

Start-up

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INTRODUCTION	20
THE ENTREPRENEUR	21
ENTREPRENEUR OR SMALL BUSINESSMAN?	21
ENCOURAGING START-UPS	24
THE RESOURCES MERRY-GO-ROUND	25
THE ENTREPRENEURIAL NETWORK	27
STUMBLING BLOCKS	30
PICKING WINNERS	32
EXERCISES	37
REFERENCES	38

Introduction

Starting a business is not an event, but a process which may take many years to evolve and come to fruition. Very few people are born entrepreneurs and very few new businesses are unique. Yet it is estimated that around 200,000 new firms are created each year in the UK. While many do not survive beyond the first few difficult, formative years, many do continue to grow and provide a livelihood for both owners and employees, although few of these grow to be the large firms of the future, or, indeed, beyond the ownership of the original founders. Interestingly, since the early 1980s, this has been despite the wider availability of venture and development capital, and the launching of the various junior securities markets.

The study of 'start-up' is concerned with two issues: first, the process by which an individual arrives at the decision to try to develop a business out of an idea, and second, the process of assembling the resources necessary to begin trading.

The entrepreneur

Early studies of the origins of the entrepreneur concentrated almost entirely upon their motivations. It was assumed that entrepreneurial flair, the ability to take risks and the desire to create a business were inherent in the individual – he or she was born with them. This motivation was described by Schumpeter (1942) as an 'innovative' drive, by McLelland (1961) as a 'need for achievement', and was measured by Rotter (1966) as 'locus of control'. However, McLelland also showed that, while these motivations were essential for the successful creation of business, they were not genetically bound. In his experiments, those groups which received his achievement motivation education demonstrated a larger supply of entrepreneurs than his control group which had not received the training. Thus evolved the idea that entrepreneurs were made rather than born; that lifetime experiences were just as important as genetic influences.

Cooper (1981) provides the most comprehensive and useful framework for explaining the various factors which may contribute to the 'entrepreneur's decision'. He classified them into three groups:

1. The entrepreneur, including the many aspects of his background which affect his motivations, his perceptions, and his skills and knowledge.
2. The organisation for which the entrepreneur had previously been working, whose characteristics influence the location and the nature of new firms, as well as the likelihood of spin-offs.
3. Various environmental factors external to the individual and his organisation, which make the climate more or less favourable to the starting of a new firm.

Cooper defined these three groups as Antecedent Influences, the Incubator Organisation and Environmental Factors (see Table 2.1). Despite this, little is known about the actual characteristics described by Cooper. The answer to the question on the lips, and in the minds, of every investor – 'How can we pick winners?' – remains elusive. While the motivations of entrepreneurs have been studied extensively, there is, as yet, only limited knowledge about the lifetime characteristics. Moreover, much is culturally bound, being grounded in the USA.

Family

Nevertheless, the limited data which are available tend to support the popular view that many entrepreneurs come either from a family

Table 2.1 Influences on the entrepreneurial decision

Antecedent influences
Genetic factors
Family influences
Educational choices
Previous career experience
Incubator organisation
Geographic location
Nature of skills and knowledge acquired
Contact with possible fellow founders
Motivation to stay with or leave organisation
Experience in 'small business' setting
Environmental factors
Economic conditions
Accessibility and availability of venture capital
Example of entrepreneurial action
Opportunities for interim consulting
Availability of personnel and supporting services
Accessibility of customers

firm or from families with some form of business background. This result is intuitively acceptable since such strong grounding in the business ownership ethic at an early stage is a useful and powerful driving force for children as they begin to choose future careers. However this is not to say that all children from family firms choose business ownership as a future career, just as not all actors' children become actors, but rather that those who do choose self-employment tend to have had some involvement in a small or family business during their formative years. Indeed many future inheritors of a family business eschew the apparently attractive future which awaits them for employment with some other, often large, organisation where their progress is determined by their skill and training rather than by family relationships (Birley, 1986).

