

## No Experience? No Problem – It's All about Yourself: Factors Influencing Nascent Entrepreneurship Outcomes<sup>1</sup>

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### Abstract

*This paper helps to understand why some nascent entrepreneurs are successful in getting their new business operational while others are not and terminate their effort. We interviewed eighty one nascent entrepreneurs in the Czech Republic in 2011 and then again in 2012. The results of binary and multinomial logistic regressions show that nascent entrepreneurs who spent less time on developing their business, stayed longer in the “just trying” status and feared of failure were less likely to get their business operational within the next year. Previous industry experience and competition mapping lowered the probability of getting operational as well. On the other hand, entrepreneurial self-efficacy led to positive outcomes of venture creation effort. Finally, the study dealt also with growth expectations and found out that moderate expectations were increasing the probability of an actual launch.*

**Keywords:** entrepreneurship, start-ups, success factors, nascent entrepreneurs, Czech Republic, longitudinal survey

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### Introduction

This paper seeks to better understand why some nascent entrepreneurs are successful in getting their new business operational while others are not and terminate their effort. The pre-launch phase is plagued with uncertainty, ambiguity

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and many obstacles in reaching nascent entrepreneur's goal of creating an operational venture (Hopp and Stephan, 2012). Not every nascent entrepreneur makes the full transition to operational business, so it is of considerable academic and policy interest to understand who does so and why (Parker and Belghitar, 2006).

Entry of individuals into entrepreneurship is a global phenomenon in a today's world. In 2012, there were approximately 540 000 people in the Czech Republic engaged in early-stage entrepreneurial activities (Lukeš and Jakl, 2012). Entrepreneurship has a significant added value for particular countries. It supports economic growth and job creation, develops innovation, increases competitive pressure, delivers new products and services for customers, helps to optimize prices and develops regions (Lukeš et al., in press). For individuals, independent entrepreneurial career is not so straightforward positive. Some entrepreneurs become millionaires and most develop their own potential. Entrepreneurship also brings satisfaction related to independence and self-realization. On the other hand, entrepreneurs have on average lower income than employees (Praag van and Verslot, 2007) and many entrepreneurs disengage from the effort (Reynolds and Curtin, 2008). Some nascent entrepreneurs launch the new business even when it has extremely low chances of success from the very beginning (Hayward, Shepherd and Griffin, 2006), some others abandon the effort to get the business operational even when it could be highly successful. It can be estimated that approximately 30% to 55% reach the operational status (Parker and Belghitar, 2006; Kessler and Frank, 2009; Gelderen van, Thurik and Bosma, 2006).

It is thus very important to understand better what causes the termination of venture creation efforts on one hand and getting the business operational on the other hand. Existing theory devoted to early-stage entrepreneurship is not much developed and research until now delivered just partial and often contradictory findings (Davidsson and Gordon, 2012). Because it is difficult and costly to get samples of nascent entrepreneurs as they are not registered in any directories, the most existing research is based on PSED data in the US and few other surveys done in Sweden, Australia and several other countries (Reynolds and Curtin, 2008). In Central and Eastern Europe the only effort to gather longitudinal data on nascent entrepreneurs has been done in Latvia (Baltrušaitytė-Axelsson, Sauka and Welter, 2008) and Austria (Kessler and Frank, 2009).

In the Czech Republic, empirical research on entrepreneurs is surprisingly in its very beginnings and there are just several studies focused on this important group (e.g., Šebestová and Wagnerová, 2007; Lukeš et al., in press; Lukeš and Stephan, 2012; Lukeš, in press; Lukeš and Jakl, 2012). Our study is the first one organized in the Czech Republic that samples entrepreneurs engaged in early-stage entrepreneurial activity and follows them over time. This procedure

reduces survivor bias and hindsight bias. The longitudinal design helps prevent potential endogeneity problems, thus facilitating causal analysis (Davidsson and Gordon, 2012).

We first review the extant literature on factors influencing the outcomes of pre-launch entrepreneurial activity. Next, we describe the methodology of our longitudinal survey of nascent entrepreneurs in the Czech Republic interviewed in 2011 and then again in 2012. Finally, we use regression analysis to quantify the impact of individual factors on entrepreneurial activity status, and discuss the findings.

