurik, 2000 and 2001; Carree, van Stel, Thurik and Wennekers, 2001). For European countries in particular the fragile economic growth, coupled with the persistently high levels of unemployment, has fostered entrepreneurship (OECD, 2000). Many governments now seek to promote entrepreneurship, and high hopes are attached to entrepreneurship as a source of job creation and economic growth (Thurik, 1996). The exploitation of economies of scale and scope is no longer at the heart of modern economies (Teece, 1993; Wennekers and Thurik, 1999). The reason is that globalization and the ICT-revolution imply a need for a knowledge intensive economy. Such an economy emerges only after significant structural change, requiring a substantial reallocation and reorganization of resources. This induces an intense demand for entrepreneurship (Casson, 1995, Audretsch and Thurik, 2000 and 2001). When it comes to how the mechanisms work, little is known, either on how entrepreneurship can best be promoted or on how entrepreneurship influences economic performance. Promotion of entrepreneurship starts with insight in the motives and behavior of those seriously playing with the idea of becoming one.

SAMPLE AND VARIABLES

Research of success and failure in the pre-start-up phase is scarce mainly because of the lack of a representative sample (Reynolds and Miller, 1992; Reynolds, 1997). People walking around with an idea of starting a business are difficult to find. Of course, researchers may collect a sample of starting entrepreneurs and question them about their preparation phase retrospectively. However, in such an approach all people who did not succeed in getting a business started will be overlooked (survivor bias). Moreover, retrospective questioning may lead to biased memories (hindsight bias). To avoid survivor bias and hindsight bias, one has to collect a sample of nascent entrepreneurs, i.e., people who are in the process of setting up a business. For example, the researcher may collect a sample of nascent entrepreneurs from among people who take a course in setting up a business at the local Chamber of Commerce. However, the people who take part in such a course may form a biased sample. For example, ethnic minorities are less likely to participate in the regular information and guidance channels. Therefore, as a third desirable characteristic of a research design on success in the pre-start-up phase, one would not

only want to avoid survivor and hindsight bias, but also draw a representative and random sample (Katz and Gartner, 1988). To this purpose, Paul Reynolds of Babson College has set up the Entrepreneurial Research Consortium (ERC). The ERC is an international research effort (joined among others by the United States, Sweden, Norway and the Netherlands) in which nascent entrepreneurs are collected by randomly calling phone numbers. The person who answers the phone is asked: are you currently, alone or with others, setting up a business? If the person answers affirmatively, two exclusions are made. First, it is essential to have an active and manifest desire to set up a business. If he or she is only dreaming about starting up a business, he or she is considered a potential entrepreneur instead of a nascent entrepreneur. Second, someone who has set up a business that is already operational, even though in a start-up phase, must be considered an entrepreneur instead of a nascent entrepreneur. By this design, a relevant, representative and random sample of nascent entrepreneurs is created avoiding the traps of survivor bias and hindsight bias.

In the fall of 1998, 49,936 phone numbers were dialed. An interview was held with 21,393 persons (43%) aged between 18 and 65 years. Eventually, this resulted in a sample of 526 nascent entrepreneurs (2.5% of the sample, which indicates a prevalence rate of 2,5% within the Dutch population between 18 and 65 years old). This prevalence rate is comparable with Scandinavian countries but much lower than that in the United States (Delmar and Davidsson, 2000).

In comparison with a control group (N=586) taken from the 21,393 persons who stated not to be currently setting up a business, the sample of nascent entrepreneurs was relatively male, young, had followed higher education and earned a higher income (van Gelderen, 1999). Of the sample of 526 nascent entrepreneurs, 330 could be contacted one year later (63%) in order to assess the then current status of the start-up effort. Of these 330 persons, 47% started their business, 27% were still organizing, and 26% had abandoned the effort.

To establish the differences in characteristics between these three groups, some independent variables are listed in Table 1. They are classified using the extended model of new venture performance of Chrisman, Bauerschmidt and Hofer, (1998). They consider new venture performance as a function of the personal characteristics of the entrepreneur (E), industry structure (IS), strategy (S), resources (R) and organizational structure, process and system (OS). They propose the following functional relationship: new venture performance = f(E,IS,S,R,OS). Our independent variables can be classified in a similar fashion: demographics and experience are personal characteristics of the entrepreneur; industry sector and technology are part of industry structure; ambition and approach are part of strategy; and capital and third partly loans can be considered as resources. As the ventures are in the pre-startup-phase, no variables pertain to organizational structure, process, or systems. Table 1 provides also the predicted sign of the influence of the independent variables. As few previous studies into success factors in the pre-start-up phase have been done, predictions for the independent variables are not based on literature on the pre-start-up phase. They are derived from the literature on post-start-up firm performance.