Background

The traditional view of the entrepreneur is an uneducated, unskilled poor immigrant, often with an ethnic background, who finds himself 'socially marginal' (Stanworth and Curran, 1976) and who, therefore, seeks upward social mobility. While it is true that certain social groups have provided classic examples of this phenomenon – the Jews, American settlers, Asians in Britain – it is not true that this is sustained in the current economic climate. For example, conclusions

regarding education have changed since the early studies by Collins *et al.* (1964), which showed that the entrepreneur was badly educated: recent studies have found them just as well educated as the population in general (see Kent *et al.*, 1982; Gartner, 1984) and in some cases better than their peers running the larger, blue-chip firms (Birley and Norburn, 1987). It must be noted, however, that the particular content of the education does not appear to be an important factor. Thus, Birley and Norburn (1987) found no connection between the type of degree awarded and the nature of the product/market of the new firms. Despite this, there is, as yet, no evidence that those students in MBA programmes who chose small business or start-up electives are any more likely to be successful in running their own firm than their colleagues choosing other specialities to study!

Age

Regarding age, there is general agreement that the typical entrepreneur starts his firm in his thirties. While it would appear that this is a period of very high risk, when the individual is likely to be at his most financially stretched, it is also clear that this is the age when a strong base of business experience has been developed, when personal confidence is rising, and when frustration with the bureaucratic system begins to develop. Moreover, it is not surprising that this is also a time when many reach a personal crisis in their lives – the issues of 'Who am I?' 'What have I done with my life?' and so on are very powerful and positive motivators.

Experience

Common sense suggests that, as with all lifetime experiences, prior work experience will have an effect on the nature of a new venture. In other words, the type of 'incubator' organisation in which the founder was employed immediately prior to start-up may well be a significant influence both upon the decision to start a new business and upon its characteristics. Certainly there is clear evidence that most start close to home, often within their current 'travel to work area' (TIWA); very few are sufficiently attracted by the various incentives offered elsewhere, although some are. Indeed, as early as 1970, Cooper (1970) claimed that 'regional entrepreneurship depends upon incubator organisations which hire, train and motivate the prospective entrepreneur'. In theory, therefore, the location of the incubator provides an opportunity to develop not only local contacts and

market knowledge but also managerial skills and market knowledge. In practice, this is not always the case. A number of studies have found that, while many start in the same industry as their previous employer, an equal number start in entirely different product/markets. Indeed Birley and Norburn (1987) reported: 'no particular pattern was observed in the employment experience of the "high flying" entrepreneurs' which they studied. What is clear from the research, however, is that historically the majority of owner-managers emanate from the private sector. In order words, in the past, business has begat business. Not so in the future, as will be discussed later.

Entrepreneur or small businessman?

If the thesis that entrepreneurs are made rather than born is accepted, then lifetime experiences must also mould the *nature* of the entrepreneurial decision, and the size and type of business eventually created. Researchers have sought to explain the variety of businesses created in terms of sub-classifications of motivation – not all those who choose to leave employment do so in order to create the IBM of tomorrow. Many, indeed most, have much more modest aims. Various models have been suggested. Stanworth and Curran (1976) differentiate the 'artisan', who seeks intrinsic satisfaction, from the 'manager', who seeks recognition for managerial excellence, from the 'classic entrepreneur', who is profit-oriented. Similarly Dunkleberg and Cooper (1982) segment into the 'growth orientated', the 'independence orientated', and the 'craftsmen orientated'. Perhaps more simply, Carland *et al.* (1984) focus upon the essential factor of growth in distinguishing the small business venture from the entrepreneurial venture, and the 'small business owner' from the 'entrepreneur'.

A *Small Business Venture* is any business that is independently owned and operated, not dominant in its field, and does not engage in any new marketing or innovative practices.

An *Entrepreneurial Venture* is one that engages in at least one of Schumpeter's four categories of behaviour: that is, the principal goals of an entrepreneurial venture are profitability and growth and the business is characterised by innovative strategic practices.

A *Small Business Owner* is an individual who establishes and manages a business for the principal purpose of furthering personal goals. The business must be the primary source of income and will consume the majority of one's time and resources. The owner perceives the business as an extension of his or her personality, intricately bound with family needs and desires.