### **Factors Influencing Outcomes of the Pre-launch Phase**

Previous research used various ways how to measure outcomes. Several types of performance indicators were applied (Davidsson and Gordon, 2012) such as *accumulation of gestation activities* in time (e.g., Davidsson and Honig, 2003), self-reported *quitting, still trying, or operational status* (e.g., Parker and Belghitar, 2006), *getting operational* that dichotomizes either between operational status and the rest (Townsend, Busenitz and Arthurs, 2010; Kessler and Frank, 2009) or between operational status and termination (Gelderen van, Thurik and Bosma, 2006; Lichtenstein et al., 2007), *persistence* that compares operational and still trying versus terminated (Liao and Gartner, 2006), *achieving first sales* (Brush, Edelman and Manolova, 2008) or *reaching positive cash flow* that is used in Hopp and Stephan (2012) study together with self-reported operational status.

These outcomes are influenced by many different factors. *Human capital* is a set of an individual's skills, knowledge, motivation, personality attributes and other characteristics related to the individual that are embodied in the ability to work so as to produce economic value. Previous research on pre-launch activity outcome effects involved human capital characteristics such as work experience, management, industry and start-up experience, education, start-up classes and, in a broader sense, also gender and age (Davidsson and Gordon, 2012). Also, self-efficacy has been shown a significant predictor (Townsend, Busenitz and Arthurs, 2010).

The strongest finding is related to a *prior start-up experience* as a determinant for advancement through the start-up process (Davidsson and Honig, 2003) and successfully launching a business (e.g., Delmar and Shane, 2006; Rotefoss and Kolvereid, 2005). Founding team prior experience should help a new venture to overcome liabilities of newness (Delmar and Shane, 2006). The second frequently discussed type of experience is *industry experience* found by several studies as having a positive effect on outcomes of the venture-creation process

(e.g., Dimov, 2010; for overview see Davidsson and Gordon, 2012). Gender, work experience, age, education, ethnicity or management experience have been confirmed by vast majority of studies as insignificant factors (Davidsson and Gordon, 2012); therefore, we will not include them in our analysis.

Hypothesis 1: *Entrepreneurs or entrepreneurial teams with (a) prior start-up experience and (b) industry experience should achieve more positive outcomes in their venture creation effort.*

Different expectations an individual has can be understood as a part of human capital. Townsend, Busenitz and Arthurs (2010) found that the confidence in one's ability to perform tasks relevant to entrepreneurship, i.e. *entrepreneurial self-efficacy*, is a robust predictor of start-up. Additionally, previous research on representative samples of nascent and new entrepreneurs in the Czech Republic (Lukeš et al., 2013) emphasized the role of entrepreneurial self-efficacy and *fear of failure* in predicting involvement in early-stage entrepreneurial activity. Similarly to fear of failure, Gelderen van, Thurik and Bosma (2006) showed a negative role of perceived market risk on getting operational. In a recent meta-analysis, Unger et al. (2011) asserted that task-related outcomes of human capital investment play a bigger role than general human capital. Thus, for instance entrepreneurial self-efficacy should be more important than education.

Hypothesis 2: *Self-efficacy plays a significant positive role and fear of failure a significant negative role in achieving positive outcomes of venture creation effort.*

In their hubris theory on entrepreneurship Hayward, Shepherd and Griffin et al. (2006) suggest that many businesses that later went bankrupt are founded due to overconfidence of founders, specifically overconfidence in positive outcomes and overconfidence in own abilities. Townsend, Busenitz and Arthurs (2010) found only a marginal role of outcome expectancies, i.e., *expected growth*, on launching a business. Some other authors even found that nascent entrepreneurs with higher aspirations are less likely to launch the venture (Brush, Edelman and Manolova, 2008; Edelman and Yli-Renko, 2010). The reason for these contradictory findings may lie in the fact that "small overconfidence" may actually lead to venture creation as the potentially positive outcomes motivate the individual to launch the venture, whereas with "high overconfidence" the individual will soon find out (i.e. already in pre-launch phase) that her previous expectations were unrealistic and drop out of the effort. Thus,

Hypothesis 3: *Growth expectations play a significant role in determining positive outcomes of venture creation effort. The relation is however not linear, but has the shape of an inverted u-curve.*