Table 1 Independent variables

| <i>personal characteristics</i> | <i>strategy</i> |
|---|--|
| demographics gender (male) age (-) education (+) income (+) daily activity (entrepreneur) | ambition ambition number of employees (+) ambition becoming rich (+) ambition becoming large (+) ending up full- or parttime (fulltime) |
| experience work experience (+) management experience (+) industry experience (+) experience in starting a firm (+) | approach wrote a business plan (+) asked for information/advice (+) starting full- or parttime (fulltime) team (+) |
| <i>environment</i> | <i>resources</i> |
| type of firm techno (-) sector (services) | finance amount of start-up capital (+) third-party financing (+) |

Table 2 lists a review of articles modeling new venture performance. They are published between 1996 and the fall of 2000 in what are generally considered to be the top four journals in entrepreneurship research (JBV, ET&P, JSBM, and SBE). Daily activity is excluded from the review as this variable is not relevant in the post-startup-phase. Ambition was taken as one variable in this review. The results of two earlier reviews by Lussier (1995) and by Cooper and Gascon (1992) are also given in the table. One has to bear in mind that this review gives only a impressionistic overview of success factors, given the differences in samples, research designs, performance measures and methods of analysis used by the different studies (Cooper, 1993).

Table 2 Literature review on relations with performance of the independent variables (SBE, JSBM, ET&P, JBV 1996 - (Fall) 2000)

| | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | 11. | 12. | 13. | 14. | 15. | 16. |
|---------------------------|----|----|----|----|----|----|----|----|----|-----|-----|-----|-----------|-----|-----|-----|
| gender female - male | | | | N | N | + | | | + | | | + | 3 - 2 - 0 | | + | + |
| age young - old | | | | | N | N | N | | | | | | 0 - 3 - 0 | + | +/- | + |
| education low - high | N | N | + | + | N | N | + | + | + | | N | | 5 - 5 - 0 | + | + | + |
| personal income | | | | | | | | | | | | | 0 - 0 - 0 | | | + |
| work experience | | | N | + | | + | | + | | | + | | 4 - 1 - 0 | | | + |
| management experience | | | N | N | | | | N | | | | | 0 - 3 - 0 | + | + | + |
| industry experience | | | N | + | N | | N | | - | N | + | + | 3 - 4 - 1 | + | + | + |
| experience in setting up | | | | N | | | | | | | N | + | 1 - 2 - 0 | | +/- | + |
| techno nascent | - | - | | | N | | | | + | - | | | 1 - 1 - 3 | | | - |
| dummy manufacturing | | | N | + | N | | | | | | - | | 1 - 2 - 1 | | +/- | N |
| dummy trade | | | | N | N | | | - | | | | | 0 - 2 - 1 | | +/- | N |
| dummy business services | | | | N | N | | | N | | | | | 0 - 3 - 0 | | | + |
| dummy consumer services | | | | N | N | | | | | | | | 0 - 2 - 0 | | | + |
| ambition | N | N | | | | | | | | | | | 0 - 2 - 0 | | | + |
| business plan | - | N | | | - | | N | | | | | | 0 - 2 - 2 | + | +/- | N |
| information and guidance | | | N | + | | | N | | | N | + | | 2 - 3 - 0 | + | + | + |
| start fulltime - parttime | N | N | - | | - | - | | - | | | | | 0 - 2 - 4 | | | - |
| solo - team | | N | | | | | N | | | | | + | 1 - 2 - 0 | + | + | + |
| start up capital | + | N | N | + | N | | + | + | + | | | | 5 - 3 - 0 | + | + | + |
| third party loan | N | - | | | | | | | + | N | + | | 2 - 2 - 1 | | +/- | + |

+ = factor significantly contributing to performance

N = factor is neither decreasing nor increasing performance

- = factor significantly decreases performance

1 = Reid and Smith (2000)

2 = Reid (1999)

3 = Basu and Goswami (1999)

4 = Bruderl and Preissendorfer (1998) (effects on survival)

5 = Frese, van Gelderen, and Ombach (2000) (partly unpublished results)

6 = Fasci and Valdez (1998)

7 = Sapienza and Grimm (1997)

8 = Boden and Nucci (2000)

9 = Honig (1998)

10 = Gartner, Starr, and Bhat (1998)

11 = Lerner, Brush, and Hisrich (1997)

12 = Carter, Williams, and Reynolds (1997) (direct effects)

13 = summary of 1 through 12

14 = review by Lussier (1995)

15 = review by Cooper and Gascon (1992)