An *Entrepreneur* is an individual who establishes and manages a business for the principal purpose of profit and growth. The entrepreneur

is characterised principally by innovative behaviour and will employ strategic management practices in the business.

The inherent simplicity of these classifications is appealing, yet they are based upon two important assumptions: that it is possible to dichotomise the whole of the sector by simple motivations and personal drives which, since they do not change, allow us to predict the size and nature of the eventual firm. Recent research, conducted in a variety of countries and cultures, does not support this view. The results from the study conducted in the UK illustrates the point. When owner-managers were asked about their reasons for starting their business (Birley and Westhead, 1993), seven components were identified:

1. *A need for approval*, strongly linked with McLelland's theories on need for achievement and with Maslow's (1954) need for self-actualisation.
2. *A need for independence*, similar to Hofstede's (1980) scale of individualism.
3. *A need for personal development*.
4. *Welfare considerations*, strongly linked to Hofstede's collectivism index; starting a business is seen as a way for the founder to contribute to the welfare of the group of which he is part.
5. *Perceived instrumentality of wealth*: in her analysis of the Italian data, Dubini (1988) calls this the 'materialism' element.
6. *Tax reduction and indirect benefits*: this reflects the owner-manager's wish to retain any personal wealth earned.
7. *Following role models*, including those both external and internal to the family group.

These make intuitive sense. More important than this, however, is that they are not mutually exclusive. As we expected, it was possible for entrepreneurs to articulate more than one reason for starting their business. Fine. But does that help us to predict success, to pick winners? Unfortunately not. There was no apparent relationship between the reasons which owner-managers espoused and the subsequent size or performance of their business.

Encouraging start-ups

So far this chapter has suggested that the decision to start a new firm, and the development of the associated product idea, take many years to incubate. The corollary to this is the fact that the supply of entrepreneurs is not a fixed quantity, but can be influenced by

external factors. On a national level, the role of national culture, acceptable norms of behaviour and traditional family relationships clearly influence individuals' attitudes. Moreover the availability of attractive role models such as Richard Branson (Virgin) or Stephen Jobs (Apple), and the much publicised success of the management buy-out, have made significant contributions to shaping national attitudes to entrepreneurial behaviour. However, beyond this, the current economic climate is also an important factor in influencing the number of people who finally decide to move from either unemployment or employment to self-employment. Thus the mere fact that many large firms have substantially reduced their employee base, and that management at all levels can no longer look to the large firm as a source of long-term security, has meant that many have sought a new form of security – that of self-reliance through the ownership of their own firm.

This move towards enterprise is not confined to the private sector. The privatisation of parts of the public sector, the creation of agencies and trusts, general practitioner fund holders, the separation of purchaser and provider, the requirement for market-testing of services have all contributed to the creation of a new breed of 'social businesses' – those organisations with both a social and a commercial imperative (Birley, Manning and Corble, 1992). In developing their new strategies, many have adopted the (public sector) venturing procedures of their colleagues in the private sector through spin-outs, management buy-outs and the creation of entirely new businesses (Manning and Birley, 1990). Thus enterprise and entrepreneurship are now alive and well throughout all parts of the UK. Moreover, since the collapse of the Berlin Wall and the demise of the command economies, this trend is apparent throughout Europe, although with very different commercial and cultural bases. Consequently it is not clear at the time of writing how difficult the path will be or how long it will take to reach stability and relative economic prosperity. As with most judgements in this field of enterprise, the usual rule of thumb probably applies – at least twice as long as anticipated.

The 'triggers' to the start-up decision

The factors described above determine the total supply of new firms, but what are the factors which *trigger* the particular decision at a particular time? Listed below are some which I have observed on a number of occasions, and personally experienced on a few. They are not mutually exclusive.

1. The 'it works' syndrome: a product which has been worked on for many years, either as a hobby or at work, finally gells.

