

The process and problems of business Start-Ups

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Resumen

Este artículo describe el proceso de creación de una nueva empresa así como los problemas que más a menudo se presentan al intentar lograrlo. Para hacerlo, éste ha sido dividido en tres partes. La primera es introductoria y con una mirada a través de los trabajos preliminares de investigación se presentan algunas consideraciones teóricas y ciertas palabras claves. La segunda parte está relacionada con el proceso de arranque, puntualizando las actividades involucradas en la creación de una nueva firma. Finalmente, a través de los problemas de puesta en marcha y con estudios empíricos se muestran los más significativos problemas que tiene que enfrentar las nuevas firmas, así como algunos estudios empíricos que ilustran cómo la investigación en este campo puede ser llevada a cabo.

Palabras clave: Creación de Empresas. Competitividad. Educación. Empleo. Innovación. Latinoamérica. Modelo GEM. Motivación. Perfil. Pobreza. Tecnología.



Abstract

This article describes the process of creating a new business, as well as the problems that most often arise in its process. The creation of a new business has been divided into three parts; the first is an introduction at a glance through early research work, theoretical considerations, and key words. The second part deals with the start-up process, pointing out all the activities involved in the creation of a new firm. And finally, we show through the process in course and empirical studies the most significant problems faced by new firms, as well as other empirical studies that illustrate the potential of research in this field.

Keywords: Entrepreneur, organization, entrepreneurial process and the environment.

1. INTRODUCTION

New businesses are not created by accident. There is plenty of evidence showing that the birth of an enterprise is a deliberate act, a response to the need of a new product or to the need for personal fulfilment need. A new venture creation phenomenon, which will be analyzed in depth at the light of theories and research, is described by individuals persisting at a variety of activities over a period of months, or years, in order to achieve the creation of a new firm. At the onset, entrepreneurs are continuously engaged in decision making (Shaver & Scott, 1991). In lieu of this manpower, this paper needs not only to describe the process of creation of a new business, but also the problems that most often arise.

It is possible to explain the phenomenon of formation of new business by using the following theoretical perspectives (Busentiz & Lau, 1996): the economics theory (Acs, 1990), psychological (Bird, 1992; Katz, 1992), and sociological theory (Aldrich, 1990); each of them attempts to explain reasons and circumstances of entrepreneurial insight. The following are essential pieces of the process, each which will be analyzed through these theories: entrepreneur, organization, entrepreneurial process and the environment.

Based on the economics theory, the entrepreneur is an agent who will uncover opportunities and generate balance. Psychology helps us to understand the entrepreneurial traits and characteristics. Environment is studied through the concept of management, the economics or organizational approach. However, other elements are necessary to analyze the environment such as geography, demography, and psychology.

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2. EARLY STUDIES

The early studies are related to the phenomenon of the new venture creation reporting the basic underlying assumption that entrepreneurs and their new ventures were the same. The purpose of the studies was to show how the entrepreneurs or their firms differed from no entrepreneurs or no entrepreneurial firms. In this regard, the phenomenon was poorly examined from a one dimensional aspect. Studies by Gardner (1985) proved different as they alerted that differences among entrepreneurs and their ventures were much greater than one might expect.

In fact, Gartner's work (1985) represented a turning point in the way of approaching the phenomenon of new venture creation. The creation of a new venture began to be considered as a complex and multidimensional phenomenon; the different aspects that had been studied in isolation –characteristics of the individual(s) who start the venture, the organization which they create, the environment surrounding the new venture, and the process by which the new venture is started, were taken and analyzed as part of a whole. A new outlook arose. From there, a growing awareness of the process of starting a business was no longer a single well-worn route marched by identical entrepreneurs (Hartman, 1983, cited by Veciana, 1988).