16 = hypothesis used in this study

In most cases our hypotheses follow from the review, but some variables need further explanation. We hypothesize age to be positively related to performance, given the positive relations of the different types of experience with performance. The number of reports on the age of the founder is quite low. Probably most studies did not directly investigate the age of the founder as they already included experience. The hypothesized sign for services is not derived from the performance literature but rather from the assumption that a business in services can be started very easily, needing fewer resources than a business in manufacturing or in retail. Therefore, services should be associated with nascent entrepreneurs that start a business. Ambition is sometimes studied as a dependent variable (e.g. Cliff, 1998) but not often as an independent variable in performance modeling. We hypothesize ambition to be positively related to performance as we expect ambitious entrepreneurs to be highly motivated. Finally, the use of a business plan is sometimes negatively associated with small business performance. However, in the same studies (Frese, van Gelderen and Ombach, 2000; Reid and Smith, 2000; van Gelderen, Frese and Thurik, 2001) planning (not in the form of a business plan) is positively associated with performance. Therefore, we make no hypothesis regarding the use of business plans.

In the follow-ups held among the sample of nascent entrepreneurs, the current status of the start-up effort was assessed. The actual question used is: How would you classify your firm? Is it (1) operational and running; (2) are you still setting up the business; (3) have you temporarily delayed your start-up effort; (4) have you completely abandoned your start-up effort. Groups (2) and (3) are taken together and classified as the group 'still organizing' because of the reasons people gave for classifying themselves as pausing their start-up efforts (like waiting for a license). In our design it is the entrepreneur himself who defines whether his business is actually started or still in the start-up phase. This implies that entrepreneurs can use different criteria to judge whether they consider themselves started or not. In fact, the question why a nascent entrepreneur considered himself started gave rise to a plethora of answers. In Table 3 these answers are classified using the properties of emerging organizations given by Katz and Gartner (1988). So when interpreting the results, one has to bear in mind that there is an underlying heterogeneity in the performance measure. In fact, in a different study using this data set, the application of theory driven measures of whether a business actually started resulted different explanatory success factors (van Gelderen, 2001).

Table 3 Different definitions of start-up moments

| <i>intention</i> | <i>boundary</i> | <i>resources</i> | <i>exchange</i> |
|----------------------|-----------------------|---------------------|-----------------------|
| wish or desire | registration ch.comm. | arranged finance | first customer |
| idea | sign at magistracy | hired personnel | first cash flow |
| resolution | official address | arranged housing | acceptation in market |
| ambition | business cards | production of goods | a certain scale |
| gave up job | official opening | bought inventory | to derive income |
| searched information | bank account | got license | to buy stock |

FURTHER DATA CONSIDERATIONS

The descriptive statistics of the independent variables are given in Table 4 together with the correlation matrix. Their frequencies and numbers are in Table 5. Five continuous variables (personal income, work experience, management experience, industry experience, and desired start-up capital) were recoded into categories to mitigate the effects of very large numbers. Also, the categories become larger as the average value of the categories increases in order to reflect diminishing marginal returns. Age was recoded into categories to obtain insight into the relations of the different age categories with the other variables.

As can be seen in Table 5, most independent variables had some missing data, most notably personal income and desired number of personnel in five years. For the multivariate analyses, which were done using a multinomial logistic regression technique, an expected maximization procedure was executed to replace missing data based on underlying data patterns, while keeping means and standard deviations constant. Industry sector (manufacturing, trade, business services, consumer services) and daily activity status (employee, entrepreneur, social welfare, student) were recoded into dummy variables.

