

# New Venture Initiation: Factors Influencing Success

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## INTRODUCTION

The authors recognize that the definition of "entrepreneur" may still be subject to varying interpretation. For the purposes of this study, the term entrepreneur will be used to include a broad entrepreneurial behavior along the lines of Hisrich and Peters' definition that "Entrepreneurship is the process of creating something different with value by devoting the necessary time and effort, assuming the accompanying financial, psychic and social risks and receiving the resulting rewards of monetary and personal satisfaction" (5).

Previous research on entrepreneurial success, has explored both the cognitive and behavioral characteristics of the entrepreneur as well as the contextual variables surrounding the business venture. This study has been designed to explore specific variables relative to (a) the entrepreneur, (b) the context of the business venture and (c) the product or service itself. It is the intent of this survey to identify and confirm the impact these variables have on the initiation and eventual success of new business ventures.

### Entrepreneurial Characteristics

Similar to early studies in the leadership field, initial research in the field of entrepreneurship has focused on the personality and trait characteristics of those who have been successful. Many such studies (1, 2, 8, 9) have attempted to profile the successful entrepreneurial personality but with a variety of inconsistent results. There does, however, seem to be some consensus among researchers, entrepreneurs and venture capitalists that the quality and competence of the entrepreneur is critical to a venture's success.

A recent study by MacMillan, Siegel and Narasimha (6) supports the overriding philosophy that irrespective of product, market or financial criteria; it is the entrepreneur that most determines success. This study identified several cognitive and behavioral aspects of the entrepreneur deemed as significant to the venturing decision. Specific factors identified as most influential were the "amount and type of previous managerial or leadership experience," and "level of familiarity with relevant target markets and geographical areas."

It is not expected that these should be accepted as stand alone measures of future success, but that they be considered as relevant assessments since they include many of the important entrepreneurial characteristics. Potential entrepreneurs have been encouraged to develop personal skills in many related areas, but it is proposed that the above two measures capture the essence of those most related to success in the new venture.

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Additional factors were proposed more recently by Greenberger and Sexton (3) that are more internally measurable. More specifically, these are the "self-perceptions" of individuals as the type to be successful as entrepreneurs. These factors (amount and type of previous experience, familiarity with target markets and geographic area, and entrepreneur self-perceptions) are the factors used in this study as the measure of "entrepreneurial characteristics."

### **Situational Variables**

Further analysis of entrepreneurial research (3, 6, 7, 10) broadens the scope by including the operating context and environment of the business venture. Again, seeming to follow the pattern of studies in leadership, the search for factors influencing entrepreneurial success has led to the examination of situational variables that are related, but external to, the entrepreneur. The situational leadership literature has explored a variety of variables over the years pertaining to the complexity and structure of the task, existing relationships between leaders and followers and in the maturity levels of subordinates. The study of situational variables specific to successful entrepreneurship, however, seems to be focused more on the actual context of the proposed new venture.

A commonly accepted situational model of new venture initiation seems to be emerging that proposes, in addition to the entrepreneur characteristics, a set of operationally defined situational variables that influence new venture success. This category of variables includes "salient life events" of the potential entrepreneur that provide an unusual stimulus or impetus to move an individual in the direction of self employment and "positive social support" as perceived by the potential entrepreneur.

Salient life events are defined as personal, professional or financial changes in the entrepreneur's life that are perceived as important (and therefore salient) to the new venture decision. Divorce, death of a family member, loss of current employment, changes in technical skills, serious financial setbacks or unexpected inheritances are all examples of such salient life events.

Social support can be best described as favorable indications from others (to the entrepreneur) that the new venture plans are viewed as credible and/or desirable. This support must necessarily come from family, friends, colleagues and community leaders (including the favorability of local laws and regulations).

An additional variable referred to in much of the situational literature and that finds support as an important contextual consideration is the entrepreneurs' perception that sufficient financing is available to them.

Thus, the category of "situational variables" for this study will include salient personal, business and financial life events; support from family, friends and community; and the entrepreneur's perception of available financing.

### **Product/Service Idea**

Factors closest to the new venture decision are those directly related to the product or service idea itself and often have the greatest impact on the venture's eventual success. The influence of product type, service demand, and level of competition all have a strong face validity on the entrepreneur's decision to begin a new venture, but their statistical validity and integration with the situational and entrepreneurial variables have not been fully explored. In one study on corporate venturing (11) a set of intrinsic factors were shown as correlated to the successful launching of new corporate investment decisions.

