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Abstract

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Disciplines

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**THE BUSINESS LAUNCH DECISION: AN EMPIRICAL INVESTIGATION
OF REASONS FOR NOT STARTING A NEW BUSINESS**

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ABSTRACT

This article presents the results of a survey that examined the business launch decision. All of the individuals in the study attended a workshop on how to evaluate a business idea and launch a new venture. All of the individuals who attended the workshop were interested in, but decided against, launching a new venture. The results of the study indicate that time constraints, availability of capital, and risk tolerance are perceived as significant obstacles by potential new business owners. Significant differences in the ranking of obstacles were found relative to whether the individuals believed that the obstacles to launch could be overcome, age of the respondent, and whether the individuals had previously owned a business. In addition, individuals who were more highly educated and had previous business ownership were less likely to launch a new business subsequent to the workshop. The results of the study can be used by service providers and consultants who develop training programs that assist individuals in the screening of business ideas and launching of new firms. The results of the study also can be incorporated into college curriculum to provide students with insight into obstacles impacting on business launch.

INTRODUCTION

An important goal in public small business assistance and entrepreneurship education programs is to provide training, information assistance, and support programs that increase the survivability, profitability, and employment opportunities among new small firms. This assistance often begins during the pre-launch phase when individuals are screening business opportunities and acquiring start-up resources. Chrisman, Hoy and Robinson (1987) reported that public assistance programs for new firms are beneficial to geographic economic development. Gatewood, Shaver and Gartner (1995) emphasized the importance of developing training programs that are targeted to meet specific needs of the potential new business owner. They believed that training programs that address the different reasons for business start-up and needs of the individuals will be more likely to result in the creation of a successful new venture.

The impact of small business in the U.S. economy provides an important impetus to the successful development of public assistance programs. As emphasized by Chrisman et al (1987), small firms generate a disproportionate number of new jobs, contribute a large number of innovations, provide economic opportunities for women and minorities, and are the basis upon which much of the US economic system is built. Reynolds (1994) reported that almost 4% of working age adults in the US are involved in the launching a new venture. Timmons (1997) stated that an unprecedented number of new ventures have been created in the 1990s.

Providing pre-launch business assistance that increases the likelihood of success is a significant goal due to the enormous challenges facing new business ventures. While some disagreement exists about the true rate of discontinuance of new small firms, the statistics indicate that discontinuance/failure is the rule rather than the exception. Kuratko and Hodges (1998) report that more than 70,000 small firms failed in 1995. Timmons (1997) stated that almost two-thirds of new small firms do not exist after five years in operation. Herron and Robinson (1993) pointed-out that training of entrepreneurs is an important element affecting the analysis of the opportunity and performance of a new venture.