2. The 'eureka' syndrome: perhaps the most exciting and satisfying – an idea completely out of the blue, but which is often simply a new way of packaging old products or ideas.
3. The 'if only' syndrome: 'If only I could buy products in smaller packages' (Aurita Roddick); 'If only I could call a reliable service for emergencies' (DynoRodi).
4. The 'high comfort level' syndrome: constant encouragement and support from family and friends.
5. The 'friendly push' syndrome: the individual has constantly talked about an idea, and suddenly the path is made clear. Resources are made available by a benevolent employer in the form of, for example, premises or orders; friends and family begin to disbelieve the intent, and the individual is finally forced to make a decision one way or other, entrepreneurship courses are offered as a way of testing the idea and formulating a strategy for market entry.
6. The 'misfit' syndrome: the fact that the person does not fit as an employee finally dawns upon him. He is unhappy, does not get promotion, fights authority, always believes that he could do the job better than those around him. This is the classic view of an entrepreneur – a troublemaker within a large organisation. However it does not always follow that misfits will always start businesses, nor that those who do will eventually prove to be successful.
7. The 'unfriendly push' syndrome: unemployment or enforced redundancy.
8. The 'no alternative' syndrome: this is usually brought about by physical disability or illness, rendering the person unable to obtain regular employment or to continue a career.
9. The 'grey to white' syndrome: many people 'moonlight', selling products or services on the fringes of the black economy while in full employment; for example, the amateur antique dealer, the trainee accountant who does the book for a group of friends, the hairdresser who has private clients in the evenings. Sometimes, however, the magnitude of the demand, and thus the income, can force the individual from the fringes into full-time self-employment.

Unfortunately, while these triggers clearly describe the process which many entrepreneurs go through as they move from the passive consideration of an idea to actively pursuing it, they cannot be used for forecasting either the potential start-up or the potential success.

The resources merry-go-round

Just as the process of reaching the decision to 'have a go' can be protracted, so is the process of actually assembling the resources neces-

sary to commence trading. The entrepreneur begins with an idea for a product or a service out of which he wishes to create a business. Unfortunately the process is not simple. Many different forms of business can be created to capitalise upon just one idea. For example:

- parts or all of the manufacture and marketing can be subcontracted, licensed or franchised;
- a joint venture can be set up with either a manufacturing or a marketing company;
- the business can include more than one part of the value added chain (the manufacturer of Kitty Litter in the USA also owned the raw material source; Laura Ashley is a manufacturing *and* retail organisation);
- various choices of distribution channel are available – for example, mail-order catalogues, retailers, wholesalers, agents, a direct sales force.
- assets can be leased, hired, bought or borrowed!

The choices made, and the resultant shape and size of the business which is eventually created, will be influenced by a combination of two factors.

The entrepreneur's own 'concept of the business'

Very few people who start their own firm are able to be creative about its form. Most have very fixed ideas about the 'proper' shape of the business, much of which is derived from personal experience of the norms of other, similar businesses, but particularly of their immediate previous employment. However, whatever the entrepreneur's background, there is often a tendency to purchase assets early in the life of the firm rather than to lease or hire. While this is not always advisable, since it is often better to retain as much flexibility as possible in the early life of the business, it is often the only way to ensure future borrowings – tangible asset backing is almost always sought by funding agencies.

This picture of the embryo business which the entrepreneur holds in his mind can be constraining for others. There is nothing more frustrating to an investor who finds an idea which he considers to have great potential than to discover that the entrepreneur merely wants to run a small workshop at the bottom of his garden, and to sell to a few friends and acquaintances. Many potentially large businesses have been stillborn at this very early stage.