*Social capital* can be described in the context of entrepreneurship research as a specific or preferential treatment and cooperation between the individual and other individuals and groups that has potential economic benefits. It suggests that nascent entrepreneur's social networks have value. Davidsson and Honig (2003) found a strong positive effect of joining a business network on getting the first sales and reaching profitability. In their study, social capital was overall relatively more important than human capital with respect to advancing in start-up process. Lukeš et al. (in press) emphasized the key role of personal relation with somebody who successfully launched a new business for the involvement of individual in early-stage entrepreneurial activity. Therefore,

Hypothesis 4: *Venture-specific networking plays a significant role in achieving positive outcomes of venture creation effort.*

A large proportion of nascent entrepreneurs work in *entrepreneurial teams*, most often in pairs (Lukeš and Jakl, 2012). It has advantages related to better access to resources, larger networks and risk sharing, but also disadvantages related to potential disagreements and a slower decision-making process. Being either a solo nascent entrepreneur or entrepreneurial team was not consistently related to outcomes in previous studies. Results vary from positive effects of start-up teams (e.g., Menzies et al., 2006), through no effect (e.g., Gelderen van, Thurik and Bosma, 2006) to negative effect on outcomes (e.g., Parker and Belghitar, 2006). Due to the contradictory findings, we set up

Hypothesis 5: *Start-up teams do not differ from solo entrepreneurs in achieving positive outcomes of venture creation effort.*

*Financial capital* can be expected to play the role as the enabler for getting the business started. Lukeš et al. (in press) found out that household income player a bigger role for new business owner-managers than for nascent entrepreneurs. However, longitudinal studies (e.g., Parker and Belghitar, 2006) found no effect of household wealth or income on getting operational. On the other hand, investing nascent entrepreneur's own money is associated with a lower probability of termination (Parker and Belghitar, 2006) and a higher probability of getting operational (Edelman, Manolova and Brush, 2008; Townsend, Busenitz and Arthurs, 2010). Therefore, effects should be expected not from the respondent's resource ownership but from the realized investments (Davidsson and Gordon, 2012). It must be noted that empirical studies face high rate of missing values when obtaining precise financial data, which is the case in our study as well. Moreover, the amount of money invested in the venture is positively related to time invested as both reflect the nascent entrepreneur's effort and "time is money". Intensive *time involvement* increased likelihood that nascent entrepreneurs will

get operational (Gelderen van, Thurik and Bosma, 2006; Edelman, Manolova and Brush, 2008) and achieve first sales (Newbert, 2005). Thus we formulate

Hypothesis 6: *Higher time investment in new venture leads to positive outcomes of venture creation effort.*

A number of papers report specific results on how the completion of various *gestation activities* relates to outcomes. Gestation activities include business planning, legal entity creation, competition mapping, resource acquisition and other activities (Edelman, Manolova and Brush, 2008; Newbert, 2005). Until now, the heterogeneity and complexity of pre-launch processes have made it difficult to arrive at strong findings regarding the relationship between process characteristics and outcomes (Davidsson and Gordon, 2012). The highest focus was laid on business planning. Some studies found that *preparing a business plan* increases the likelihood of persistence (Delmar and Shane, 2004; Liao and Gartner, 2006). Other studies did not find a positive effect of planning on getting operational (Edelman, Manolova and Brush, 2008; Parker and Belghitar, 2006) and reaching first sales (Newbert, 2005). Finally, Dimov (2010) found only indirect effect of business planning through opportunity confidence. To conclude, there is some, but not very consistent support for a relationship between business planning and persistence. Other important gestation activities involve *establishing a legal entity* found to increase the likelihood of persistence (Delmar and Shane, 2004).

Carter, Gartner and Reynolds (1996) also argued that nascent entrepreneurs who terminated or got operational engaged in more activities than those “still trying”. However, subsequent research rather showed that increased *venture creation activity* decreased the likelihood of termination (Shane and Delmar, 2004) and led to getting operational (Edelman and Yli-Renko, 2010; Lichtenstein et al., 2007; Reynolds and Curtin, 2008). Based on Carter, Gartner and Reynolds (1996) and Lukeš and Jakl (2012), we argue that the type of activity matters. Business planning and establishing a legal entity should play a positive role in forming the real business. On the other hand, risk perception (Gelderen van, Thurik and Bosma, 2006) and low belief in opportunity feasibility (Dimov, 2010) lowers the probability of start-up. Therefore, activities such as *competition mapping* might rather lead to termination as they often warn entrepreneurs that there are not enough market opportunities for their new businesses.