3. THEORETICAL CONSIDERATIONS

3.1. The entrepreneur and the economics theory

The role of the entrepreneur in the economic literature can be found in Knight's work (1921), "Risk, Uncertainty and Profit", contributing to the conceptualization of risk and uncertainty; Schumpeter (1934), "Theory of Economic Development", exploring new combinations and ways of creative destruction conducted by entrepreneurs; and Penrose (1959), "The Theory of the Growth of the Firm", with the idea of entrepreneurial services and productive opportunities. Hayek, Mises, and Kirzner, Austrian economists also highlighted the importance of the individual in economy. Hayek (1945), in "The Use of Knowledge in Society", introduced mutual learning and the awareness of participation in the market. Mises (1944),

in “The Human Action”, unveils human action as a conscious behaviour which generates business opportunities. Kirzner (1973, 1977), besides contributing to the work of Hayek and Mises, introduced the idea of entrepreneurial discovery. Veciana (1988) along with the pioneer work of Cantillo, Say, Thünen, Hermann, Stuart Mill, Hans and Mangoldt studied the entrepreneur.

The phenomenon of new venture creation was also studied by David Birch (1979, 1987), who highlighted entrepreneurship as a motor of economic growth in “The Job Generation Process” and “Job Creation in America”. These writings were important because they changed the conception that the greater companies were responsible for most of the employment. Supporting Birch’s findings are the studies of Reynolds et al (1999), and Arzeni’s (1998). Reynolds states in “Global Entrepreneurship Monitor” that, since 1980, while the companies on Fortune 500 lost over five million jobs, 34 million new jobs were created. Arzeni supported the effect on employment with a survey conducted by the Organization for Economic Co-operation and Development, OECD, which detected that 35 per cent of the new jobs created in 1995, came from companies which employed less than five workers. These findings have been useful to show not only the impact of entrepreneurship in the creation of business but also in their own growth (Meyer et al., 2002).

3.2. The entrepreneur and the empiric firm theory - Research input

The empiric firm theory sees the entrepreneur as the person who creates a firm that works and survives for years (Veciana, 1988). As such, it focuses on the study of the entrepreneur and attempts to explain the entrepreneurial act from the entrepreneur’s own practice. Although the beginning of this theory can be traced in Max Weber in “The Protestant Ethic and the Spirit of Capitalism” (1904), it is in the 1960s with McClelland, Collins and Moore that the interest for the study of the entrepreneur and firm creation became evident (Veciana, 1988).

On the other hand, entrepreneurship has failed to establish a unique conceptual frame (Meyer et al., 2002). More than explaining and predicting the empirical phenomena it has become a broad label, as shown in

research works (Shane & Venkataraman, 2000). However, there has been some agreement in relation to the study's object of creating a firm and the entrepreneur phenomenon. One of them was formulated by Veciana (1988), and the other by Dale Meyer (1999) in the 'Task Force on Doctoral Education in Entrepreneurship' as part of the Entrepreneurship Division of the Academy of Management.

Among the elements put forward by Veciana (1988) these should be mentioned: 1) the process of creation of a firm, 2) typology and personality of a firm founder, 3) creation of innovative or technology-based firms, 4) the phenomenon of spin-off, 5) problems that entrepreneurs face when creating and managing a firm, 6) factors of success and failure, 7) financing and risk capital, 8) incubators and technology parks, 9) entrepreneurial strategy, and 9) policies and programs of promotion of new firms.

In the effort to build a conceptual frame, the 'Task Force on Doctoral Education in Entrepreneurship' addressed the following elements as main domains of entrepreneurship research: 1) creation of new ventures and organizations; 2) creation of new combinations of goods and services, methods of production, markets, and supply chains; 3) recognition and exploitation of new and existing opportunities; and 4) cognitive process, behaviours and modes of action to exploit new and existing opportunities.

For the time term, there is hardly any other study as thorough as the above mentioned which evidenced that entrepreneurship is still a challenge for researchers since there is a strong need to overcome the gaps related to the birth, development, growth, failure, renovation and transformation of corporations, which offer an important incidence on wealth and job creation.