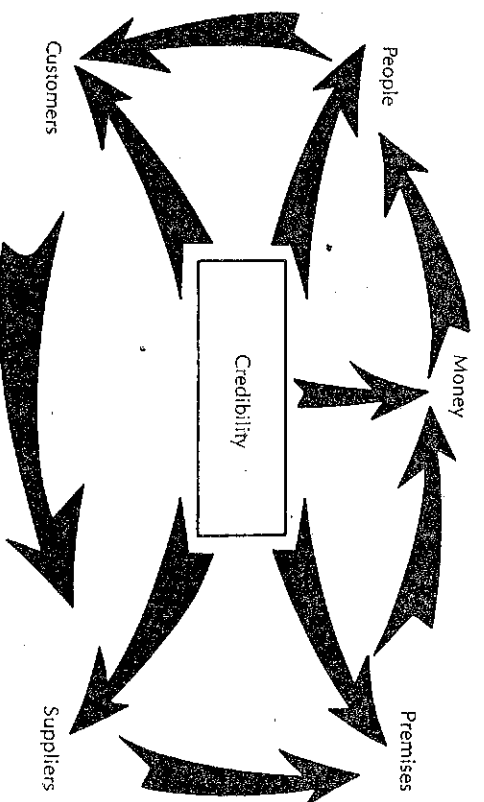


Figure 2.1 The credibility merry-go-round

The dictates of the market-place

Although very difficult to forecast, the perceived size of the potential demand, particularly in the development phase, will determine the nature of the resources assembled.

Perhaps the most important of all, however, is the entrepreneur's ability to ride successfully the resource merry-go-round (Birley and Norburn, 1984) (see Figure 2.1). In the final analysis, creating a business is a matter of assembling resources from all potential 'investors': people, premises, equipment, customers, suppliers, money. Unfortunately only very rich entrepreneurs are able to assemble an ideal shopping list and to make swift and satisfactory purchases. Indeed, if this were the case, many more badly conceived and executed businesses would be born than is currently the case. The process of assembling the resources is critical.

The entrepreneur can mount the merry-go-round at any point. Let us imagine that he goes first to the bank, probably with an ill-thought-through proposal and very little documentation, but a very clear idea of how much money he 'needs'. He is sent away with a flea in his ear, and told to come back when he has evidence of an order. The banker is asking for evidence from the market-place that the product is credible. Approaching potential customers, the entrepreneur is asked questions about, for example, reliability, availability, price, marketing support, product insurance and, perhaps more embarrassing, he is asked to produce both product *and* previous satisfied customers. Unable to produce product without equipment

and premises, he approaches potential suppliers, only to be told that suppliers of equipment will require cash (he has no trading record with them) and landlords require bank guarantees – and the loop is closed. The picture looks bleak. How, then, do any new businesses emerge?

The entrepreneurial network

Vesper (1979) warned us not to overlook the 'experience factor' as a source of new venture ideas. He underlines the point: 'Instead of searching randomly, as many popularised entrepreneurship books seem to suggest, the entrepreneur should closely examine his or her own education, work experience, and hobbies as idea sources. The large majority of the entrepreneurs studied primarily used their own expertise rather than that of others.' This point is of fundamental importance. The 'experience factor' is of value not only in selecting new venture ideas, but also in providing a framework for evaluating their viability, for stepping off the credibility roundabout and establishing the business. Credibility is established through personal contact and knowledge of the skills, motivation and past performance of the individual; the bankers call this the 'track record'. Since for an embryo firm there is no trading track record, investors must look to their previous relationship with the individual, whether it be commercial or personal. Thus, for example, a previous employer may agree to be the first customer, a friend may lend money with little real hope of a return in the short or even medium term (in the UK, this is known as the 'Aunt Agatha Syndrome').

This use of the existing contact network is a way of providing credibility, and thus comfort, to those organisations which are being asked to invest in the business by, for example, supplying raw materials on credit.

Social networks

Clearly, therefore, a strong informal or social network is essential for the successful launch of the firm. Aldrich and Zimmer (1986) state: 'The approach we take ... focuses upon entrepreneurship as embedded social context, channelled and facilitated or constrained and inhibited by people's position in social networks.' The following was found when studying start-ups in St Joseph County, Indiana (Birley, 1985):

Informal contacts, mainly business contacts, are seen overall to be the most helpful in assembling the elements of the business. Family and friends are the most useful where local issues were concerned, as with the seeking of location and employees.

The formal sources come to the fore when the elements of the firms are set and the entrepreneur is seeking to raise finance. It is hardly surprising, therefore, that the institution mentioned most of the time was the bank.

All other formal, declared sources of help, including the SBA [Small Business Administration], were mentioned on very few occasions.