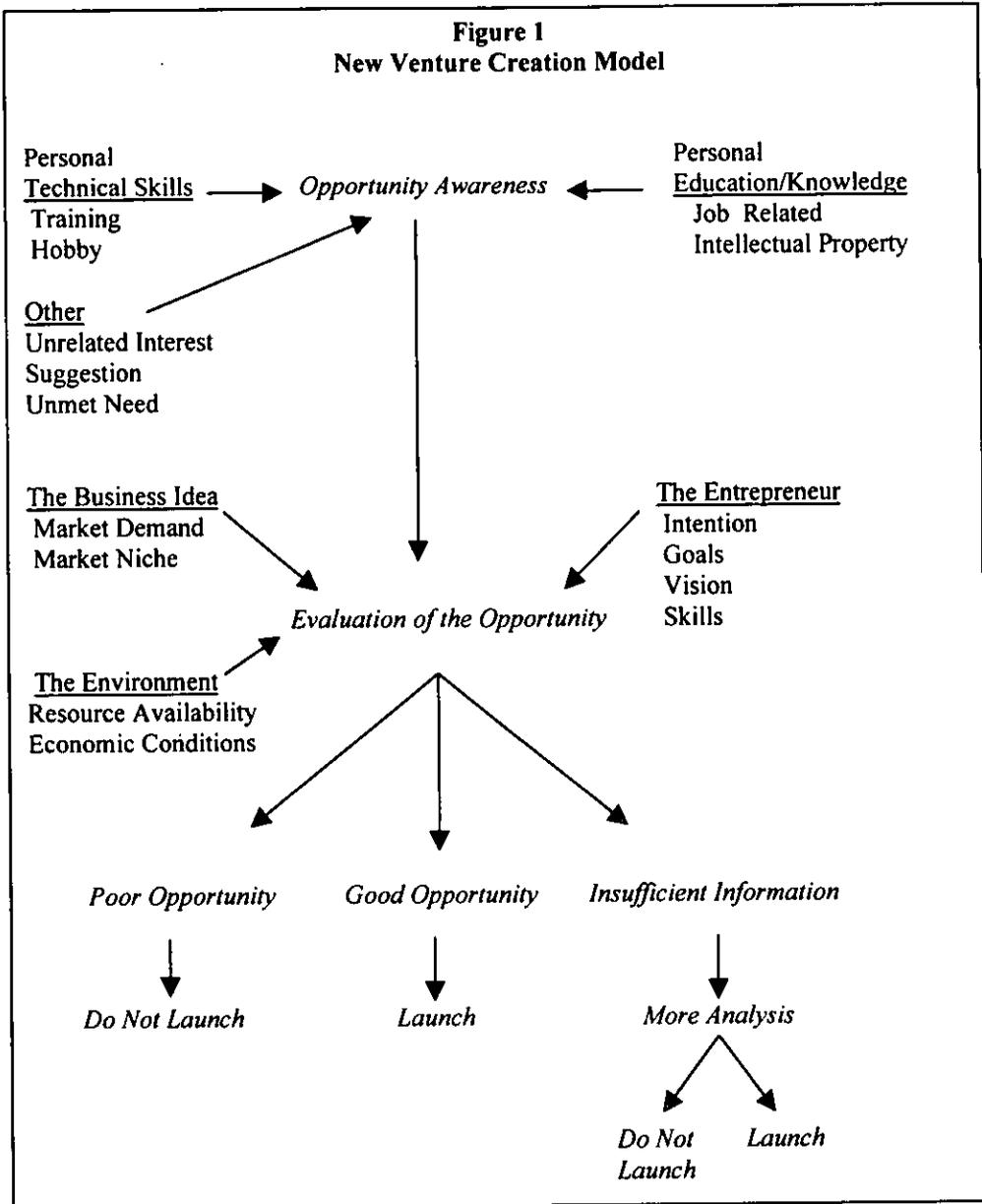
Despite these challenges, the rate of new business formation has been unprecedented in the 1990s. Timmons (1997) reported that over 1.1 million new businesses were formed in 1992 and that over 20 million small businesses operate in the United States. Nevertheless, some areas in the U.S. are experiencing economic development challenges that are resulting in a deterioration in regional economic vitality. Kean, Gaskill, Leisstritz, Jasper, Shoop, Jolly and Sternquist (1998) noted that business vitality has an important impact on regional economic and community development through loss of employment, out-migration, and reduction in tax base.

This article presents the results of an empirical examination of the business launch decision of individuals who attended a workshop on how to screen the business idea and launch the business. The specific objectives of the study are to: (1) evaluate reasons why individuals who screened business opportunities decided against launch; (2) compare the characteristics of individuals who launched a new business relative to individuals who decided against launch; and (3) compare reasons why the business was not launched relative to respondent characteristics. No previous empirical studies have examined why individuals who are actively evaluating a business opportunity decide to *not* launch the business.

The results of the study can be used by business service providers who are interested in developing programs that assist individuals in the screening and launching of new. Identifying the challenges, obstacles and constraints confronting individuals as they explore new venture opportunities can enable service providers to develop better support programs and give better assistance. The results of the study also can be incorporated in college curriculum to provide students with insight into pre-launch decision processes. An important goal in entrepreneurship education is helping students to understand the difference between a business idea and a business opportunity. The results of this study provide empirical evidence that can offer students insight into the screening of business ideas.