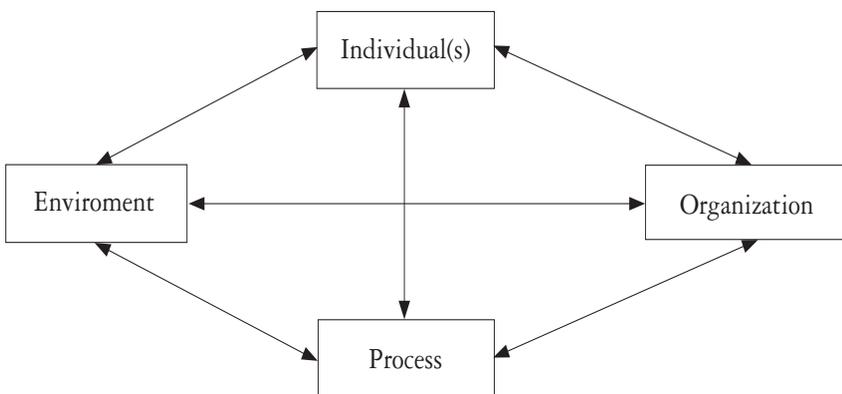
3.3. Key definitions

A new venture creation can be defined as the act of assembling ongoing independent actions into sensible sequences to generate new organizations (Gartner, 1985). In this sense a new venture creation is synonymous of the definition of new organization according to the Strategic Planning Institute

(Gartner, 1985), which uses the following definitions: 1) an independent entity, 2) a new profit centered within a company that has other established business, or 3) a joint venture which satisfies the following criteria: a) its founders must acquire expertise on products, process, market and/or technology, b) results are expected beyond the year in which the investment is made, c) it is considered a new market entrant by its competitors, and d) it is viewed as a new source of supply by its potential customers.

For Gartner (1985) this definition was suitable because it acknowledged the multidimensional aspects of a new venture creation emphasizing the fact that individuals with expertise are a key element of the new venture. At the same time it recognized the new venture as an organizational entity, and stressed that the new venture is not instantaneously produced but evolves over time. However, this phenomenon is seen within the context of each particular environment.

There are four dimensions from which the creation of a new firm can be defined (Gartner, 1985): individuals –the person(s) involved in starting a new venture, organization –the kind of firm that is started, environment –the situation surrounding and influencing the new venture, and new venture process– actions undertaken by individual(s) to start the venture. The following figure shows the framework describing the creation of new firm:



Source: Gartner (1985).

■ Individuals: The entrepreneur

The entrepreneur's role in economic development has been a source of much scientific inspiration and research since the early history of economics. Important features of entrepreneurship were related to the degree of risk-taking by a firm, the innovative attitude of a firm, the degree of profit orientation by a firm and the long-range spin-off of business activities. In their standard work of 'The Entrepreneur', Hébert and Link (1982) built the following typological entrepreneur classification:

- The entrepreneur is the person who assumes the risk associated with uncertainty (e.g. Cantillon, Von Thünen, Mill, Hawley, Knight, Von Mises, Cole, Shackle)
- The entrepreneur is the person who supplies financial capital (e.g. Smith, Bohm-Bawerk, Pigou, Von Mises)
- The entrepreneur is an innovator (e.g. Bentham, Von Thünen, Schmoller, Sombart, Weber, Schumpeter, Shackle)
- The entrepreneur is a decision maker (e.g. Cantillon, Menger, Marshall, Wieser, Amasa Walker, Francis Walker, Keynes, Von Mises, Cole, Schultz)
- The entrepreneur is an industrial leader (e.g. Say, Saint-Simon, Amasa Walker, Francis Walker, Marshall, Wieser, Sombart, Weber, Schumpeter)
- The entrepreneur is a manager or superintendent (e.g. Say, Mill, Marshall, Menger)
- The entrepreneur is an organizer and co-ordinator of economic resources (e.g. Say, Wieser, Sombart, Weber, Clark, Davenport, Schumpeter, Coase)
- The entrepreneur is the owner of an enterprise (e.g. Quesnay, Wieser, Pigou, Hawley)
- The entrepreneur is an employer of factors of production (e.g. Amasa Walker, Francis Walker, Wieser, Keynes)
- The entrepreneur is a contractor (e.g. Bentham)
- The entrepreneur is an 'arbitrageur' (e.g. Cantillon, Walras, Kirzner)
- The entrepreneur is an allocator of resources among alternative uses (e.g. Cantillon, Schultz).