These findings have subsequently found support in collaborative studies in a number of countries. Indeed, as Aldrich *et al.* (1991) note, in this sense there can be said to be a 'generic entrepreneur'. Aldrich and Zimmer (1986) also note that these social networks have an influence not only on the individual entrepreneurial decision, but also upon the total supply:

Voluntary associations, trade associations, public agencies, other social units increase the probability of people making connections with one another ... The complex pattern of social organization described by Everett Rogers and Judith Larson in their book *Silicon Valley Fever* illustrates the synergistic effects of brokers, central meeting points – such as well known 'watering holes' and restaurants – and family and friendship networks that supported the high start-up rate in the Silicon Valley.

Artificial networks

Unfortunately, despite the meteoric growth of Enterprise Agencies and Business Links in the UK, and Small Business Development Centers in the USA, both of which are formed to provide advice and assistance for the new and small firm, these networks are not built overnight. Let me illustrate the point with reference to Northern Ireland, where formal support for enterprise began in 1971 with the formation of the Local Enterprise Development Unit (LEDU), followed in 1973 by the first Local Enterprise Agency (LEA). By 1993, 33 LEAs were in operation, supported by six LEDU regional offices. Despite this, in a recent study with colleagues in Northern Ireland (Birley Cromie and Callaghan, 1992), we found owner-managers to have smaller direct and indirect personal contact networks than the international comparison groups. More important, we found 'one of the most noticeable gaps ... is any mention of the members of the "artificial" networks, those agencies which were set up to facilitate the development of a healthy new and small firms sector and which were the primary source of firm for this study'. In a subsequent study, we noted that, 'if entrepreneurial supporters are to surmount

this apparent weakness ... it is incumbent upon them to excel at personal networking' (Cronie *et al.*, 1993). Yet 20 years after the formation of the first agency we still conclude that 'the community entrepreneurs appear to have a useful web of associates ... who are in touch with their environment ... However, the network is still young. A fully integrated, holistic approach to enterprise creation and development has yet to evolve' (Birley, Cronie and Callaghan 1991).

Stumbling blocks

A new business entering a hostile environment is a delicate entity. Many embryo businesses fail to raise the necessary resources to commence full-time trading, and many new businesses fail in the first two or three years. The common received wisdom is that this is due to the unwillingness of the investing community, whether clearing banks, venture capital companies or financial funds, to put up seed capital. The response from these organisations is that there is plenty of money eagerly seeking good investment ideas, but that there are very few around. There is an element of truth in both of these. Unfortunately entrepreneurs often approach investors too soon, and financial investors too often dismiss good ideas because they are presented without a formal business plan. It is not the purpose of this chapter to debate this issue, but merely to outline a number of the most common stumbling blocks along the way from an idea to a viable business.

The question as to whether the business will work must be approached from three separate, but interlinked, dimensions: the product, the package and the people.

The product

WILL IT WORK?

The step from the workshop bench to commercial production of a product can be very large. The ability of the entrepreneur to 'bodge' when things go slightly wrong is important in the early design stages, but this is not an appropriate skill in a factory. Customers expect uniform quality and reliable performance for the products which they buy. Indeed they expect the firm to provide some form of product indemnity. Thus there are three issues which the entrepreneur must consider:

1. Can the required skill be transferred to others at a reasonable cost?

2. What product indemnity is necessary, and what will be the cost of insuring the firm against claims.
3. What service support is needed in the case where repairs are necessary?

While these questions are important for all firms – for example, liability insurance is an often ignored issue in service firms – they are particularly important for those firms with a complex manufacturing process.

HOW WELL IS THE ENTREPRENEUR PROTECTED?

Patents, copyright and registered trade names are all ways of affording some protection against predators. But too often entrepreneurs fail to protect themselves adequately. The most common argument against registering patent goes as follows: 'They are too expensive, they give my competitors too much information, and I couldn't afford to sue even if they did break patent.' While this may be true in certain cases and, indeed, getting the product to market as fast as possible may be the best protection possible, the important point is that establishing *ownership* of the product or idea is of fundamental importance in maintaining a competitive advantage. Too many entrepreneurs avoid the issue.

The package

Many ingredients are necessary in the translating of an idea into a viable business and it is the 'baking' – the packaging of resources and the strategy adopted – that determines future viability. Certain issues, however, are common.

