

Nascent Entrepreneurship Research: Achievements and Opportunities

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ABSTRACT. This paper provides an overview of the articles contained in this issue, all of which were presented at a major research conference on nascent entrepreneurship hosted by the Centre for Entrepreneurship, Durham University UK in September 2005. It also sets the papers in their broader research context and identifies some of the achievements made and challenges faced by researchers in this relatively new field.

KEYWORDS: nascent entrepreneurship, new venture creation.

1. Nascent entrepreneurship as a research field

Entrepreneurship is often defined in terms of new venture creation (Gartner, 1988; Parker and Gartner, 2004). New venture creation is a topic that stimulates intense discussion and research among academics, as well as the interest of practitioners engaged in the process of promoting start-ups.

Applied researchers interested in empirical analysis of new venture creation are beginning to agree that new data sets, methods and definitions are needed to analyse the phenomenon properly. It is becoming clear that data on new firms from public records do not reflect the start-up process accurately. There are two principal reasons for this. First, entry into entrepreneurship is not always successful: only about one half of all aspiring business founders succeed in creating new organisations that appear in public records (Aldrich, 1999). Hence studies of start-ups based on samples of established firms are prone to a “survival” bias, missing many interesting cases

that do not succeed in completing the process of market entry. Survival bias is important because the characteristics that affect survival are not necessarily the same as those affecting start-up (Gartner et al., 2004). Second, surveys which ask entrepreneurs who do succeed in starting up to recall the circumstances and attitudes present at the inception of the venture are susceptible to a “hindsight” bias. “Hindsight” bias refers to the incorrect reporting of information to survey interviewers caused by memory loss and the re-interpretation of facts as a consequence of events that occurred *after* start-up rather than before it.

Recognition of these limitations of conventional data sets stimulated a pioneering consortium of researchers, led by Paul Reynolds, to develop new data sets that avoid the problems of survival and hindsight bias. There are two main data sets that attempt to do this in common use: the Panel Study of Entrepreneurial Dynamics (PSED) and the Global Entrepreneurship Monitor (GEM). The PSED is a US data set, while the GEM is collected in numerous countries.¹ Both data sets give rise to a new concept in the field: that of “nascent entrepreneurship”. They define a “nascent entrepreneur” as somebody who is, alone or with others, currently trying to start a new business; expect to be owners or part owners of the new firm, and have been active in trying to start the new firm in the past 12 months. The start-up must be an independent firm. All of the papers in this special issue are based on one of these data sources or the other.

The great promise of nascent entrepreneurship as a research field is its ability to provide researchers with an appropriate framework to analyse the genesis of new venture creation. The field is a relatively new one. This was one reason why we organised a conference in Durham

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Castle, England, in September 2005² to synthesise current knowledge in this emerging field and to explore the burning research issues that are now being generated. A select group of prominent researchers from around the world was brought together for 3 days to present cutting edge research on nascent entrepreneurship and to share ideas about how to advance the field in its early stages. These papers are a selection of those presented at the conference. They underwent the same rigorous blind refereeing process as all other papers published in *Small Business Economics*.

2. Themes and findings

As the papers in this issue demonstrate, the current research agenda on nascent entrepreneurship is substantial and wide-ranging. At the risk of over-simplification, however, two underlying questions may be seen as driving this agenda. The first is: why are some people engaged in nascent entrepreneurship and others not? The papers by Phillip Kim, Howard Aldrich and Lisa Keister, and by Pamela Mueller, are primarily concerned with this question.

A second question is: why do some nascent entrepreneurs make the transition into business, while others continue working on their business ideas, or indeed, abandon them altogether? William Gartner and Jianwen Liao, Philipp Koellinger and Maria Minniti, and Yacine Belghitar and Simon Parker may be seen as addressing aspects of this question in their papers.

Kim, Aldrich and Keister's paper examines the relative importance of financial, human and cultural capital for people who try to start a business. By combining the PSED with a comparison group sample, they are able to analyse some of the factors that lead people to start up in business. Their findings suggest that advanced education and managerial experience are positively associated with entrepreneurial entry, while the possession of financial resources, or having a parent as an entrepreneur, do not seem to matter. On the basis of their findings, the authors argue that more people will be drawn into entrepreneurship, at least in the short-term, as opportunities to acquire advanced human capital become more widespread.

Gartner and Liao analyse a key question of practical relevance to those concerned with developing entrepreneurial skills: does the completion of a business plan increase the likelihood that nascent entrepreneurs will persist in their efforts to create a new venture? The main concern of the paper is whether and how perceived environmental uncertainty, combined with the timing of planning affects the nascent entrepreneur's persistence in the venture creation process. Drawing on recent theoretical and empirical research, Gartner and Liao make a valuable contribution to our understanding of the role of business planning during the later stages of the nascent entrepreneurship process. They provide fascinating explanations and evidence from the PSED as to why it is more effective to start with business planning rather *earlier* in environments with high degrees of perceived financial and competitive uncertainty, and why is it more effective to start with business planning rather *later* when the nascent entrepreneur perceives the financial and competitive environments as more certain. One of Gartner and Liao's main conclusion is that planning is especially helpful for entrepreneurs who are less confident about the information they have regarding their financial needs and the nature of the competitive environment.