Hypothesis 7: *Involvement in gestation activities may lead to different outcomes of venture creation effort depending on the type of activity. Legitimizing activities, such as business planning and establishing a legal entity, lead to positive outcomes, and competition mapping to negative outcomes of venture creation effort.*

Another convincing research finding is related to time lags, i.e. prolonged waiting indicates a lack of drive and proactivity of an entrepreneur and results in a failure to launch a new venture (Townsend, Busenitz and Arthurs, 2010). The rationale is that those who are still trying after an extended period of time can best be described as “dreamers” who are not much serious about their start-up efforts (Parker and Belghitar, 2006). In the language of duration analysis (see, e.g., Berg van den, 2001), venture creation probability exhibits *negative duration dependence*.

Hypothesis 8: *The longer time since the conception of start-up effort, the lower the probability of getting operational and also the lower the probability to terminate.*

## **Sample**

An initial sample has been gathered in the Czech Republic in summer 2011 using a randomized procedure (cf. Lukeš and Jakl, 2012). A representative sample of 387 nascent entrepreneurs answered questions related to their entrepreneurial activity. Respondents were asked whether they were actively involved in starting a new venture. In case of a positive answer the respondents were asked another strictly specified set of questions about particular details, e.g., the number of owners, expected jobs one year after launch, or how long they were involved in this entrepreneurial effort. Further, they were asked questions about their personal history and perceived level of own capabilities and skills for starting a business.

Some questions were identical with those used in the Global Entrepreneurship Monitor project (Reynolds et al., 2005), in the PSED study (Reynolds and Curtin, 2008), and some others were newly created (see Lukeš and Jakl, 2012, for details). Out of this sample, 186 individuals were identified as nascent entrepreneurs, i.e., they were involved in on-going but not yet operational business start-up efforts in which they were going to be (co-)owners, and agreed to be contacted a year later for which they provided their contact information, either email or phone. We contacted these individuals again in summer 2012, twelve months after the first interview, and asked them to provide detailed information on how their entrepreneurial effort develops. Out of 114 individuals contacted by phone, 75 participated in this follow up research and 7 entrepreneurs out of 72 answered the email request. Participants answered the set of questions focused on the development of their entrepreneurial activity. The average length of this follow-up interview was 14 minutes. Three interviews were excluded from the analysis due to a high amount of missing values.



## Dependent Variables

In line with Parker and Belghitar (2006), we used self-reported status of entrepreneurial activity, classified as *terminated*, *still trying* or *operational*, as the outcome variable. Additionally, we checked for revenues in the last twelve months preceding the second interview. In case entrepreneurs labelled their businesses as *operational* while reporting average monthly revenues lower than half of the official minimum wage valid in the Czech Republic in 2012, i.e. less than EUR 160 per month, we recoded them into the *still trying* category. Such a procedure helps to identify the truly operational businesses. For terminated businesses, we followed the approach taken by Hopp and Stephan (2012) and checked whether all entrepreneurs involved in the venture report disengagement. (If not, the venture is not to be considered as terminated; however, it is not observed anymore, either.) Due to this procedure, one observation was dropped from the analysis, leaving us with data on 81 nascent entrepreneurs, out of which 16 *terminated* their venture efforts, 29 were *still trying*, and 36 got *operational*.

## Independent Variables

*Time involvement* was measured as logarithm of hours per week worked on the particular venture by all members of the entrepreneurial team together. *Industry experience* was measured as a logarithm of years involved in the particular industry of the most experienced team member. *Time lags* were measured as a logarithm of months between the start of pre-launch activity and the month of interview. In Rotefoss and Kolvereid (2005) study, those who had previously been unsuccessful were over-represented among nascent entrepreneurs but not among those who get operational. Despite getting numerical data on previous *start-up experience* (number of past start-up efforts) we used it as a dummy variable (0 = no, 1 = yes) in the analysis, because high number of past start-up efforts may rather mean unsuccessful efforts and thus confound the results. It is in line with Delmar and Shane (2006, p. 27) who found that “the effects are driven almost exclusively by the difference between any and no prior start-up experience”. In case of start-up teams, the previous start-up experience is assessed across the entire team (Delmar and Shane, 2006).