THE ENTREPRENEURSHIP PROCESS

Previous research has provided alternative perspectives on the entrepreneurship process and individual decision-making criteria that are used in the creation of new ventures. The general themes, outlined in Figure 1, imply that new venture creation encompasses opportunity awareness, opportunity evaluation, and the launch decision.



Opportunity Awareness

Bird (1992) and Katz (1992) believed that awareness of business opportunities occurs because of changes in an individual's environment. Learned (1992) believed that opportunity awareness was predicated on the entrepreneur having the propensity and intention to launch a new venture. Bhawe (1996) developed a venture creation model that described the entrepreneurship process as beginning with opportunity recognition. According to Bhawe, opportunity recognition may be either externally (i.e., purposeful search for business opportunities) or internally stimulated (i.e. realization of an unfilled market need). Proceeding to the evaluation of the opportunity required a commitment of resources and time by the entrepreneur. Hisrich and Peters (1998) described the entrepreneurship process as beginning with a change in an individual's life due to either a disruptive event or the identification of an opportunity. Timmons (1999) believed that opportunity awareness is the "heart" of the entrepreneurial process.

Evaluation of the Opportunity

The business pre-launch process would be terminated at any point without the individual becoming motivated to evaluate the market opportunity. Greenberger and Sexton (1988) suggested that individuals pursue potential business ventures if the new venture evaluation reveals a sufficiently large market opportunity, appropriate management and technical skills of the entrepreneur, and availability of resource requirements. Other issues included in the venture evaluation include personal issues, such as, a desire by the entrepreneur to become independent, have responsibility for making decisions, and have the opportunity for personal gain, (Bull and Willard, 1993). Hansen and Allen (1992) believed that potential business owners evaluate the degree to which interpersonal networks can be established prior to launch. These social networks act to support the organization formation, resource acquisition, and information processing prior to launch. The likelihood of the new business being launched is higher when these networks are more fully developed and actively used. Herron and Sapienza (1992) believed that the motivation and skills of the entrepreneur determine the intensity of the entrepreneur's evaluation process. Herron and Robinson (1993) believed that individual motivation and skills have a greater impact on evaluation of the venture opportunity than do other personal traits of the entrepreneur. Timmons (1999) stated that the opportunity evaluation should include an analysis of market demand, market size, and profit margin.

Launch Decision

Greenberger and Sexton (1988) believed that supporting conditions must be present for an individual to launch a new venture. These conditions include (1) some event impacting on the individual, (2) certain personality characteristics, (3) social support network, and (4) individual need for control. Evaluation of the opportunity results in the business idea being pursued, discarded, or further screening and evaluated (Bird, 1992). Campbell (1992), Herron and Sapienza (1992), Starr and Fondas (1992), Bird (1992) and Eisenhauer (1995) believed that the entrepreneur will launch the venture if the expected gains from launching the new venture are greater than the potential rewards that may be obtain from employment by another firm. The match between expectations and expected performance is determined as the individual collects more information and becomes more acquainted with the business opportunity.

Carter, Gartner and Reynolds (1996) identified and characterized these three groups of individuals: (1) those who decided not to launch the new venture tended to be relatively passive, and either decided that the venture was not a good idea or were inflexible in problem solving; (2) those who delayed launch were continually involved in internal activities such as saving money and planning (i.e. all talk and little action); and (3) those who launched the new venture were action oriented and doers. Kuratko, Hornsby and Naffziger (1997) stated that the individual will decide against launch when the potential venture will not accomplish the individual's personal goals.

SAMPLE AND METHODOLOGY

The sample consisted of all individuals who attended a pre-launch workshop in a Midwestern state during a two-year period from mid-1996 to mid-1998. All of the individuals who attended the workshop were interested in launching a business. The purpose of their attendance at workshop was to explore and evaluate their business idea. The workshop covered the basics on how to screen ideas, develop business plans and acquire resources that are necessary to launch a new venture. A total of 263 individuals attended the workshop during this time period.

A questionnaire was developed and pre-tested during the late summer, 1998. The first and second mailings of the questionnaire occurred during September and October, 1998. A total of 126 questionnaires were returned, providing a response rate of 47.9%.