IS THERE A GENUINE NEED?

The identification of market potential is fraught with difficulties, and this is more so for new business, even in those cases where the product itself may be well established. The relationship between price, product characteristics and market share is difficult to capture in a dynamic market environment and to translate into forecasts of revenue. However the most important question for all potential investors is whether the entrepreneur knows and understands his market-place, and whether he has collected data which are appropriate to evaluating the viability of the business. Thus expensive market research studies are often unnecessary in situations where the total market is large and established, and the entrepreneur is concerned to

obtain a minute proportion of a local market. Conversely a new, high-technology, expensive product which has few potential customers will require a detailed study of the market-place. In both cases, however, the entrepreneur should be concerned to ascertain whether his product will sell, and for this purpose there is no substitute for orders. Indeed potential investors will be *most* impressed by such tangible evidence that the product is credible to customers.

WHAT IS THE MARKET ENTRY STRATEGY?

In the early days, the entrepreneur is attempting to establish the credibility of himself and his firm through the medium of his product. 'Product' in this case refers to the entire range of the marketing mix - products characteristics, price, promotion and place, or channels of distribution. Therefore a market entry strategy which is flexible, and which allows for adaptation to customer reactions, is extremely important.

WHAT IS THE BEST BUSINESS FORMAT?

Unfortunately the best business format may not fit the needs of the entrepreneur. Setting up a new manufacturing plant in a market dominated by large firms, both at the manufacturing point, and more importantly, at the distribution point, may well be courting disaster. On the other hand, a joint venture or a licence agreement with one of the firms could increase the chances of a successful launch quite substantially. It is often necessary, therefore, to separate the personal and the commercial reasons for the choice of a particular strategy.

HOW LONG WILL IT TAKE?

At the risk of appearing flippant, the answer to this question, too, is usually 'Twice as long as you think!' It may be the most important thing in the entrepreneur's life, but the same cannot be said of others. Moreover this applies to both resources and sales. For example, lawyers can take an interminable time to negotiate leases; suppliers are not always reliable (after all, the entrepreneur is unlikely to be an important customer); printing cannot take place until the firm is registered for Value Added Tax - which takes time. However perhaps the most underestimated factor in most start-ups is the time taken for the market-place to react to a new product. Cash flows can very quickly go severely awry, not because there is no demand, but because it takes, say six months longer than anticipated to build up sales; six months during which employees and suppliers have to be paid.

WHAT ARE THE VARIOUS LEGAL FORMS OF BUSINESS?

Basically, there are four:

1. Sole proprietorship.
2. Partnership.
3. Incorporation or limited liability.
4. Co-operative or common ownership.

The main differences are twofold, the first concerning the nature of the taxation. In a sole proprietorship or a partnership, the law does not distinguish between the individual and the firm. Therefore tax will be paid at the personal tax rates of the owners. An incorporated firm is seen as a separate entity which therefore pays corporation tax.

The second difference concerns the nature of the liability. In theory, in a limited liability firm any debts which the firm incurs are limited to the assets of the firm. This is not the case for the other entities. However this has been severely eroded by recent company and insolvency legislation; and the bank manager, landlord, and possibly suppliers, may demand personal guarantees before they will agree to trade with the new firm, thus 'bypassing' the limited.

WHAT DO I DO WHEN THINGS GO WRONG?

Things will almost certainly go wrong. Few entrepreneurs can forecast all possible problems and, even when they can, they are not always able to provide adequate contingency plans. However a successful entrepreneur will not only know his business sufficiently well to be aware of the most sensitive areas, but he or she will also learn from mistakes. Moreover it is no use trying to hide them from financial investors. Few investors, whether they be the local clearing bank or a venture capital fund, expect the business plan to turn into exact reality, but they do expect to be kept informed. They most certainly do not like surprises.

HELP!

