Small business start-ups: success factors and support implications

Kathryn Watson, Sandra Hogarth-Scott
University of Bradford Management Centre, Bradford, UK and
Nicholas Wilson
Leeds University Business School, Leeds, UK

Introduction
The research reported in this paper relates to an empirical study of business start-ups and their survival and growth or, conversely, their failure (exit) in the early years following start-up. A cohort of new start small or micro businesses which were set up with the support of a Training & Enterprise Council (TEC) in the West Yorkshire area are investigated. TECs are a government funded support agency for small and medium-sized businesses which were set up by a British Government initiative in 1988. By way of background information a section outlining the support services provided by the TEC is included in this paper.

Research focus
The focus of the research reported in this paper is to provide information concerning the start up, development and growth of new small businesses and the factors associated with various outcomes: failure (ceased trading) and survival (continued trading). Furthermore, among the survival sub-set the characteristics associated with growth potential are identified. Initial results suggested a higher failure rate among female business founders and this issue is investigated in detail.

New small businesses are considered to be especially vulnerable in the infancy period following start up. Many fail to develop into thriving, prosperous businesses. An understanding of the determinants of success and failure in new small businesses and the motivations of the founders in establishing a new business should provide valuable insights into the support needs of new businesses and their founders in the early years.

The primary focus of the study is on the new businesses and their founders rather than on support agencies. However, the study has implications for the
type of business support services offered by agencies such as the TECs at a local level and these are discussed in the conclusions.

Specific research objectives are to:

• profile the characteristics of those businesses which continued to trade (survivors) in comparison with those that had ceased trading (failures) within the first three years;
• identify common characteristics of the failure sub-sample;
• investigate small business founders’ motivations for business start-up;
• determine the characteristics of small businesses and their founders associated with business success (survival and growth);
• examine the problems encountered in operating a small business in the first three years following start-up.

The investigation of these broad objectives is carried out with a view to making recommendations for more appropriate business support services at a local level.

The businesses investigated in this study were set up towards the end of a decade during which there had been a dramatic increase in the number of small businesses in the UK. This unprecedented expansion was halted by the recession which began in 1990. Furthermore, government policy in the 1980s had strongly promoted an enterprise culture. Thus, the sample of business founders under analysis embarked on new business formation at a time when the social and political environment encouraged entrepreneurship but during their early years of development in the early 1990s they experienced severe economic recession. While recognizing that the economic, political and social environment will affect the performance of new businesses, the focus of this study is on the businesses and their founders and internal determinants of business performance and not on the broader external environment.

Conceptual framework

The approach taken in this paper is primarily empirical. That is, a large number of personal, business and environmental characteristics of businesses are measured at start-up and related to eventual outcomes (failure, survival, growth).

While there is a mass of literature concerning small businesses and entrepreneurship there is no generally agreed theoretical framework for carrying out research in this field. In order to facilitate our own research and understanding of a vast literature on business formation we developed a research framework based on the extant literature. The framework has been designed specifically to aid research relating to very small or micro businesses and may not be considered useful where larger businesses are being investigated. The research framework is shown in diagrammatic form in Figure 1.
Traditional analyses of small firm success/failure have used statistical models of financial characteristics taken from models of established businesses (see Keasey and Watson, 1991). While this approach provides useful performance models for established businesses, it is inappropriate for assessing the viability of new ventures where the skills and aspirations of the entrepreneur are likely to be of paramount importance.

Figure 1 sets out some of the factors that are purported to be important in affecting business outcomes. These factors were identified by a review of the literature on small businesses and entrepreneurs. Clearly there are many determinants of business success and growth even in very small businesses. Successful entrepreneurship is undoubtedly a complex phenomenon and both internal and external factors impact on business performance. As in large
businesses, the characteristics of the business, the business infrastructure and the particular customer markets served are important variables affecting business performance.

However, with small businesses and particularly new ventures, the influence of the founder in defining the business concept and mode of operation is of paramount importance. In our conceptual framework the business enterprise consists of both the founder and the business entity. The Committee of Inquiry on Small Firms known as the Bolton Report (1971) emphasized the special role of the founder in small businesses. Thus it is essential to investigate the characteristics, background experiences and motivations of the founder as well as other influencing factors within the internal and external environment.

**Training and enterprise councils**

The TECs were launched by the British government in 1988 with the far reaching objective “to foster economic growth and contribute to the regeneration of the community by strengthening the skill base and assisting local enterprise to expand and compete effectively”. The focus of this study is not on whether the TECs are a successful or unsuccessful policy initiative but on what services and assistance they should provide at a local level.