The questionnaire was divided into three sections. The first section collected demographic information on the respondent, such as gender, age, whether the individual has previously owned a business, type of previously owned business, and reasons why the previously business had been discontinued. The second section asked questions related to whether the individual decided to launch a new venture subsequent to the workshop. These questions included whether the business was launched, type of business, and whether a business plan was written.

The third section of the questionnaire was directed at individuals who had not yet launched a business. These individuals were asked to rank the degree to which specific factors were obstacles affecting the launch of the business using a Likert scale (1=major obstacle and 5=not an obstacle). These obstacles included (1) lack of money, (2) lack of skill or knowledge, (3) too much risk, (4) impact on lifestyle, (5) lack of time to start business, (6) too complicated, (7) decided that business would not work, and (8) other.

The results were initially summarized using univariate statistics (means and frequencies) to provide a better understanding of the respondents and characteristics of the data. Subsequently, chi-square tests and Wilcox two sample test of differences in means were used to examine differences between segments of the respondents.

RESULTS

Respondent Characteristics

As shown in Table 1, the respondents were almost evenly split between males and females (52% males and 48% females). Approximately 61% were married, and 35% were not married (4% did not respond to this question). The majority (81%) had at least some college education, while 17% had either completed high school or obtained technical education. The mean age of the respondent (not shown in the table) was 37 years old.

Table 1 - Respondent Characteristics
(n=126)

<u>Respondent Characteristic</u>	<u>Percent of Sample</u>
Gender	
Male	52%
Female	48%
Marital Status	
Married	61%
Unmarried	36%
Level of Education	
No High School Diploma	2%
High School	7%
Technical Training	10%
Some College	22%
College Degree	59%

Approximately 37% of the respondents indicated that they had previously owned a business prior to attending the workshop (Table 2). Almost one-half (49%) of these businesses were service firms, 23% retail, 11% professional and 17% other (wholesale, construction, manufacturing, etc.) firms. Almost two-thirds of these previously owned firms (66%) were no longer in operation.

Table 2 - Respondent Characteristics: Previous Business Ownership

	<u>N</u>	<u>Percentage</u>
<u>Previous Business Ownership:</u>		
Yes	47	37%
No	79	67%
<u>Type of Previously Owned Business:</u>		
Retail	11	23%
Service	23	49%
Professional	5	11%
Other	8	17%
<u>Is Business Still in Operation (of 47 startups)?</u>		
Yes	16	34%
No	31	66%
<u>Reason Previous Business Was Discontinued:</u>		
	<u>Mean Rating</u>	<u>Ranking</u>
Other	1.8	1
Time Demands	3.2	2
Low Profits	3.6	3
Change in Business Conditions	3.8	4
Low Customer Demand	3.9	5
High Competition	4.0	6
Financial Difficulties	4.0	6
Became Tired of Business Ownership	4.4	8
Family Issues	4.4	8

(1=significant reason; 5=not significant reason)

The respondents who had previously owned a business that was no longer in operation were asked to rank the importance (1 = very important factor and 5 = not an important factor) of factors that caused the business to be discontinued. The category "other" was clearly the most important according to the perceptions of the former business owners. Written responses explaining the "other" factors included, for example, moved, did not need income anymore, retired, developed physical disability, partner died, and sold business.

The mean ranking of the remaining factors that lead to discontinuance included time demands (3.2), low profitability (3.6), changing business conditions (3.8), and low customer demand (3.9). All other factors were ranked as 4.0 or higher. According to the perceptions of the respondents, the most important factors causing discontinuance were attributed to personal issues (i.e. "other" and time demands). All of the business related factors (i.e. profitability, business conditions, customer demands) were ranked as having a less important impact on the reason for business discontinuance.

The Business Launch Decision

The questionnaire asked whether the respondent had launched a business after attending the workshop. Table 3 provides information relating to the business start-up decision. Approximately 58% (42%) of the respondents did not (did) launch a new business after the workshop. Of those who started a business after the workshop, the majority launched either a service (45%) or retail firm (21%). Other new business start-ups included professional (13%), other (construction, manufacturing, etc.) and 4% wholesale. All businesses launched after the workshop were still in operation.