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The factors showing the highest statistical correlation to new investment success are similar to the entrepreneurial product and service elements associated with new venture success. Entrepreneurial research by Hisrich and Brush (4) and Welsch and Young (12) supported this notion of product/service related factors. From this research base come the three common elements of "type of product," "stage of product development," and "degree to which the existing markets have already been tested or proven."

These are not suggested as comprehensive measures of product-related variables but are used in this study as representative of the "product/service" factors most influential in new venture decision.

## METHODOLOGY

### Introduction

A survey questionnaire was drafted that consisted of six questions addressing the characteristics of the entrepreneur, seven questions concerning situational variables and three on the product/service elements. Three additional questions were included as measures for the dependent variables; (1) whether or not a venture had actually been started, (2) whether or not it was still in operation after two years and (3) if it was still in operation, what was its reported level of profitability.

All responses from returned questionnaires were input to the crosstabulations program of the SAS Statistical package to calculate chi square values. All data were analyzed to determine any significant relationships among the sixteen independent variables and the three dependent variables.

### The Sample

The sample for this study was drawn from the records of a regional office of the Small Business Development Center (SBDC) located in the state of Washington. Only those clients of the SBDC were selected who had identified themselves during the year as interested in starting a business venture. By definition, this group had not yet started a business when they contacted the SBDC. Those who indicated their interest was to start a cooperative rather than a business venture were eliminated from the sample. This process eliminated 190 subjects and resulted in a sample of 1,005 potential business owners included in the survey. Three hundred and forty-six (346) usable questionnaires were returned, representing a 34% response rate for a reliability factor above the 95% level.

The majority of those responding were male (58%), with at least a bachelor's degree (53%) and interested in the service industries (55%). Additionally, 50% of the respondents were forty years old or older. Thus, the respondents in this study were more dominantly male, better educated and somewhat older than the general population of the state. It is also interesting to note that over 80% of those responding had previous managerial or leadership experience and nearly 30% had owned a previous business. Therefore, it may not be surprising that 58% of the respondents actually did start a new venture and that 76% were still in business two years later.

## RESULTS

Table 1 lists the independent variables used in this study and shows the response frequencies from the total sample. It also lists the dependent variables and their response frequencies from the total sample.

While these statistics show some interesting results and patterns, they do not address the question of significance. Table 2 presents the chi-square results relevant to each of the independent variables with levels of significance noted.

**Table 1. Frequencies of Reported Characteristics by Category**

Entrepreneurial Characteristics	Less Than One Year	One Year Or More	
1. Previous mgt. experience in a small business	45%	55%	
2. Previous mgt. experience in a large business	72%	28%	
3. Previous mgt. experience in non-profit organization	36%	64%	
4. Previous experience as business owner	72%	28%	
	<u>No</u>	<u>Yes</u>	
5. Self-perception as the entrepreneurial type	29%	71%	
6. Familiar with geographic area and target market	27%	73%	
<b>Situational Variables</b>			
	<u>No</u>	<u>Yes</u>	
7. Salient personal changes	82%	18%	
8. Salient business changes	49%	51%	
9. Salient financial changes	65%	35%	
10. Support of family	26%	74%	
11. Support of friends	32%	68%	
12. Support of community	26%	74%	
13. Financing perceived as available	41%	59%	
<b>Product/Service Idea</b>			
14. Type	Manufacturing 20%	Service 55%	Retail 25%
15. Stage of development		Needs Little Development 37%	Needs Much Development 63%
16. Marketing process		Market Largely Untested 54%	More Proven Market 46%
<b>Dependent Variables</b>			
	<u>No</u>	<u>Yes</u>	
1. Started new business venture since initial SBDC contact	42%	58%	
2. Business still operational after two years	24%	76%	
3. Level of self-reported profitability if still in operation	Closed or Below Breakeven 35%	At or Near Breakeven 31%	Highly Profitable 34%

**Table 2. Significance of Influencing Factors in Relation to the Decision to Start, Still Being in Business After Two Years and Level of Profitability**