Table 4: Correlation matrix and descriptive statistics

| | M | SD | 1. | 2. | 3. | 4. | 5. | 6. | 7. | 8. | 9. | 10. | 11. | 12. |
|-------------------------------|------|------|---------------|---------------|--------------|--------------|---------------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|
| 1. gender female - male | 1.70 | .46 | - | | | | | | | | | | | |
| 2. age young - old | 2.67 | .95 | -.04 | - | | | | | | | | | | |
| 3. education low - high | 1.47 | .50 | -.04 | .18** | - | | | | | | | | | |
| 4. personal income | 1.96 | .71 | .01 | .26** | .36** | - | | | | | | | | |
| 5. dummy employee | 0.61 | .49 | .10 | -.10 | -.02 | .07 | - | | | | | | | |
| 6. dummy entrepreneur | 0.21 | .41 | .09 | .12* | .06 | .12* | -.64** | - | | | | | | |
| 7. dummy social welfare | 0.08 | .28 | -.09 | .15** | -.02 | -.18* | -.38** | -.16** | - | | | | | |
| 8. dummy student | 0.04 | .19 | .02 | -.27** | .08 | -.09 | -.24** | -.10 | -.06 | - | | | | |
| 9. amount of employees | 2.49 | 1.16 | .22** | -.05 | .16** | .17** | .01 | .20** | -.18** | .01 | - | | | |
| 10. ambition becoming rich | 1.15 | .35 | .10 | -.12* | .10 | .05 | -.07 | .04 | -.01 | .19** | .17** | - | | |
| 11. ambition becoming large | 1.18 | .38 | .12* | -.12* | .12* | .02 | .03 | .02 | -.06 | .09 | .34** | .27** | - | |
| 12. end up parttime | 1.16 | .36 | -.28** | .08 | .12* | .03 | -.18** | -.03 | .00 | .26** | -.16** | -.01 | -.07 | - |
| 13. work experience | 2.80 | .87 | .05 | .56** | -.08 | .20** | -.02 | .10 | -.02 | -.23** | -.08 | -.09 | .06 | .00 |
| 14. management experience | 2.33 | 1.08 | .13* | .38** | .06 | .28** | .04 | .11 | -.04 | -.15** | .15** | .01 | -.04 | .03 |
| 15. industry experience | 2.54 | 1.16 | .21** | .18** | .00 | .16** | .03 | .11* | -.05 | -.10 | .07 | -.09 | .02 | .12* |
| 16. experience in setting up | 1.21 | .41 | .09 | .15** | .07 | .10 | -.27** | .34** | .05 | -.02 | .10 | .03 | .03 | -.03 |
| 17. techno nascent | 1.40 | .49 | .16** | -.08 | .08 | .04 | -.06 | .12* | .02 | .04 | .26** | .07 | -.12* | .12* |
| 18. dummy manufacturing | 0.11 | .31 | .07 | .04 | -.05 | .10 | .05 | -.01 | -.07 | -.01 | .10 | -.09 | .04 | .04 |
| 19. dummy trade | 0.17 | .38 | -.11* | -.04 | -.14* | -.06 | -.07 | .03 | .04 | -.04 | .04 | -.03 | .00 | .00 |
| 20. dummy business services | 0.29 | .45 | .05 | -.01 | .26** | .21** | .03 | .07 | -.05 | .02 | .09 | .22** | -.02 | .00 |
| 21. dummy consumer services | 0.18 | .38 | -.22** | .17** | .07 | .04 | -.10 | -.06 | .14** | -.01 | -.15** | -.04 | -.03 | -.13* |
| 22. business plan | 1.57 | .50 | .06 | -.01 | .11 | .17** | -.06 | .05 | -.04 | .17** | .29** | .18** | -.19** | .01 |
| 23. information and guidance | 1.75 | .43 | .03 | -.13* | .02 | .08 | .05 | -.07 | .07 | .07 | -.12* | .04 | -.02 | -.03 |
| 24. start fulltime - parttime | 1.53 | .49 | -.25** | .02 | .12* | .05 | .12* | -.24** | .03 | .09 | -.29** | -.02 | .14* | -.38** |
| 25. solo - team | 1.38 | .48 | .12 | -.20** | .07 | .00 | -.02 | .06 | -.10 | .18** | .36** | .11* | -.20** | -.02 |
| 26. start up capital | 2.21 | 1.05 | .22** | -.03 | .03 | .04 | -.05 | .11 | -.01 | -.01 | .31** | .06 | -.14** | .23** |
| 27. third party loan | 1.43 | .48 | .13 | -.04 | .02 | -.08 | -.03 | .00 | .08 | .01 | .20** | .05 | -.12* | .09 |