In this regard entrepreneurship is a multi-faceted phenomenon that can be viewed from different angles. Based on this long list of possible entrepreneur's features we may argue that in the literature the following four main issues centered around entrepreneurship come generally in the fore front: 1) the entrepreneur position both in the surrounding economic system and within his/her own corporate organization, 2) the identification of the entrepreneur's economic tasks, 3) the entrepreneur financial remuneration for his/her risk-taking activities based on his/her economic motives, 4) the markets' dynamics (local and global) seen from the entrepreneur's perspective.

■ Environment

The birth, growth, contraction and death process of enterprises has become an important research field in the so-called firm demographics. This new research field is concerned with the analysis of the firms spatial-temporal change pattern from a behavioural-analytical perspective (Nelson and Winter, 1982). Many studies on the growth processes of firms have been originated on industrial economics or organization and management disciplines, often complemented with certain bases taken from geography, demography, or psychology (Caves 1998, Evans 1987, Gertler 1988, Hayter 1997, and Stinchcombe 1968).

An entrepreneur is an opportunity seeker but in so doing he/she needs to have an open eye on a rapidly changing external environment. As a consequence firm demography is a multidimensional research field in which psychology, sociology, marketing, political science, economics, finance and management come together.

The roots of the firm demographic approach can be found in 1980s when in an economic recession period much attention was given to the birth of new firms. From a regional economic perspective much research was undertaken on the geographical differentiation between the birth and growth process of new firms. From that perspective also the adoption role of new technology had to receive attention. This has prompted several studies on the firm's life cycle, in particular, competitive performance, product differentiation, spatial relocation, organizational restructuring etc. There

are various reasons why of all types of firm dynamics, new firm formation has been the most attractive. Perhaps the most significant reason is that new firms provide new jobs, or that new firms are often involved in the introduction of new products and processes in the market.

■ Organization

Most studies of new venture creation have neglected to comment on or even communicate certain characteristics of organizations (Gartner, 1985). Behind this, there seems to be the following assumptions: 1) All entrepreneurs are virtually alike and 2) If so, and if they all go through the same process to create their ventures the organizations they create must not be of any interest in them.

Some research on the types of firm has studied the manufacturing firms; most of them have focused on high technology companies (Gartner, 1985). Unsuccessfully, such studies do not compare the type of firm studied to other types which could determine their impact in the process of a new venture creation.

■ Process

The literature on entrepreneurship has begun to look beyond to what the entrepreneur does. Specifically, what is done at start-up or even prior to start-up has been increasingly considered important to the paths taken by new firms and their eventual success. This line of thinking suggested that in order to understand venture success it may be important to know some preliminaries as how thorough was the initial planning, why the business started, whether or not it was a single effort, and what was the financial structure of the business.

The next section shows a specific process of creation of a firm taken from Veciana (1988). This process comprises four phases: 1) generation, 2) creation, 3) initiation, and 4) consolidation.

4. THE START-UP PROCESS

4.1. Generation

■ Childhood

According to Veciana (1988), the first authors that studied the childhood and the family influence upon the firm creation idea were Collins, Moore and Unwalla. According to them, a difficult childhood is one element of influence evidenced in many firms; most entrepreneurs start their working life while they are still very young, and they work either for the family business or in their own business.

Veciana (1988) relates two factors as engines of firm creation, being 1) the family scarcity of means and 2) the death of the household head and need to take over the business. In short, childhood and family context are fundamental variables in the business idea generation.

■ Background and professional training

Usually the entrepreneur professional training can be the result of the 'Entrepreneur's school or the 'Entrepreneur's technique' (Veciana, 1988). The first is the 'schooling' of experience; where knowledge is obtained through the occupied posts, the history of success and failures that have been undergone, and the contacts made. The 'schooling' of experience can last from 10 to 20 years, depending on the capacity of risk that the entrepreneur has taken. This kind of preparation is also characterized by 'forming' entrepreneurs with mistrust and insecurity at the time of delegating.

The 'Entrepreneur's technique' is in direct relation to individuals who seek a business opportunity based on the technology. In this case, the entrepreneur training involves basically university background, although the professional experience plays an important role, even if it is not as significant as in the first 'school'.