Influencing Factors	Relationship to the Decision to Start	Relationship to Being Still in Business	Relationship to Level of Profitability
<b>Entrepreneurial Characteristics</b>			
1. Exp: Small Bus.	NS	NS	*
2. Exp: Large Bus.	NS	**	NS
3. Exp: Non-Profit	NS	NS	NS
4. Previous Owner	NS	NS	*
5. Perceived Ent. Type	NS	*	**
6. Familiarity with Market	*	**	**
<b>Situation Variables</b>			
7. Personal Life Changes	NS	NS	NS
8. Business Life Changes	NS	NS	NS
9. Finance Life Changes	NS	NS	NS
10. Family Support	NS	NS	*
11. Friends Support	NS	NS	*
12. Community Support	NS	NS	NS
13. Perception of Available Financing	**	NS	NS
<b>Product/Service Idea</b>			
14. Type	NS	NS	NS
15. Stage of Development	NS	*	NS
16. Proven Market	NS	NS	NS

NS = No significant relationship

\* = Significant at the .05 level

\*\* = Significant at the .01 level

## DISCUSSION

### Entrepreneurial Characteristics

The first area explored in this study was the characteristics of the entrepreneurs themselves. Previous management experience was not an important factor in their start-up decision, but was a significant determinant to still being in business two years later as well as the venture's reported level of profitability.

It is interesting to note that previous experience in larger businesses was significant in relation to still being in business, but that previous ownership and small business experience were more influential in the venture's level of profitability. This may in part be a result of

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experience in larger firms developing a set of expectations and perceptions that lead to the persistence and patience required to continue in the new venture. Experience in small businesses and previous business ownership, on the other hand, may be more likely to develop specific small business management skills that are inclined to improve future profitability.

It is unclear from our results whether this difference is likely to become less significant as these skills are developed in the current venture or if they are critical to have in the early stages of a new venture and thus are significant from the beginning.

Respondents in this study rating themselves as the type to be successful as entrepreneurs were impacted surprisingly little in their decision to start a new venture. Belief in themselves as the entrepreneur type, however, was related both to their still being in business after two years and to their current level of success. While initially a surprise, the independence of this self-perception and the decision to start seems to imply that the start-up decision may be less threatening than has previously been supposed. It is also possible that the decision to start a new venture is often determined without a clear understanding of the requirements or consequences involved. In any event, the required level of self-confidence seems particularly important to meeting the challenges and uncertainties of continuing and succeeding in the new business venture.

The final entrepreneurial characteristic measured in this study was the entrepreneur's familiarity with the geographical area and proposed target market. This was the only characteristic that was important to all three dependent variables. These results are not a surprise since it implies local knowledge, previous market experience and good working relationships in the market area. Such relationships indicate that the entrepreneurial skills of local networking and establishing a working knowledge of the marketplace is, perhaps, one of the best places to begin.

### **Situation Variables**

Secondly this study explored the environment, context and situations surrounding the business venture. The first of these, salient life changes, has a common sense appeal that was supported by several individual comments from the respondents in the study. It was an unexpected result to find that such life changes were not reported as important to the entrepreneur's decision to begin. Notably, most of the written comments reflected very strong feelings about such changes in their lives. Examples such as "being unfairly fired," "being left financially destitute," "having to start all over again," etc., seemed to be indications that the strength of the emotion may account for its reported level of visibility, but not in fact be a universal factor of most entrepreneurial decisions.

While support from neither family, friends nor community, found support from our survey in relation to the start-up decision or to still being in business two years later, support from family and friends was shown to be significantly related to the level of venture profitability. It seems likely that the initial decision as well as persistence do not necessarily require such indications of support, but that once in business, support groups provide a valuable resource and are critical to entrepreneurial success.

Perhaps the reason that perceived support from local governments was found not to be a factor is a function of the degree rather than the frequency of this response. Respondents who did comment were particularly vocal when they perceived any type of governmental roadblock. A reading of comments shows significant frustration and bitterness among some of these entrepreneurs. This may indicate the amplitude of the problem is responsible for its apparent visibility rather than any relationship to a universal reality.