Note: ** p < .01 and * p < .05

Table 4 (continued): Correlation matrix and descriptive statistics

| | 13. | 14. | 15. | 16. | 17. | 18. | 19. | 20. | 21. | 22. | 23. | 24. | 25. | 26. | 27. |
|-------------------------------|---------------|--------------|---------------|---------------|--------------|---------------|---------------|---------------|-------------|--------------|-----|--------------|--------------|--------------|-----|
| 1. gender female-male | | | | | | | | | | | | | | | |
| 2. age | | | | | | | | | | | | | | | |
| 3. education low - high | | | | | | | | | | | | | | | |
| 4. dummy employee | | | | | | | | | | | | | | | |
| 5. dummy entrepreneur | | | | | | | | | | | | | | | |
| 6. dummy social welfare | | | | | | | | | | | | | | | |
| 7. dummy student | | | | | | | | | | | | | | | |
| 8. personal income | | | | | | | | | | | | | | | |
| 9. amount of employees | | | | | | | | | | | | | | | |
| 10. ambition becoming rich | | | | | | | | | | | | | | | |
| 11. ambition becoming large | | | | | | | | | | | | | | | |
| 12. end up parttime | | | | | | | | | | | | | | | |
| 13. work experience | - | | | | | | | | | | | | | | |
| 14. management experience | .59** | - | | | | | | | | | | | | | |
| 15. industry experience | .29** | .34** | - | | | | | | | | | | | | |
| 16. experience in setting up | .03 | .12* | .14* | - | | | | | | | | | | | |
| 17. techno nascent | -.15** | -.08 | .01 | .06 | - | | | | | | | | | | |
| 18. dummy manufacturing | .02 | .01 | .10 | -.01 | .26** | - | | | | | | | | | |
| 19. dummy trade | -.03 | -.02 | -.17** | .04 | -.04 | -.16** | - | | | | | | | | |
| 20. dummy business services | -.14* | -.05 | .02 | .03 | .05 | -.22* | -.29** | - | | | | | | | |
| 21. dummy consumer services | .08 | .03 | -.11* | -.01 | -.11* | -.16** | -.21** | -.30** | - | | | | | | |
| 22. business plan | -.03 | .02 | -.03 | -.04 | .15** | .10 | .03 | -.04 | -.07 | - | | | | | |
| 23. information and guidance | -.08 | -.12* | -.03 | -.19** | .08 | .04 | .03 | .07 | -.05 | .10 | - | | | | |
| 24. start fulltime - parttime | -.10 | -.08 | -.10 | -.02 | -.03 | -.05 | -.03 | .16** | .11* | -.14* | .10 | - | | | |
| 25. solo - team | -.26** | -.03 | -.01 | .08 | .18** | .02 | -.01 | .07 | -.05 | .06 | .01 | -.02 | - | | |
| 26. start up capital | .05 | .11 | .14** | .10 | .16** | .01 | .01 | -.12* | .00 | .17** | .00 | .34** | .24** | - | |
| 27. third party loan | -.07 | -.08 | .00 | -.06 | .07 | -.05 | .08 | -.17** | .00 | .13* | .00 | .14* | .09 | .47** | - |

Note: ** p < .01 and * p < .05

Table 5 Frequencies and univariate analyses of the relationships of the explanatory variables with the performance categories.

| variable | % N | categories | def. stop 26% | still busy 27% | start 47% | chi-sq. + sign. | variable | % N | categories | def. stop 26% | still busy 27% | start 47% | chi-sq. + sign. |
|--|--------------------------------|--|---------------------------------|---------------------------------|---------------------------------|--|---|--------------------------|--|--------------------------|--------------------------|--------------------------|--|
| gender (n=330) | 30% 70% | female male | 25% 26% | 39% 22% | 37% 52% | 10.09 ** | education (n=321) | 53% 47% | low/middle edu. high education | 25% 25% | 28% 26% | 47% 49% | 0.14 |
| age (n=327) | 7% 42% 31% 17% 3% | age 18-24 age 25-34 age 35-44 age 45-54 age 55-64 | 17% 25% 25% 32% 18% | 25% 30% 24% 28% 18% | 58% 45% 51% 41% 64% | 4.97 | daily activity (n=309) (dummy variables) | 65% 22% 9% 4% | employee entrepreneur social welfare student | 29% 13% 29% 33% | 29% 16% 43% 25% | 42% 71% 29% 42% | 5.51 18.74** 5.11 0.41 |
| personal income (n=253) | 32% 40% 28% | \$ 0 - 1.200 p.m. \$ 1.201-2.000 p.m. \$ > 2.000 p.m. | 23% 30% 21% | 32% 31% 21% | 45% 40% 57% | 5.82 | end up full- or parttime (n=317) | 84% 16% | fulltime parttime | 25% 27% | 27% 29% | 48% 45% | 0.14 |
| ambition become rich (n=320) | 85% 15% | to earn a living to become rich | 26% 23% | 28% 30% | 47% 47% | 0.16 | ambition to grow large (n=321) | 82% 18% | to stay small to grow large | 22% 36% | 28% 26% | 50% 38% | 5.09 |
| ambition amount of employees within five years (n=261) | 28% 25% 22% 19% 6% | 0 employees 1-2 employees 3-6 employees 7-25 employees >25 employees | 23% 22% 19% 31% 44% | 28% 28% 33% 25% 19% | 49% 51% 47% 45% 38% | 5.96 | work experience (n=328) | 6% 33% 38% 24% | 0-3 years 4-10 years 11-20 years >20 years | 22% 25% 24% 27% | 28% 28% 27% 27% | 50% 47% 48% 47% | 0.27 |
| management experience (n=327) | 27% 33% 20% 20% | 0-1 year 2-5 years 6-10 years > 10 years | 29% 24% 20% 27% | 30% 28% 28% 24% | 41% 49% 52% 49% | 2.81 | industry experience (n=328) | 27% 21% 24% 28% | 0-1 year 2-5 years 6-10 years > 10 years | 37% 24% 12% 26% | 30% 30% 26% 25% | 33% 46% 63% 50% | 18.86 ** |
| experience in firm founding (n=330) | 79% 21% | no yes | 26% 24% | 28% 24% | 46% 51% | 0.66 | techno nascent (n=330) | 40% 60% | no yes | 25% 26% | 28% 26% | 46% 49% | 0.36 |
| industry type (n=245) (dummy variables) | 14% 23% 39% 24% | manufacturing trade business services consumer services | 11% 32% 23% 27% | 17% 27% 26% 34% | 71% 41% 51% 39% | 9.33 ** 1.74 0.62 2.28 | start-up capital (n=311) | 31% 34% 16% 18% | 0-10.000 10.001-50.000 50.001-200.000 > 200.001 | 23% 16% 33% 35% | 25% 28% 20% 32% | 52% 56% 47% 33% | 13.40 * |
| third party money (n=307) | 57% 43% | only own money makes a loan | 18% 32% | 24% 31% | 58% 37% | 14.87 ** | business plan (n=330) | 43% 57% | no businessplan business plan | 25% 26% | 26% 28% | 49% 46% | 0.23 |
| information and guidance (n=328) | 25% 75% | makes no use of it receives inf. & sup. | 32% 23% | 30% 27% | 38% 50% | 3.99 | start fulltime or parttime (n=317) | 47% 53% | fulltime start parttime start | 26% 23% | 19% 34% | 55% 43% | 9.02 * |
| team (n=318) | 62% 38% | solo team | 23% 30% | 26% 28% | 52% 43% | 2.90 | | | | | | | |