■ Business incubator

A business incubator is an organization that provides physical space assistance for 'speeding up' the successful development of a new venture. It enables the search of a network for the development of business, ensuring to a certain point, a continuous and permanent flux of clients and suppliers which are strategic weapons in this decade.

The main purpose of an incubator is to 'produce' successful firms that can leave the program when they become independent and financially sustainable—it is the moment when they 'graduate'. The graduating firms leave the incubator with a great potential to create jobs, revitalize local economy, commercialize new technologies and strengthen regional and national economy (National Business Incubator Association, 1997).

Depending upon its sector and ownership an incubator can be classified as follows: Sector: mixed use, manufacture, technology, and services. Ownership and/or administration: public, private, mixed and academic. Even if these different types of incubators may have the same activities and services, their aims could be different. For example, while the purpose of technological incubators—public or private—is to develop and commercialize new technologies, a small rehabilitation type firm—almost always public, could concentrate on "building" companies that prosper in an industrially underdeveloped community.

■ Deterioration of the role

According to some studies the creation of a firm is not, generally speaking, the result of a deliberate and free act (Veciana, 1988). It can originate from the rupture of some kind of lifestyle. It is possible that the entrepreneur has been considering creating an enterprise for some time, but it is the triggering event which finally will help in taking the decisive step.

Concretely, when the person is cut or marginalized from his or her previous life style, he or she begins to project the idea of business that can result in an enterprise (Veciana, 1988). There are two hypotheses with respect to this. The first supposes a negative event as the triggering spark of the

idea of business commonly related to the individual's deterioration of his or her current role or life style. The second supposes that the individual is motivated by the appeal of independence and need of achievement of MacClelland (Veciana, 1988).

4.2. Creation

■ Search and identification of an entrepreneurial opportunity

The search and identification of an entrepreneurial opportunity is extracted from the model of the marked process by Kirzner (1973). Kirzner considers that the market is in disequilibrium and that the entrepreneur is the one who introduces increasing degrees of coordination through the search of entrepreneurial opportunities. Then, the situation of unbalance is seen as a beneficial opportunity by the individual, and the process of the market is taken as the mechanism that provides incentives to discover potential situations and signs that might reveal the traits of the buyers and suppliers directing his or her actions.

In this context intuition, alertness, a vision of the future, the capacity for sensible judgement, and experience are crucial assets for the entrepreneur (Veciana, 1988).

■ Assessment of entrepreneurial opportunity

In the previous phase the entrepreneur's common sense and related traits were essential. In the assessment of entrepreneurial opportunity it is necessary for the entrepreneur to have an analytical capacity to be able to determine whether he or she owns the necessary abilities and resources that will enable him or her to undertake the new venture. It is also important to analyze, as a whole, the potential market of the good or service produced by the new firm.

In general terms the criteria to assess an opportunity is: 1) the need that the good or service will cover, 2) the possibility to identify the potential clients, 3) the market size, 4) the growth rate of the market, 5) the participation level in the market, 6) the structure of competition, 7) the response to competition, 8) the degree of price control, the distribution

chains, 9) the expenditures of production, marketing and distribution , 10) the profits. (Veciana, 1988).

■ The business plan

Once it is clear that the idea of business is really a business opportunity it is necessary to work out a plan where the purpose of the business, its activities and the required resources are explicitly stated.

The business plan is the most important document of the new venture (Veciana, 1988). It contains the business concept and the activities required to carry out the idea of the business.

■ Legal creation of the firm

This is the climax of the creation phase. At this point, the necessary aspects are completed in order to award the firm with a legal existence. The legal creation differs from country to country, and in some cases, even from region to region within the same country.

3.3. Launching and opening

This is the phase that marks the beginning of the actual business. It is the departure on an 'uncertain journey' (Veciana, 1988), where the expertise and the capacity of the entrepreneur are important in order to overcome the obstacles that will undoubtedly arise.

■ Team creation

It is an increasingly common fact that the creation of a new firm is not the work of a single individual but rather of a group of people interested in the business world (Veciana, 1988). One criterion followed for making a team consists on looking for complementary partners, regarding both –attitudes and capacities.