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Results of this study confirm a significant relationship between the perception of available financing and the decision to start a business venture. There was, however, no significance to the relationship between available financing and still being in business two years later or the level of profitability. While our study admittedly did not measure the sufficiency of available start-up capital, it appears that the question of financing initially influences the entrepreneur's decision but that either businesses without sufficient capital are not undertaken or that once the business are launched, the capabilities and support systems of the entrepreneur are able to overshadow this concern.

### **Product/Service Idea**

As stated earlier, 20% of the respondents were in manufacturing ventures, 54% in the service industry and 26% in retail. This pattern gives a fair examination of all three business types, but in this study, business type showed no significant relationship to beginning, continuing or succeeding in the new business. Previous studies have linked profitability levels as well as financing needs to the manufacturing or technical businesses. This study shows no such relationship, probably due to the subjective measure of profitability that was utilized.

In this study, profitability was reported only in relation to the firm's own breakeven level rather than to any percentage or dollar level. This reduces any reported effect of larger volumes or capitalization rates and reflects a more realistic evaluation of how venture type affects future levels of "Success."

When asked what stage of development their idea was in, 63% responded as needing considerable development while only 37% stated little development was needed. This factor shows no relationship to either the start-up decision or future levels of profitability. It is, however, significantly related to still being in business two years later. This again raises the possibility that the decision to start is not always made from a position of clear understanding of what lies ahead. It also suggests, perhaps, that the entrepreneur is still hopeful after two years that as the product nears its final development stages it may become more profitable. Since two years may not be sufficient time to bring a venture to full development and profitability, this factor may be more directly related to the decision to remain in business than in its initial inception or its potential profitability. It would be interesting to compare these results after another two years to see if this explanation is supported.

The final relationship examined in this study was the extent to which the relevant advertising and sales process had been proven by others in the industry prior to the start-up decision. This was a self-reported measure, after-the-fact and no significance was found in its relationship to any of the three dependent variables. A review of the written comments indicated this question was not clearly understood and we have thus discounted these results and would recommend a more clearly defined measure be used to determine the significance of this relationship.

## **CONCLUSIONS**

While the results of this study suggest some relationships exist between these variables and the entrepreneurial decision to start and to the venture's level of success, it is interesting to note that the decision to start is not influenced by the same factors that are related to future success.

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## Start-up Decision

The initial decision to begin a new business venture did not show a significant relationship with most of the factors in our study. In fact, only two, familiarity with geographic market and perception of available financing were shown to significantly influence the start up decision. While it seems probable that the entrepreneur's knowledge of local markets and their perception of access to start-up funds would greatly impact their decision to give it a try, it was somewhat of a surprise that previous business experience and important life changes did not.

To some extent, this may be explained by the fact that while life changes (personal, business and financial) on occasion often do include high emotional involvement and thus high visibility, they are not as universally prevalent as previously supposed. However, it may also be explained by looking at these variables in relation to one another. It may be that potential entrepreneurs often do not understand all that is involved in managing their own business and view their existing knowledge of the market and their perception of available funds as the major or overriding concerns when making their initial decision to actually begin.

## Probability of Success

Businesses still in operation after two years did not all report equal levels of success. They did, however, show significant relationships to five of our variables regardless of their reported success levels; previous business ownership, previous managerial experience, perception of self as successful entrepreneurial type, familiarity with geographic market and stage of product/service development. The situational measures in our study showed no significant relationship to persisting after two years, perhaps due to the strong role that the entrepreneurial characteristics play in this process. These findings support the concept that the perceptions and abilities of the entrepreneur will often be the more dominant factors in continuing the business. While the authors are not so naive as to presume the situational variables are of no consequence, this study may be an indication that public policy directed toward these variables may not provide the anticipated impact on entrepreneurial decisions.

It was also of note that the reported level of profitability in our survey was shown to be significantly related to as many as six factors; previous business ownership, previous managerial experience, perception of self as the successful entrepreneurial type, familiarity with geographic market, support of family, and support of friends.

The product/service type, stage of development and degree to which markets had been proven all met the test of independence in our study and were not shown as significantly related to future profitability. Support of family and friends as an important influence on future profitability levels may be an indication that the continued effort and enthusiasm of entrepreneurs is strengthened or enhanced by their personal support structures. While a causal affect was not proven in our study, it does support the notion that factors enhancing the professional confidence of entrepreneurs are of critical importance to the success of new business ventures.

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