Note: ** p < .01 and * p < .05

DESCRIPTIVE, UNIVARIATE AND MULTIVARIATE RESULTS

Very few non-biased samples of entrepreneurs in the pre-startup phase exist. Tables 4 and 5 provide detailed descriptive statistics on what was until now unknown territory. It is striking that while in comparison to a control group the nascent entrepreneurs are relatively highly educated and earn a high income, only a minority of them prefers to grow large, to become rich, to start full time, and to use a third party loan. These findings point to a tendency of people of higher social strata to start a business next to their former activities. This is also reflected by the dimensions generated by a non-linear principal component analysis (Bijleveld and van der Kamp, 1998). Table 6 shows three dimensions consisting of variables with a component loading higher than .35. The first dimension clusters a number of variables connected with ambition, the second one a number of variables connected with age, while the third dimension groups the variables as described above: higher income, higher educated people that strive for a part-time business in the business services.

Table 6 Non linear principal component analysis

| <i>dimension 1: ambition</i> | <i>dimension 2: age</i> | <i>dimension 3: yuppie</i> |
|------------------------------|----------------------------|----------------------------|
| amount of employees (.72) | work experience (-.82) | education (.62) |
| start-up capital (.61) | young (.77) | business services (.61) |
| start fulltime (.52) | management exp. (-.67) | income (.56) |
| male (.51) | industry experience (-.51) | end part-time (.39) |
| becoming rich (.38) | student (.45) | |
| wrote business plan (.38) | team (.39) | |
| entrepreneur (.37) | | |
| techno nascent (.37) | | |
| third party loan (.36) | | |

Note: component loadings between brackets

The relationships of the independent variables with performance (started, still organizing, abandoned effort) are analyzed both in a univariate framework and a multivariate one. Univariate analyses are done using simple chi-square analyses, as the dependent variable consists of three categories. Table 5 gives the results of the chi-square statistics as well as the frequencies per success category. We find significantly more females and people with the intention to start part-time that are still busy organizing. These two groups are highly correlated, as can be seen in Table 3. Moreover, the two dummy variables 'manufacturing' and 'regarding oneself as an entrepreneur' are highly discriminative between the categories of "actually started" and "abandoned". Industry experience is a success factor, as opposed to other types of experience, but only up to a certain amount of years. Starting out without making a loan is a highly significant success factor, as opposed to wishing to start out with a large start-up capital.

Most of these results emerge also in a multinomial logistic model presented in Table 7. This type of regression is similar to logistic regression but more general because the dependent variable is not restricted to two categories. The vector coefficients do not represent an absolute effect but the marginal effect of an explanatory variable on the probability of 'abandoned' and 'still organizing' relative to the probability of 'actually started' (Cooper, Gimeno-Gascon, and Woo, 1994; Long, 1997). In Table 7 the nascent entrepreneurs that actually started serve as a benchmark group for the persons who gave up (first column) and for the persons who were still setting up their business (column 2). A comparison between the nascent entrepreneurs that abandoned their start-up effort and entrepreneurs still organizing is not presented, as no significant differences are found. Employee status was left out of the model because it took up 65% of the variable 'daily activity' (see Table 5), leaving identification problems for the other dummies representing daily activity. When distinguishing between nascents that actually started and nascents still organizing, we again find females and part-timers still setting up, and entrepreneurs being less likely to be still organizing. As a success factor of nascent entrepreneurs who finally started, again only the following factors emerge: manufacturing, regarding oneself as entrepreneur, industry experience and using own money. Start-up capital loses its significance due to the non-linearity of its relationship with performance, as can be seen in Table 5.