The team creation is an aspect that requires great attention by the entrepreneur because in a great measure, the future of the new venture depends on it.

■ Acquisition and organization of resources

On this phase the new venture's technical needs have to be determined. Among the technical needs the first decision concerns to the necessary machinery and equipment to start the new firm's activities.

If it is an original project the product identification factor and the search for adequate suppliers are typical cases of decisions that have to be taken in unstructured situations, where equally the capacity of the entrepreneur is put to test (Veciana, 1988).

■ Development of goods or services

Nevertheless, the decision of how to manufacture or produce the good or service is a fundamental aspect of the new venture. The supplying conditions of the raw material, stockage, and certainly the product's design and its presentation must all be taken into account.

■ Financing

The capital investment of a company comes in great measure from the founders', or their families' personal resources (47 to 73% of the times). Looking for financing means constitutes a crucial aspect in the new venture. It is usually a long and difficult process because, unless there are good entrepreneurial tracking records, banks are reluctant to provide this kind of financing. It is therefore the entrepreneur's task to use all of his or her capacity to obtain the proper financing.

4.4. Consolidation

Finally, the consolidation phase is related to failing or winning, and defending oneself from unwanted partners (Veciana, 1988).

■ Failing or winning

The entrepreneur may have acquired many commitments and find him or herself facing the predicament of either staying in business or withdrawing

from it. Among other aspects he or she must: 1) face the possible short delay for the return of goods, 2) rise or drop in the demand for the product for which he or she may not be in a condition to respond, 3) face the problems of incompatibility among the partners, and 4) face the failure on the part of the suppliers to meet the required conditions or the failure to pay on the part of customers.

The possibility to overcome this phase depends on the entrepreneur's expertise to overcome obstacles, his or her perseverance, his or her sense of achievement.

■ Defending the venture from unwanted partners

It is common that during the business development the entrepreneur or major partner has realized that the other partners, in case there are other partners, have not participated actively in the development of the new venture. The entrepreneur may have observed that there are conflicts of interest of partner or ownership nature, or there may be conflictive feelings interfering with how the new venture should develop. In the face of adversity, the major partner will look for a way to guarantee the permanence of the business by trying to exclude the 'unwanted' partners, those who are no longer compatible with the business, or those who represent a hindrance to its growth.

In this regard, empirical studies register that only 52% of new firms are still functioning with the initial team after four years of work (Veciana, 1988). The moment the firm has to start struggling for survival, problems and incompatibilities among partners begin to pop up. Here, it is the group leader who believes in the firm and defends its future, the one who will persevere on solutions.

5. THE PROBLEMS OF NEW FIRMS AND EMPIRICAL STUDIES

New firms tend to have problems with sales established by other firms, mainly because potential customers may have generated loyalty for the established firms and be less aware of the new firm's existence (Storey,

1985). It is also likely to have problems due to an unexpected increase in the demand or because of the failure to obtain credit. In the first case, the problem arises because the new firm may not have the capacity required by the market; in the second, the problem is associated with the fact that the financial institutions and the suppliers do not provide the firm with loan capital or trade credit respectively. This is because the new firm lacks a banking history.

Moreover, the law of the market dictates that the threatened firm either adjust or fails (Storey, 1985). Bannock in *The Economics of Small Firms* argues the firm should not be penalized simply for being small, otherwise new and small firms will no longer threaten the position of established larger firms (Storey, 1985). The new firm can also have problems due to new liabilities. It is possible that the new venture, following an occasional increase in the demand for instance, engages in new and unrealistic commitments. It could be the case of a transitory increase in the demand for instance, due to a short-lived event.

Another problem that the new firm has to face is related to the inability to get customer recognition. In general, the problems encountered by the new firms are likely to be identical to the problems faced by the small firms; the problems vary with the influence of external factors such as the macroeconomic environment, conditions specific to the firm's own trade, as well as internal factors such as the firm's own organization and efficiency (Storey, 1985).