Planned *ownership* status was captured by the question “Will you personally own all [coded as 1 = solo entrepreneur], part [coded as 0 = entrepreneurial team], or none [not counted as a nascent entrepreneur] of this business?” For capturing *venture-specific networking*, interviewees were instructed “Various people may give you advice on your new business. Have you received advice from..?” and twenty different options were added, e.g., advice from a spouse,



a friend, a work colleague, a bank, a lawyer, a customer, a possible investor. The variable is counted as a sum of twenty 1 = yes and 0 = no answers to these questions. The Cronbach's alpha for this scale is 0.74, which is satisfactory.

*Fear of failure* was captured by the question "Would fear of failure prevent you from starting a business?", *entrepreneurial self-efficacy* by "Do you have the knowledge, skill and experience required to start a new business?", *competition mapping* by "Has an effort been made to collect information about the competitors of this new business?" and *business planning* by the question "Have you already begun preparation of a business plan for this new business?" Positive answers have been coded as 1 = yes, negative as 0 = no. Respondents were also asked what the legal entity of their business was, and when it had been registered. Registration that occurred during the twelve months (termed *new legal entity* henceforth) prior to the interview was coded as 1 because it illustrates the nascent entrepreneur's recent effort to proceed. Entrepreneurs with no legal form or with older registration were coded as 0.

Finally, *expected employee growth* was obtained by the question "How many people will work for this business one year from now, not counting its owners, but counting exclusive subcontractors?" In order to allow for the inverted u-curve shape postulated by H3, we included a quadratic term of *expected employee growth* in the model.

### **Model Specification**

In order to identify the partial (*ceteris paribus*) effects of individual factors, we used multiple regression. Our selection of the actual functional form was mainly guided by three aspects: firstly, the nature of our outcome variable (the classification of nascent entrepreneurs in year 2011 into three 2012 categories *terminated*, *still trying*, and *operational*); secondly, the longitudinal character of our survey; and thirdly, the fairly limited sample size.

There are two classes of regression models associated with discrete outcomes: *discrete choice models* and the models of *duration analysis*; both have been employed in extant studies of nascent entrepreneurship. The models from the latter class are more explicit about the dynamic process of early entrepreneurship: they build on the fact that the *still trying* category can be thought of as a transient state, which is sooner or later abandoned in favour of either *terminated* or *operational*. These models have been used in studies based on the five-year longitudinal PSED data (e.g., Townsend, Busenitz and Arthurs, 2010; Delmar and Shane, 2006). Our two-period survey does not, however, contain enough information about the process dynamics to allow for this framework, so we resorted

to discrete choice models. Nevertheless, we incorporate at least some features of duration analysis through the *time lags* variable.

What the longitudinal design of our survey *does* help us with, on the other hand, is avoiding potential endogeneity problems in explanatory variables, thus allowing for causal interpretation of the results. To be more specific, there is obvious both-ways causality between the observed independent variables in 2012 and the outcome variable in the same year. We overcome this problem by using the data gathered in 2011 (i.e., at the time when all respondents classified in the *still trying* category) for the independent variables.

Our sample size (81 observations, some of which contained missing values) imposes limitations on the number of parameters that can be reliably estimated. Therefore, we had to keep the number of explanatory variables in our model reasonably low; we comment on this issue in more detail in section “Limitations and possible extensions” below. As a related matter, we had to decide whether to keep all three categories of the dependent variable and use multinomial models of discrete choice (as in Parker and Belghitar, 2006), or merge some categories and apply binary choice models (as in Kessler and Frank, 2009). The former approach allows a more detailed analysis at the expense of doubling the number of estimated parameters. As our main intention was to study the success factors of venture-creation efforts, we decided to merge the *still trying* and *terminated* categories and use binary logistic regression in our base model. Nevertheless, for a comparison, we also estimated a multinomial logistic model with all three categories retained; the fact that both models give similar results with respect to the success factors (see “Results and discussion” below) implies that our results are robust to model specification.

The limited sample size also affects the validity of statistical inference with our sample. We are aware that the standard, asymptotically justified procedures of statistical inference can lead to rather misleading results. Therefore, we aim to be as cautious as possible when testing our hypotheses. We adopt an approach similar to the one suggested by Angrist and Pischke (2009, chapter 8) for small-sample linear regressions with heteroskedasticity: we calculate both the usual (Hessian-based) and robust (QML) standard errors, and for each regression parameter, we base the significance tests on the larger of the two.