There is a great deal of help around. The traditional sources of advice and assistance for any firm come from professional relationships - the accountant, the bank, the lawyer, the customer or the supplier. However each of these sources is likely to view the firm from a particular, technical bias; until recently, few professional advisers were able to give general commercial advice. Moreover the type of advice, assistance and information which a new firm requires can be time-consuming and cover a wide spectrum. As a conse-

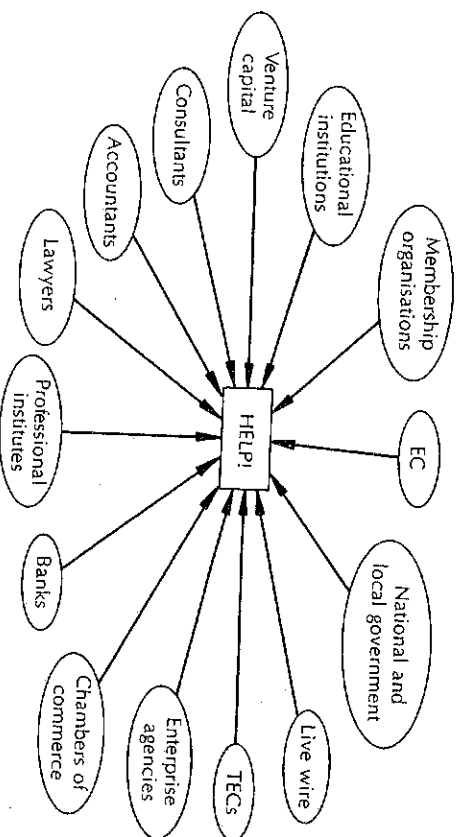


Figure 2.2 Some sources of help

quence it is expensive to provide to a customer who may well be unwilling or unable to pay a commercial rate. Therefore, in recent years in both Europe and the USA, there has evolved a range of advice, assistance and education focused particularly on new firms and financed, at least in part, by the government. A diagrammatic representation of a selection of the sources of help available to the entrepreneur is seen in Figure 2.2.

The people

We end where we began: small firms, new firms involve people: their goals, needs and skills are inextricably intertwined with those of the firm.

ARE PARTNERS NECESSARY?

This is the wrong question. The important question is whether the firm has the necessary combination of managerial and technical skills, and whether the people involved are wholly committed. They do not necessarily all have to own equity. Indeed, while the 'greedometer' can start running fairly early in the life of the firm, involving others can create severe problems in the future. A partnership is all too like a marriage, which many enter into with insufficient thought. There are two essential ingredients to a successful partnership.

1. *Clear power*: the managerial roles of each of the partners should be clear and understood, particularly for those activities which are outside their traditional skills. Thus, if one partner is responsible for selling, and one for manufacturing, cash control should not be allowed to fall between the two.
2. *Common goals*: few partners discuss their future needs and goals. Yet this is often the eventual cause of substantial friction. The 'seven year itch' is alive and well in this arena also! For example, if one partner merely wishes to provide a comfortable life-style for himself and his family, while the other wishes to develop a large firm, there will be disagreements as to the level of reinvestment in the firm in the future.

Beyond this, however, is mutual respect and the ability to resolve conflict. Too many assume that a cosy professional or personal relationship will survive the rigours of launching a firm. Often it does not. Therefore one document is essential at the formation of a partnership in establishing guidelines for the future: the 'divorce agreement', a legal partnership agreement which also incorporates a formula for dissolution.

Picking winners

Anyone can pick winners, but not all the time. Moreover, it is neither easy nor totally scientific. While it is always possible to evaluate the various elements of the product and the package, and thus narrow the bounds of risk, in the end it is a question of judgement. Does the entrepreneur have the necessary skills, greed, hunger, determination, stamina and energy to see it through? Do you?

Exercises

1. Write a report evaluating your own ability to run a small firm.
2. List the ideas you have for a new business. Against each idea list the things you need to do to evaluate the market potential of the idea, the resources you would need to exploit it and the critical factors that will make the idea a commercial success. Evaluate the commercial potential of each idea.
3. List the fears you have about setting up your own business. Against each one consider what would need to change to persuade you to overcome those fears.
4. Write a mini case study detailing the issues faced by a recent start-up business that you know.

5. Write an essay evaluating the sources of and ease of obtaining start-up finance in the UK. If you have information on other European countries, compare the UK situation to theirs.

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