5.1. The problems: All firms new to Cleveland

■ Purpose and sample

This research studied the problems claimed by new firms to the county of Cleveland between 1972 and 1979. Its aim is to provide insights into the problems of such firms with a view to tailoring current public policies more effectively towards stated needs. Although it was a massive recipient of government aid in the form of investment grant to the local steel and petro-chemical industry, Cleveland was an area that, in 1983, had the highest rate of unemployment in any county in mainland Britain.

The surveyed firms include both entirely new businesses and those that previously existed outside the county.

■ Methodology

Problems facing entirely new firms and those of all other firms previously existing outside Cleveland were compared. The steps taken by the firms to overcome their problems were investigated with a view to assessing the deficiencies in current government policy towards the small firm.

The Middlesbrough Telephone Directories of 1973 and 1977 were used to select the sample; these firms were compared, they being all non-retail, non-public businesses. The ones that did not appear in the Directory in 1973, but were included in the 1977 Directory, were classified as potentially new firms to Cleveland. These firms were then screened by interview to eliminate long-established business. Of the 301 identified firms new to Cleveland, 61 were in manufacturing, 59 in construction and 64 in professional services. Among the entirely new firms, 30 were in manufacturing, 34 were in construction and 33 were in professional services.

■ Findings

No differences were found among the problems faced by entirely new firms and the other firms new to Cleveland. For example 37 percent of wholly new firms reported no problems in their first year of operation compared with only 22 percent of all other firms new to Cleveland. Nevertheless, specific problems were mentioned in relation to the demand shortages, skill shortages, and other problems.

The demand shortage was the most frequent single problem mentioned by entirely new firms and the third most significant problem mentioned by other firms new to Cleveland. The difficulties to establish a reputation and develop markets were mentioned as the main problem associated with the demand shortages. Shortages of skilled labour was mentioned as a problem on 114 occasions and in 75 percent of cases this referred to a shortage of a specific trade or skill; in 10 percent of these cases the problem of the high

wages paid to skilled men by other companies was mentioned. Among entirely new firms there were slightly less complaints about the quality of skilled labour and rather more about having to pay high wages to attract labour. Among other problems, 16 were financial, 48 were shortages of supplies, and 48 were high labour turnover. Industrial disputes were also mentioned as a problem faced by the new firm.

In general, the difficulties mentioned by entirely new firms in their first year of operation seem to vary according to industry. Entirely new manufacturing firms reported that the main difficulties that they encountered in their first year of operation were shortages of demand and skilled labour shortages; new construction firms mentioned the shortage of supplies and of skilled labour.

5.2. A cross-cultural cognitive model of new venture creation

■ Purpose and sample

This research develops a cross-cultural model of entrepreneurial cognition to explain the creation of a new business from an individual perspective. In developing this model the authors clarify why some individuals from different cultural backgrounds are more prolific in starting new businesses (? citation).

To illustrate the model, the Chinese population are found highly inclined to start new businesses when they migrate to new countries. Implications for competitive advantage and to other areas of cross-cultural research are presented as well.

■ Methodology

A cross-cultural cognitive model is utilized to analyze how individual and cultural values specifically affect the founding process. By doing so, the authors refer to the cognition literature. In this context, the entrepreneurs are those who intend to create or are creating a new venture based on innovating ideas.

The cross-cultural cognitive model developed builds upon early research that assumes that different cultural values affect individual cognition that in turns results in different behaviour.

Specifically, the cognitive paradigm, cultural values, the social context and the personal variables were analyzed. In the cognitive paradigm, two propositions were formulated: 1) Entrepreneurs and non-entrepreneurs have different schemas regarding new venture creation, with entrepreneurs having more favourable schemes of creating new ventures, such as more start-up opportunities, higher chance of success, and more control over outcomes; such schemas increase the intention to start a new venture; and 2) the lower use of biases and heuristics in decision making allows for quicker processing of information which will be positively related to the intention to start and the founding of new business.

Among cultural values we could formulate the proposition: Cultural values such as individualism, lower uncertainty avoidance, higher power distance, masculinity, and longer time orientation are positively related to entrepreneurial cognition. Among the social context and personal values, the following propositions could be formulated: a) Social-economic factors as mobility will enhance the entrepreneurial cognition in individuals, and b) personality traits such as acceptance for risk-taking, internal locus of control, and higher achievement will be positively related to the development of entrepreneurial cognition.