## Results and Discussion

Table 1 (in Appendix) presents the descriptive statistics and the correlation matrix for all variables used in the regression. The pairwise correlations reveal significant association among several independent variables: solo owners in our

sample exhibit significantly lower employee growth expectations and weaker tendencies to carry out gestation activities such as business planning or competition mapping; conversely, previous industry experience is associated with higher employee growth expectations and more frequent business planning; finally, new legal entity was registered in last 12 months by those who reported a more recent date of the conception of their start-up effort. Nevertheless, none of the correlations seems to be so high as to prevent the estimation of isolated effects of individual factors. This is confirmed by multicollinearity analysis through variance inflation factors, which were all lower than 2, except for the linear and quadratic term of *expected employee growth* (these two variables were, expectedly, highly collinear with each other, but not too much with the rest).

Table 2 provides the estimated coefficients and model statistics for both the binary and the multinomial logit. The binary logit analyzes the probability of getting operational within the year after the first interview, conditioned on the explanatory variables; both non-operational states constitute the base category. In the multinomial logit, the *still trying* status is taken as the base category and the model captures the transition probabilities to both alternative states. The estimated coefficients in both models can be interpreted as per-unit changes in the logged odds ratio of a transition to the target state and the persistence in the base category. As a whole, both models were highly significant (the *p*-values of the overall LR test were below 0.001); the McFadden  $R^2$  is above 0.6 in both cases, showing a relatively good fit.

Table 2

**Binary and Multinomial Logit Results**

	<b>Binary logit</b>		<b>Multinomial logit</b>			
	state = <i>operational</i>		state = <i>operational</i>	state = <i>terminated</i>		
<i>Start-up experience</i>	2.851	(.103)	2.596	(.114)	-1.671	(.388)
<i>Industry experience</i>	-2.543	(.021) *	-2.884	(.011) *	-.149	(.811)
<i>Entrepreneurial self-efficacy</i>	5.376	(.040) *	4.711	(.035) *	1.791	(.213)
<i>Fear of failure</i>	-3.266	(.054) †	-3.043	(.100)	5.854	(.009) **
<i>Expected employee growth</i>	.886	(.023) *	.946	(.028) *	.356	(.235)
<i>(expected employee growth)<sup>2</sup></i>	-.051	(.023) *	-.054	(.028) *	-.007	(.537)
<i>Venture-specific networking</i>	-.413	(.167)	-.457	(.150)	-.301	(.341)
<i>Solo ownership</i>	3.002	(.059) †	2.498	(.128)	-3.385	(.066) †
<i>Time involvement</i>	1.996	(.028) *	2.424	(.011) *	2.487	(.026) *
<i>Business planning</i>	.748	(.583)	-1.044	(.484)	-6.752	(.012) *
<i>New legal entity</i>	3.398	(.071) †	2.303	(.144)	-4.599	(.029) *
<i>Competition mapping</i>	-2.572	(.073) †	-2.759	(.046) *	.249	(.849)
<i>Time lags</i>	-2.752	(.015) *	-3.975	(.001) ***	-1.543	(.028) *
<i>n</i>	64		64			
% correctly predicted	87.5		82.8			
McFadden $R^2$	0.651		0.618			
$\chi^2$ (overall LR test)	56.251		86.268		(0.000) ***	

Note: Two-tailed *p*-values in parentheses, calculated using the maximum of the conventional (Hessian-based) and robust (QML) standard errors; \*\*\*  $p < .001$ , \*\*  $p < .01$ , \*  $p < .05$ , †  $p < .10$ .

Source: Original data.

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Drawing on a longitudinal study of nascent entrepreneurs and their venture creation efforts, we tested what factors leads to success, i.e. to operational business that has achieved more than marginal revenues. We did not find a substantial evidence for the positive influence of *prior start-up experience* on outcomes (H1a). One explanation may lie in Rotefoss and Kolvereid (2005) finding that previously unsuccessful entrepreneurs are overrepresented among nascent entrepreneurs, but not among the ones that actually launch the business. Moreover, the point estimates of the influence in both models have the expected sign and a relatively high magnitude, and the statistical insignificance may be solely due to small sample size.