Table 3 - Business Launch Information

<u>Started Business After Workshop:</u>	<u>N</u>	<u>Percentage</u>
Yes	53	42%
No	73	58%
 <u>Type of Business Launched:</u>		
Service	24	45%
Retail	11	21%
Professional	9	17%
Other	7	13%
Wholesale	2	4%
 <u>Business Still in Operation?</u>		
Yes	53	100%
No	0	0%

An important objective of this study was to assess business start-up after the workshop. This issue is especially relevant since the attendees who attended the workshop were actively involved in screening a business idea. Table 4, which includes only those individuals who did not launch a business after the workshop, shows the mean responses of the obstacles preventing business launch subsequent to the workshop (1 = an important obstacle and 5 = not an important obstacle).

Table 4 - Reasons Why Business Not Launched: Mean Ranking
(1 = significant obstacle and 5 = not a significant obstacle)

<u>Reason</u>	<u>Mean Rating</u>	<u>Ranking</u>
Other	1.3	1
Lack of Money	2.8	2
Lack of Time	3.0	3
Too Much Risk	3.4	4
Impact on Lifestyle	3.7	5
Too Complicated	3.9	6
Lack of Skill/Knowledge	4.0	7
Business Would Not Work	4.0	8

The category "other" was ranked as being the most significant business start-up obstacle. Written responses that explain "other" included many individual specific events, such as death, still collecting information, business plan not complete, lack of income security, lack of confidence, need a mentor, etc. No pattern in the written responses for the "other" category was evident.

The next highest mean ranking of obstacles to launching the business were lack of money (2.8) and lack of time (3.0). Financial difficulties are commonly found to be one of the most important explanations for business failure. The workshop discussion about the financial requirements associated with launching a new business and impact of financial difficulties apparently raised the awareness of the participants about the capital requirements. In addition, the time commitment associated with collecting information, writing a business plan, and establishing supplier accounts, especially for the workshop participants who are already working in a full time job, was recognized as a significant obstacle to business launch.

The rankings of the remaining obstacles were too much risk (3.4), impact on lifestyle (3.7), too complicated (3.9), lack of skill/knowledge (4.0), and decided the business would not work (4.0). All of these issues were discussed during the workshop. Respondents, however, perceived them to be of relatively less significance as an obstacle to launch or easier to manage than money and time.

Differences in Business Launch Decision

The data were evaluated to identify differences between those individuals who launched a business and those who did not launch a business. Table 5 shows chi-square results of three comparisons of sample subgroups. The table shows statistically significant differences relative to college education and previous business ownership. Workshop participants who had attended at least some colleges were less likely to have opened a business after the workshop than those who had not attended college. In addition, individuals who had previously owned a business prior to attending the workshop were less likely to have launched a new business than those who had not previously owned a business.

These results suggest that those individuals who were more highly educated and had previously owned a business were less likely to have launched (maybe more cautious) after the workshop. These individuals were, perhaps, better able to evaluate the value of the business opportunity than those individuals who were less highly educated and had not previously owned a business.

The results in Table 5 also showed no evidence of differences in the distribution of individuals launching a business versus not launching a business after the workshop relative to marital status (married/single) and gender (female/ male).

**Table 5 - Percent of Respondents Launching Business versus Not Launching Business:
Chi-Square Tests of Difference (n=126)**

<u>Variable</u>		<u>Started Business</u>	<u>Did Not Start Business</u>
Married	Yes	26.4%	37.2%
	No	14.0%	22.3%
Gender	Female	16.7%	31.7%
	Male	25.4%	26.2%
**Attended College	No	11.9%	7.1%
	Yes	30.2%	50.8%
**Previous Business Ownership	No	22.2%	40.5%
	Yes	19.8%	17.5%

(** Significant at 5% Level)

The mean responses for reasons why the business was not launched after the workshop were evaluated based on (1) whether the obstacles to business launch could be overcome, (2) whether the respondent had previously owned a business, and (3) age. Table 6 shows the t-tests of mean rankings for each of the respondent subgroups. The table results show that the mean rankings for "too much risk" and "business would not work" were significantly higher for those individuals who believed that they would not be able to overcome the obstacles to business launch as compared to those individuals who believed that the business launch obstacles could be overcome. All other differences between the means of obstacles to business launch between the two groups were statistically insignificant.