Goodness-of-fit is measured in a manner similar to Cooper, Gimeno-Gascon and Woo (1994). For logistic regression models, a straight R^2 statistic is not available. Some alternatives pseudo R^2 measures have been calculated. The Nagelkerke R^2 equals 0.306, whereas the McFadden equals 0.148. A common measure for determining the fit of the model in these kinds of applications is the Hosmer and Lemeshow test (Hosmer and Lemeshow, 1989), where the probability of an outcome is specified rather than the actual occurrence of an outcome. For all three categories the test did not point at rejection of the hypothesis that the model fits well (the cases were divided into 10 subgroups of 33 observations each). The p-values associated with the chi-square test were 0.58, 0.24 and 0.22 for respectively abandoned, still trying and started. Given that the nascent entrepreneurs who are still trying are placed in a temporary category (every person in this category should ultimately belong to the category 'abandoned' or 'started' and the timing for transfers into one these two categories may therefore be important), we conclude that our model fits the data reasonably well.

Table 7 Multinomial logistic model of success in the pre-start up phase.

| <i>independent variables</i> | <i>vector of coefficients associated with</i> | | |
|-------------------------------|---|---------------------------|---------------------------|
| | <i>'abandoned'</i> | <i>'still organizing'</i> | <i>'actually started'</i> |
| intercept | 1.25 | 2.63 | 0 |
| 1. gender female - male | -.44 | -1.06 ** | 0 |
| 2. age young - old | .38 | -.07 | 0 |
| 3. education low - high | -.33 | -.22 | 0 |
| 4. personal income | -.07 | -.25 | 0 |
| 5. dummy entrepreneur | -1.80 ** | -1.18 * | 0 |
| 6. dummy social welfare | .20 | .80 | 0 |
| 7. dummy student | .61 | -.20 | 0 |
| 8. amount of employees | .25 | .22 | 0 |
| 9. ambition becoming rich | -.59 | -.16 | 0 |
| 10. ambition becoming large | .74 | .26 | 0 |
| 11. end up part time | -.24 | -.57 | 0 |
| 12. work experience | .32 | .46 | 0 |
| 13. management experience | -.19 | -.15 | 0 |
| 14. industry experience | -.36 * | -.17 | 0 |
| 15. experience in setting up | .37 | .24 | 0 |
| 16. techno nascent | .07 | -.05 | 0 |
| 17. dummy manufacturing | -1.66 * | -1.11 | 0 |
| 18. dummy trade | .03 | -.29 | 0 |
| 19. dummy business services | -.08 | -.08 | 0 |
| 20. dummy consumer services | -.24 | -.08 | 0 |
| 21. business plan | -.03 | .32 | 0 |
| 22. information and guidance | -.72 | -.59 | 0 |
| 23. start fulltime - parttime | .44 | 1.16 ** | 0 |
| 24. solo - team | .50 | .36 | 0 |
| 25. start up capital | .25 | .30 | 0 |
| 26. third party loan | .93 * | .60 | 0 |

Note: ** $p < .01$ and * $p < .05$

The variables connected with 'giving up' or 'abandoned' respectively 'still organizing' do not necessarily coincide with the reasons given by the respondents when asked why they had given up their business respectively what remained to be done before they would get started (Table 8). The main reason given for abandoning the start-up effort was the opportunity offered by a job. Of course, the choice for another job might be influenced by difficulties in the start-up process. Obtaining appropriate finance seems the major bottleneck of the people still busy organizing.

Table 8 Reasons cited for 'giving up' and 'still busy organizing'

| <i>reasons for giving up</i> | <i>N</i> | <i>%</i> | <i>reasons for still organizing</i> | <i>N</i> | <i>%</i> |
|------------------------------|----------|----------|-------------------------------------|----------|----------|
| 1. other/better job | 21 | 25 | 1. finance | 24 | 27 |
| 2. market/risks | 15 | 18 | 2. juridical | 16 | 18 |
| 3. finance | 14 | 17 | 3. market/risks | 12 | 13 |
| 4. private reasons | 11 | 13 | 4. location | 12 | 13 |
| 5. other | 23 | 27 | 6. lack of time | 7 | 8 |
| | | | 7. private reasons | 5 | 6 |
| | | | 8. other | 14 | 16 |
| total | 84 | 100 | total | 90 | 100 |