There is a surprising finding related to *industry experience* (H1b). In our sample, people with longer *industry experience* were less likely to start an operational business. Our result is contradictory to previous findings (e.g., Delmar and Shane, 2006). It goes in line with Dimov's (2010) finding that industry experience lowers confidence in business opportunity. People with more experience in the industry are more able to spot the opportunity in the field. However, in their next steps towards developing the opportunity, they are also aware of competitors and tough issues on the particular market. It enables them to make more accurate judgments about the feasibility of the opportunity (Dimov, 2010). This can actually be a positive sign. People with higher industry experience may eventually start only businesses with a higher chance of success and disengage from efforts with low success probability. Further explanations can lie in external conditions as well. The economic crisis in Europe in 2012 may limit willingness of experienced people to engage in uncertain independent entrepreneurship as they may have more stable jobs as experts in their industries. Future studies should further focus on these issues.

The results also confirm positive role of *self-efficacy* and negative role of *fear of failure* (H2) on getting the business operational. Fear of failure, as expected, was also positively related to disengagement from nascent entrepreneurship. We also found support for H3.

Our results confirmed an inverted u-curve shape for employee expectations: the squared term was statistically significant at the 5% and its omission reduced the fit of the model substantially. That is, the highest probability of getting operational was in case of entrepreneurs who planned to employ people, but their expectations were not too high. The turning point is in both the binary and the multinomial model at the expected count of approx. 9 employees. This finding can develop our understanding of the role of growth expectations and bridge the contradictory results of previous studies (Townsend, Busenitz and Arthurs, 2010; Edelman and Yli-Renko, 2010).

Contrary to our expectations, *venture specific networking* did not play a significant role (H4). The number of different sources of information a nascent entrepreneur received an advice from relate neither to operational business nor to termination of efforts. This is in accordance with Kessler and Frank (2009), who did not find a significant influence of a networking index consisting of 11 different business-related contacts with social environment. This finding suggests that the content of advices an entrepreneur gets may be more important than the pure quantity of different advices.

We hypothesized that *solo vs. team entrepreneurship* do not significantly influence outcomes (H5). However, we found a marginal negative effect of team entrepreneurship on venture creation effort outcomes. This is in line with Parker and Belghitar (2006). Specifically, we found marginal evidence of the influence of team entrepreneurship towards disengagement from the business. The explanation may lie in a more difficult decision-making process in teams and also in potential disagreements of team members that may lead to the termination of venture creation efforts.

In our study we found support for H6. The number of hours spent on venture creation had a significant positive impact on venture creation efforts. Moreover, multinomial logit analysis shows that number of hours is strongly related not only to getting operational (Gelderen van, Thurik and Bosma, 2006; Edelman, Manolova and Brush, 2008; Newbert, 2005), but also to termination. This means that people who work less on their business idea tend to persevere in the *still trying* status, and are more likely to rank among “dreamers” (Parker and Belghitar, 2006).

Concerning gestation activities (H7), we did not find a support for positive role of *business planning* on venture creation outcomes. That is in line with the most of other studies (e.g., Edelman, Manolova and Brush, 2008; Parker and Belghitar, 2006; Newbert, 2005). For future research, it would be interesting to focus more on the content and quality of business planning. Further, we found marginal support for the positive role of *new legal entity* registration in last 12 months. Specifically, nascent entrepreneurs without such registration were more likely to terminate their efforts. This is fully consistent with the findings of Delmar and Shane (2004) study that identified the role of establishing a legal entity for persistence. We also found marginal support for the negative influence of *competition mapping*. People who got information on their competitors were less probably getting operational. This implies that competition mapping may lead to increased perception of market risk (Gelderen van, Thurik and Bosma, 2006) and decreased belief in the feasibility of one’s opportunities (Dimov, 2010). However, we must note that in such cases it is not necessarily a bad thing to wait before launching a venture, as it can help to avoid subsequent bankruptcy

of a business that would be founded out of unrealistic overconfidence (Hayward, Shepherd and Griffin, 2006).

Finally, we also found support for H8. The longer time since the conception of start-up effort (*time lags*), the lower probability to get operational, and also the lower probability to terminate. This again confirms the existence of a “dreamers” subgroup among nascent entrepreneurs (Parker and Belghitar, 2006).