**Table 6 - Wilcoxon Two Sample Test of Difference in Means Test:
Mean of Reasons Why Business Not Launched vs. Can Overcome Obstacle,
Previous Business Ownership, and Age of Respondent (n=126)**

Reason	Can Overcome Problem		Previous Business Ownership		Age	
	Yes	No	Yes	No	<37	>37
Lack of Money	2.6	3.3	3.2	2.6	2.4	3.2 **
Lack of Time	2.8	3.0	3.7	2.8 *	2.6	3.5 *
Too Much Risk	3.7	2.4 *	3.9	3.2 *	3.4	3.4
Impact on Lifestyle	3.8	3.2	3.8	3.7	3.7	3.8
Other	1.1	1.0	1.1	1.1	1.0	1.6
Too Complicated	4.0	3.6	3.8	3.8	3.8	4.0
Lack of Skill/Knowledge	4.0	4.1	4.6	3.8 *	4.0	3.9
Business Would Not Work	4.0	2.8 *	3.9	3.7	3.7	3.8

* Significant at 1% ** Significant at 5%

The table also shows that the mean rankings for "lack of time", "too much risk", and "lack of skill/knowledge" were significantly higher for those individuals who had not previously owned a business relative to those individuals who had previously owned a business. In all cases, individuals who had not previously owned a business believed that lack of time, risk, and lack of skill/knowledge were significantly greater obstacles to business launch as compared to individuals who had previously owned a business. All other differences between the means of obstacles to business launch relative to previous business ownership were statistically insignificant.

The mean rankings for obstacles to business ownership were also evaluated relative to mean age of the respondents. The results show that the mean rankings of "lack of money" and "lack of time" were higher for respondents over 37 years old as compared to respondents less than 37 years of age. The older age group of respondents believed that lack of money and time were significantly less of an obstacle than the younger aged group of respondents. All other differences between the means of obstacles to business launch relative to age were statistically insignificant.

DISCUSSION

The objective of the pre-startup workshop was to assist individuals in their screening of and provide insight into the value of their business idea. Workshop attendees believed they had identified a business opportunity and were involved in the evaluation and screening of their idea. Workshop material included, for example, information on market analysis, customer needs, financing, and personal goals.

There are limits to what a workshop can accomplish. A pre-startup workshop can provide information on the start-up process, materials on how to screen business ideas, and offer insight into the value of and associated constraints affecting the business opportunity. However, the workshop cannot provide financing, force attendees to (not) make decisions or implement actions. At the end of the workshop, attendees were presented with information on the evaluation of obstacles that may limit the business opportunity. An assessment of these obstacles provides the attendees with important information on whether to launch, not launch, or re-evaluate their business idea.

The information in Table 4 provided insight into the post-workshop screening process. The four obstacles that were ranked as being the most significant obstacles are factors that the workshop material can emphasize and assist in the evaluation process. The results show in Table 4 suggest that the obstacles, lack of time and too much risk, are related to the entrepreneur's personal goals and objectives. The obstacle, lack of money, may be related to personal goals and objectives if lack money implies an unwillingness to make a personal sacrifice, such as obtaining a second mortgage on the individual's home, borrowing against life insurance, or selling a personal asset, to raise sufficient start-up capital. Workshop materials and discussion can emphasize the importance of evaluating these individual-specific issues prior to start-up to can better understand the impact of business ownership on the individual and family lives. The other obstacles generally relate to the business environment and business idea. These obstacles are not seen as major impediments to business start-up. Work discussion can easily provide insight into the impact, evaluation, and managerial techniques of these issues. Discussion of the potential environmental and resources obstacles can assist the individuals' confidence in being able to manage the issues, while the personal issues are viewed as being more significant obstacles.