The article by Mueller broadens the perspective by analysing nascent entrepreneurship in Germany. The context for the study is the very considerable unevenness in start-up activity across German regions, a phenomenon that is also evident in numerous other advanced economies. Such unevenness raises the question of how important the environment is in terms of influencing start-up activity. Mueller's innovative approach is to bring together both individual and regional characteristics to explain whether or not individuals will become seriously engaged in establishing a business. The environmental variables Mueller uses relate to the importance of new and small firm activity in the region in which the would-be entrepreneur is located. The argument here is that such an environment provides encouraging role models and a culture in which entrepreneurship is accepted and supported. Mueller's econometric results highlight the importance of these

environmental factors for individuals who estimate that there is at least a 50% probability that they will become self-employed in the next 2 years. Interestingly, however, when this probability threshold is raised to 70%, there is no significant effect of the environment. Thus it appears that when there is more uncertainty surrounding a move into self-employment, the environment plays a bigger role. Furthermore, Mueller also finds that previous experience in work and self-employment is more important than formal education in determining the likelihood of someone being a nascent entrepreneur, and that having a parent who was self-employed also increases this likelihood. Financial assets on the other hand are less important.

Mueller's analysis of environmental factors also helps to explain why differences in entrepreneurial vibrancy across regions are perpetuated over time: entrepreneurship breeds more entrepreneurship (see Parker, 2005, for further discussion). The key policy challenge is how those regions with low endowments of entrepreneurial activity can be brought into this virtuous circle.

Koellinger and Minniti's paper on the start-up process in the US is another clear demonstration of the substantial research "value added" potential of GEM data. The coverage of the early stages of start-up by these data enables the authors to explore how far a *propensity* to start up in business translates into *actual* formation and subsequent survival. As a result, the authors are able to overcome the hindsight biases mentioned above. This enables them to show that while black Americans are nearly twice as likely to *try* to start up in business, their efforts are not reflected in actual numbers of businesses: the proportion of black Americans who are self-employed is only about a third of that for white workers. Furthermore, the higher propensity to start up is not explained by socio-demographic differences.

The big question raised by Koellinger and Minniti's paper is *why* black Americans' higher propensity to start up in business is not followed through into the statistics on established businesses. The authors conjecture that the answer might lie in the constraints faced by black Americans in starting up and then surviving.

This is an issue that clearly needs further study; only then will we be on firm ground in deriving policy conclusions from Koellinger and Minniti's findings.

Finally, Belghitar and Parker ask what happens to nascent entrepreneurs. They exploit the panel dimension of the PSED to find out which nascent entrepreneurs succeeded in starting up a venture 1 year later, and which ones quit or continued to develop their business idea. Belghitar and Parker develop a novel theoretical framework based on maximisation of expected utility and the value of waiting, and estimate it to reveal which personal and economic characteristics are associated with venture start-up – and which are associated with remaining a nascent entrepreneur, or giving up entirely. The value of waiting turns out to play a key role in explaining what happens to nascent entrepreneurs. Thus the contribution of this paper is in terms of both theory and practice, with the authors simultaneously analysing the determinants of the three outcomes while controlling for the possibility of sample attrition from the PSED.

3. Opportunities for future research

Nascent entrepreneurship research seeks, *inter alia*, to discover the individual and environmental characteristics of those individuals who are attracted to becoming an entrepreneur and who subsequently fail or succeed in this role. It also highlights the fact that formation is a *process*, involving a series of decisions, rather than a single decision taken at a particular point in time. The papers included in this special issue suggest that combining individual, environmental and process characteristics regarding nascent entrepreneurs brings a richness to our understanding that has previously been lacking, and provides a firmer basis for policy. For instance, Mueller shows how important an environment of vibrant new and small firm activity is for encouraging some individuals to become entrepreneurs, while Gartner and Liao show that the benefits from planning early depend upon perceived environmental uncertainty. Clearly, much has already been achieved in the analysis of the processes leading up to new

venture formation, as the papers in this special issue demonstrate. But as these same papers also show, much still remains to be done.

The focus on the formation process and what influences it, should not blind us to the fact that new businesses vary in their survival chances and growth potential. Most start-ups will disappear within 5 years of birth but some will survive over the longer term. Most of those that do survive will grow to only a modest size, but a small proportion will eventually become sufficiently large to challenge industrial leaders. The research challenge here is to see how far the formation of businesses with high survival and growth prospects is driven by different processes prior to birth, and by entrepreneurs with different environmental and individual characteristics. While the paper by Belghitar and Parker makes a start in this direction, it is clear that this is only a beginning, and future researchers have ample scope to extend this analysis, data permitting.

Several of the papers in this special issue highlighted seemingly conflicting effects on nascent entrepreneurship status arising from influences such as education, finance and experience. For example, Mueller finds that having a parent who was self-employed increases the likelihood that someone will become a nascent entrepreneur, whilst Kim, Aldrich and Keister detect no such influence. These authors also report rather different findings regarding the role of education. It would be an exciting research challenge for future studies to try to synthesise research results and to do so in such a way that seeks to *explain* seemingly conflicting results. Precisely *why* do we get mixed evidence? Is it, for

example, attributable to differences in methodology or measurement? Or is it because there are substantial differences between samples due to cohort effects, underlying industry differences, or cultural and institutional differences? Unless comparative research is performed that can answer these questions, there is a danger that while the volume of research results will increase, our understanding will not. This further underlines the need for future research on nascent entrepreneurship that will consolidate as well as extend the exciting contributions that are being made, and which are amply illustrated in this special issue.

Notes

¹ Versions of PSED have also been implemented in other countries. A follow-up to the PSED panel, called "PSED II", is currently being designed.

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