### **Limitations and Possible Extensions**

The present study has several limitations. These are mainly connected to a limited sample size that required us to use a limited number of variables in the analysis. Therefore, we included only such variables that, based on the existing literature and our understanding, were supposed to play the biggest role in nascent entrepreneurship outcomes. In particular, we excluded demographic data, which could serve as useful control variables (although, as mentioned earlier, they have mostly been found insignificant themselves), and respondents’ industry. The influence of the latter was reported as insignificant in most of earlier studies (e.g., Hopp and Stephan, 2012); moreover, as a qualitative factor, it would inflate the model by several dummy variables, thus limiting the reliability of the results. Nevertheless, we believe that with a larger dataset our results could be refined using these additional variables.

Besides increasing the sample size and adding more observations, the current study could be improved by collecting data in more than two periods, which would allow for (1) a more detailed analysis of the impact of gestation activities and (2) a wider range of applicable methods (e.g., duration analysis). Moreover, we noted above that the negative impact of industry experience that we observed in our data may be partly due to the 2012 crisis; a longer panel survey would enable testing conjectures of this sort.

### **Conclusion**

On the country level, new firms enhance economic growth, innovation and job creation. Factors influencing the outcomes of nascent entrepreneurship are important to those who create economic policies. Also individuals involved in new venture creation efforts have an interest in knowledge about the factors that contribute to success or failure in the pre-launch phase. They can then evaluate better their own situation and potential pitfalls. Last but not least, information is relevant for entrepreneurship educators who can develop their courses in such a way that is consistent with the research findings.

We believe that our study makes several important contributions. First, it emphasizes the importance of nascent entrepreneurs' activity: those who spent less time on developing their business and had stayed longer in the *just trying* status were less likely to get their business operational. It also adds further importance to psychological factors. Entrepreneurial self-efficacy and fear of failure played a big role in influencing outcomes of the venture creation phase. It is this area that should receive more attention from educators as well as from policy makers. It should be cheaper to fail and people should not be so afraid of it as previous start-up experience leads to new business effort. The study also suggests that even though previous industry experience and competition mapping lowers the probability to get operational, it is not necessarily a bad sign as this can prevent launching ventures based on business ideas with low chances of success. Finally, the study brings outputs relevant for future studies focused on the role of growth expectations as it finds out that moderate expectations are predicting the actual launch.

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## Appendix

Table 1  
Descriptive Statistics and Correlation Matrix

	Mean	SD	n	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.
1. <i>Still trying</i>	.36	.48	81														
2. <i>Operational</i>	.44	.50	81	-.67**													
3. <i>Terminated</i>	.20	.40	81	-.37**	-.44**												
4. <i>Start-up experience</i>	.65	.48	78	-.13	.04	.10											
5. <i>Industry experience*</i>	9.56	7.90	79	-.04	-.08	.15	.22										
6. <i>Entrepreneurial self-efficacy</i>	.86	.34	81	-.08	.14	-.07	.01	.05									
7. <i>Fear of failure</i>	.25	.43	81	-.13	-.17	.36**	-.03	-.13	-.11								
8. <i>Expected employee growth</i>	5.31	6.18	74	-.08	.02	.06	.22	.42**	-.04	-.16							
9. <i>Venture-specific networking</i>	4.08	3.16	80	.02	.04	-.08	.17	.04	.20	.00	.00						
10. <i>Solo ownership</i>	.56	.50	81	-.01	.10	-.12	-.19	-.18	-.06	-.06	-.29*	.00					
11. <i>Time involvement*</i>	28.28	33.37	78	-.17	.27*	-.13	.14	.15	.06	-.15	.21	.05	-.14				
12. <i>Business planning</i>	.49	.50	79	.01	.04	-.06	.31**	.05	.07	-.05	.12	.08	-.27*	.04			
13. <i>New legal entity</i>	.45	.50	77	-.15	.26*	-.15	-.11	-.04	.01	-.10	.10	-.04	.19	.07	-.09		
14. <i>Competition mapping</i>	.47	.50	81	.12	-.19	.09	.13	-.10	.08	.04	.03	.03	-.25*	.01	.19	.09	
15. <i>Time lags*</i>	8.45	8.66	76	.21	-.14	-.07	.14	-.13	-.14	-.01	-.05	.11	-.05	-.02	.07	-.27*	-.01

\* This variable entered the model in a logged form, the statistics shown here are based on the original values to enhance readability. \*\*  $p < .01$ , \*  $p < .05$  (two-tailed).

Source: Original data.