An important objective underlying this project was to understand the differences between those who decided to launch a business and those who decided not to launch a business. The results indicate that those who are better educated and had previously experienced business ownership were less likely to have launched a business subsequent to the workshop. Although the results do not provide direct evidence of why greater education and experience reduced the likelihood of launch, several explanations are possible. The greater amount of education and the experience (which is a type of education) obtained from previous business ownership probably provided the individuals with a broader perspective and enhanced ability to evaluate the value of the business idea and obstacles associated with launching a business. Both categories of individuals may be more likely to better understand the complexities of launching and operating a new business. In addition, those who were better educated may also have a higher income relative to those who had not attended at least some college. The motivations of those who are better education for launching a new business may have dictated a higher return on time and money and, thus, more stringent screening criteria, than those who are less educated.

An important aspect of this study was to understand obstacles to business start-up. Different categories of individuals were expected to rank the severity of the obstacles differently. Asking whether or not the obstacles can be overcome can provide information on how the workshop material is incorporated into the attendees' assessment. The workshop should provide sufficient screening information to enable the participants to determine which business concepts are good opportunities and which are just ideas. The difference in mean ranking between those who believe that the obstacles could be overcome and those who did not believe that the obstacles could be overcome suggests that the workshop may have been successful in helping individuals to assess risk and quality of the business idea. Both of these obstacles are likely to be related since the business may not work due to the high risk of the

venture. Since the data does not provide direct evidence for the difference in mean ranking, the explanations are suggestive rather than based on specific comments from the respondents.

Previous business ownership can also provide important background from which to assess obstacles affecting the launch and the likelihood of success of the business. This insight and experience is likely the reason why previous business owners ranked risk, time, and lack of skill/knowledge as significantly greater obstacles to launch than individuals who had not previously owned a business. The experience of owning and operating a business is a type of "on-the-job" training that provides the individuals with a better understanding of the complexities and demands of business ownership.

CONCLUSIONS

Important goals of workshops that assist individuals in the screening process are to help individuals distinguish between good business opportunities and weak business ideas. Helping individuals determine that their business idea will not work is as important as facilitating the development and launch of a good business opportunity. Accomplishing the objectives of the paper provides insight into the business launch decision as individuals screen business ideas. Workshop and seminars directed at assisting individuals screen the business idea are important in helping to prevent the launch of a weak business idea or in providing the individuals with a broader perspective on how to better develop the business idea. Effective screening is especially important due to the well-documented and discussed high failure rate of new businesses. Providing information on issues such as how to assess market potential, value of the business idea, risk, time demands, etc. is an important aspect of pre-launch workshop activities. However, the workshops that are developed to help in the screening process may need to spend proportionately more time on acquisition of capital, risk assessment and time management. Workshop development may also include a specific or more intensive focus on those who are less well educated and have never owned a business.

The interpretation of the results of this study is limited in several respects. The sample is relatively small ($n=126$) and limited to only a single state at a single point in time. Replication of the study in other geographic areas would confirm whether the results are specific to the Midwestern US or also typical of other regions. Replication of the study in other countries would provide insight into whether the obstacles to business launch are similar between different countries. In addition, a longitudinal study could valid the findings relative to economic cycle. The longitudinal study could also follow-up on those individuals that had not launched a business at the time of the survey to determine if and how they were able to overcome their perceived obstacles. A similar study could also be completed that examined these issues more in-depth. Issues such as motivations for starting the business and source of the business idea could build on previous research that examined the entrepreneurship process. Finally, the nature of the sample may inject a bias into the results. The obstacles to business launch may be unique to those attending the workshop rather than being representative of the entire population of individuals who consider starting a business.

Business consultants, public providers of business service (i.e., Small Business Development Centers) and the academic community can use the results of the study. Business consultants and public business service providers can use the results to develop better outreach programs and counseling services to pre-startup businesses. The academic community can use the results in curriculum and course development to give students better insight into the business screening process. Ultimately, the type of information gained from this and similar studies offers the potential benefit of improving the individual's likelihood of successful business screening and launch

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