■ Findings

According to the theoretical contrast done, the authors noticed that the effect of cultural values can also be seen in a broader sense if a society does not provide sufficient jobs for some ethnic groups, such as new immigrants. Moreover, those ethnic groups that are higher in individualistic values will be more prone to create their own businesses than those with a stronger collectivistic value. Such individuals tend to perceive limitation in social mobility as an opportunity to demonstrate their own achievement. Therefore, these people perceive and interpret market conditions, resource mobility and other social factors as opportunities, and these are fundamental to the decision of starting the business.

In particular, the cases of Hong Kong and American immigrants from China are analyzed. In the case of Hong Kong, both in the 1960s during the Cultural Revolution period in China and in the 1980s when China officially allowed their people to move to Hong Kong for business, the Chinese were a major source of new founders. Compared to native-born Hong Kong Chinese, the new immigrants were more alert to new opportunities. These new immigrants prompted by their need for achievement, perceived the environment as one of attractive business opportunities, selecting favourable information towards the creation of new businesses.

As for the Chinese population in America, the ones who tend to have values that are consistent with entrepreneurial cognition and who perceive the environment as unattractive for the pursuit of a professional employment career attempt to further their own careers by founding new ventures. The Chinese population view American environment as a good place to maximize their personal potential by founding their own business. In pursuing such opportunities, the Chinese, with their unique entrepreneurial cognition, were capable to build a business based on some advantages uncommon among their American counterparts and thus build a competitive advantage.

5.3. Future research implications

The conclusions of Storey's case show how future research in the field of creating new firms could be as beneficial because we live in a changing society requiring indeed ongoing measurable assessments of the new trades of the internal and external environment, which will anticipate all possible outcomes- being problems or assets to success. As in Storey's case future research could generate the latest knowledge to deal with competitors and other challenges that entrepreneurs could face.

The cross-cultural cognitive model shows how the intent to pursue the creation of a new venture is significantly affected by individual cognition. Therefore, the authors suggest developing specific cases with several propositions to test the influences on cognition and the relationship in cross-cultural settings. A research question that could be extended from this model is 'Do different types of entrepreneurial cognition lead to

advantages in different types of innovation such as operational, product, or market innovations?'. Also additional integrated models from a cognitive perspective should be developed. An example of this could be the nature of the schemes of founders and how their cognitive process is affected by personal variables. Also, factors surrounding the decision to start a new venture need further exploration.

Finally, principles from theories of social attribution could be used to devise a coding scheme for responses to an open-ended question –e.g. Why do you want to start this business?– asked to nascent entrepreneurs in the Panel Study of Entrepreneurial Dynamics (PSED) (citation?). In this framework, explanations that involve causes-internal to the person are distinguished from explanations that involve causes-external to the person. Among the internal/external categories, causes that are presumed to be relatively stable are distinguished from causes that are presumed to be more easily variable.

6. CONCLUSIONS

The history of economic thinking has demonstrated a fluctuating interest in entrepreneurship. There has been a shift from the interest in studying the psychological attributes of the entrepreneur to proposals as the ones related to the role of the entrepreneur as a network operator or manager, and the ones that study the environment and cultural influence on the entrepreneurial act. In this context, the creation of a new firm has always been considered as a fundamental aspect of entrepreneurship. Also in this specific area there has been a change in the focus; for instance, from a one-dimensional view to a multidimensional one, where the act of creation is a phenomenon in which numerous variables are concatenated.

Specifically, this paper has examined the process of creation of new firms and the problems they confront. The corresponding theoretical specifications have been made and the illustration of two empirical studies has been forwarded to conclude the following precisions:

1. The business start-up is an interesting phenomenon that is important to approach. Its pronounced influence in community growth and

development makes it a compulsory review subject for both developed and non-developed regions.

2. This phenomenon is richly inclusive; it can be approached from various theoretical perspectives, all of them included within the field of entrepreneurship.
3. Aspects such as search and discovery of opportunities, the entrepreneurial act, and the characteristics of current entrepreneurs could be studied from the focus of the creation of business or the phenomenon of business start-up.

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