DISCUSSION

Characteristics of nascents, i.e., people who are in the process of setting up a business, are hardly dealt with in the area of entrepreneurship research. Our results must be seen as an empirical step that needs to be followed up by a more in-depth theoretical approach that investigates the entire underlying process. Apart from generating a large number of descriptive statistics, the present study sheds light on the impact and relative importance of some explanatory variables connected with the pre-start-up phase. Our results lead to some intriguing questions. We give three examples. First, women need more time to actually start up a business. Is this a question of difficulties in obtaining access to resources or of differing values (Brush, 1992; Fischer, Reuber, and Dyke, 1993; Verheul and Thurik, 2001)? The strong correlations between being male and management and industry experience, respectively point to the first position, while the strong correlations between being female and part-time business ownership point to the second position.

Second, we find that a third party loan and a higher start-up capital are variables connected with failure in the nascent phase. This indicates a difference between the pre-startup phase and the post-startup phase, as it has repeatedly been shown that capitalization is an important success factor in the post-startup phase (Table 2). The question is whether the selection process that takes place in the pre-startup phase is healthy or unhealthy. Does the group of nascents that want to start out large consist of relatively many dreamers, who are rightfully rejected by banks and other financiers? Or do these people calculate their prospects carefully and then either start or back off (Carter, Gartner, and Reynolds, 1995)? Or do the financial markets in the Netherlands lack opportunities for nascent entrepreneurs? In any case, for many nascent entrepreneurs it is beneficial to start out modestly.

Third, a striking dissimilarity between pre-start-up and post-start-up has to do with experience. It is puzzling that industry experience is a success factor, while work experience, management experience, and experience in setting up a business as well as education are not. Particularly management experience has been repeatedly shown to affect post-start-up performance (Lussier, 1995). Can the result that having knowledge of the industry and a network in the market is decisive be replicated, and why would this result emerge? Perhaps knowledge of an industry and a network in a market are crucial for actually starting a business, while after start-up management experience takes over in importance. As industry experience is significantly correlated with age, it might be that industry experience opens a strategic window for older people to set up a business (Harvey and Evans, 1995).

The present study has a number of weaknesses and limitations that serve as suggestions for further research. First, in survey research one is limited to variables that are easily accessible. This does not mean that these variables are necessarily the most important variables (Cooper, 1993). The skills, knowledge and motives of nascents are not directly accessed. Also the so-called "how" variables (vanderWerf, 1989) are not taken into account, for example how resources are developed, how relationships are maintained, and how information is gained (Cooper, 1993). Second, as Table 8 indicates, there is only a partial connection between the success and failure factors in our model on the one hand and reasons actually given by people themselves as to why they have abandoned or why they were still busy organizing on the other. Of the four reasons that are usually given for why people abandon their start-up effort, three are not measured in our model. A good job offer, unfavorable outcomes of market research, and private reasons could be taken into account in further modeling of pre-startup performance. The same reasoning applies to the actual reasons given by people why they were still busy organizing. Third, our analyses of success and failure factors provide a general picture only. This limits the practical relevance, as it is well known that there is a large variety in types of ventures and types of entrepreneurs. So when analyzing

specific types of entrepreneurs, more detailed pictures of factors connected with success and failure emerge that might very well deviate from the general picture. Of course, analyses of the success factors for specific types of entrepreneurs would require a larger or more specific sample. Fourth, the dependent variable is not based on a uniform criterion. This means that people in the same situation but with different norms might consider themselves as "started" or "still organizing", respectively. Although the subjective viewpoint of the nascent entrepreneur is important, validity of our dependent variable would increase if objective measures were added.

Government policy in the old, managed economy was largely about control. High certainty dictated that it was known what to produce, how it should be produced, and who would produce it. The role of government was to constrain the power of large corporations, which were needed for efficiency under mass-production, but posed a threat to democracy through their concentration of power (Chandler, 1977 and 1990). Under the old, managed economy the policy debate centered on competition policies (antitrust), regulation and public ownership of business (Teece, 1993). In the new, entrepreneurial economy these constraining policies have become increasingly irrelevant. The central role of government policy in the new, entrepreneurial economy is enabling in nature. The focus is to foster the production and commercialization of knowledge. Rather than focus on limiting the freedom of firms to contract through antitrust, regulation and public ownership, government policy in the new, entrepreneurial economy targets education, increasing the skills and human capital of workers, and facilitating the mobility of workers and their ability to start new firms (Audretsch and Thurik, 2001). Knowledge of their motives and behavior in the pre-start-up phase is essential for creating a portfolio of new enabling policies. Therefore, we believe that efforts to understand predictors of pre-start-up performance will become an important part of entrepreneurship research. The present study is one of the first to contribute to this new area. We hope the simple model described here will encourage the work yet to be done.

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