In order to maintain confidentiality, both the study area and the support agency (TEC) involved in the study are described in only general terms. The strategic aims of the TEC involved in the study are to enhance the survival and continuing success of new and small businesses. The small business sector plays a major role in the local economy and generation of new jobs. Thus, the TEC's objective is to strengthen the support network to new and existing businesses and encourage the spirit of enterprise in the district. In order to achieve this, the TEC provides a support package to new and small businesses which comprises the following:

- initial seminars offering advice and guidance for potential entrepreneurs;
- financial support to individuals who wish to start their own business;
- training to help in the preparation of a business plan;
- training to help in the preparation of a business plan specially tailored to the special needs of women;
- assessment of business plans for TEC financial support linked to counselling visits during the first year of trading;
- a comprehensive business information and counselling service to enhance business start up, survival and growth;
- a series of training modules to help small businesses improve their performance.
Financial support to individuals who wished to start their own business was provided through an allowance (called the Enterprise Allowance) of £50 UK per week for a period of up to 18 months (subsequently reduced to a maximum period of one year).

It is a requirement of TEC support that participants have a business plan and a cash flow forecast when they start up in business. Founders only qualify for financial support if they have been unemployed for a period of six weeks or more. Ongoing help and advice to enhance the prospects of business survival is available throughout their first year of trading through a business information and advice service and through a series of business seminars.

In the case of administering the above support service the TEC clearly has as an objective the effective distribution and provision of funding, training and support among competing prospective business ventures. Implicitly the TEC has the objective of ensuring a high rate of survival during the period of support by the agency. Information concerning survival/failure rates for the TEC area under investigation are not publicly available. However, the desire to improve survival rates for TEC supported businesses during the early years following start up was an important instigator for this empirical research study.

**Literature review**

In this section we provide a brief review of the extant literature relating to small business start-ups and success and failure in small businesses. Given the vast amount literature in these areas this summary should not be regarded as a comprehensive review – it merely serves to highlight some of the important issues relating to our research topic.

**Motivations for business start-up**

Storey (1994) synthesizes some of the explanations which have been provided by researchers for variations in the birth of small firms over time, space and sector. The distinction is made between the work of industrial economists, focusing on the structure-conduct-performance paradigm, (e.g. Acs and Audretsch, 1989); and labour market economists who examine new firm formation as a decision exercised by the individual in the context of the labour market. In making that decision the individual is influenced by a variety of factors such as work experience, motivation, personality, family environment and societal norms, etc. These latter influences have been the prime focus of explanations of new business formation provided by non-economists and it is this approach which has been adopted in our investigation of the motivations for new business formation.

Research using the labour market economists’ approach is derived from the work of Knight (1921), who argued that an individual could exercise choice by being in one of three states: unemployment, paid employment or self-employment. Changes in the relative prices of these three states would induce
some individuals to move from one state to another. Thus, an individual has to consider income levels associated with seeking new paid employment, becoming self-employed, or remaining unemployed. If unemployment is high, that person will be more likely to consider either self-employment or unemployment.

Knight’s framework draws our attention to the influence of “push” factors in the decision to start a new business. Similarly, Mayes and Moir (1990) argue that the relative attractiveness of self employment and setting up small firms increased as it became difficult for the greater number of unemployed to find employment. Self-employment may be riskier and may result in a lower level of earnings than full-time paid employment with an established firm. Nevertheless, where the effective comparison is with being unemployed and receiving benefit, self-employment and small-firm employment may look much more attractive.

In addition to “push” factors one needs to take into account the fact that some individuals are more likely than others to become self-employed owing to a variety of “pull” factors. For example, Gray (1990) notes that the lure of personal independence is an important “pull” factor in the decision to seek a career as a small business owner although “push” factors such as redundancy, recession, blocked promotion play a stronger part for many self-employed.

Other researchers focus on human capital factors in the decision to become self-employed. For example, US empirical work presents consistent evidence that ceteris paribus, educational attainment levels are positively associated with a move into self-employment/new business formation (Evans and Leighton, 1990). Birley and Westhead (1993) found that the incubator organisation, i.e. the last organisation worked for prior to start-up, can have a significant influence on the decision to start-up and the location and characteristics of the business. The incubator organisation provided personal contacts, market knowledge, managerial skills and industry knowledge.

It is expected that “push” factors may be an important motivator for business start up among our sample of small businesses. However, we are interested to find out whether “pull” factors are also an important motivator among our sample. The motivation for start up is likely to have implications for the sort of support services and training needs required by business founders and may also have a bearing on their ultimate success or failure in business ownership.

Factors influencing success and failure
As highlighted in our conceptual framework, a multitude of factors can impact on business outcomes. In this section we discuss the literature which is pertinent to certain business performance outcomes, namely failure, survival and growth.

Since the Bolton Report (1971), a mass of research has sought to discover if there are any clear characteristics shared by the owners of small businesses that distinguish them from other members of the economically active population and what characteristics are conducive to small business success. The general conclusion appears to be that there is no simple pattern. Rather, the evidence
points towards a complex set of interrelated factors that increase or decrease the probability that an individual will become the owner of a successful small business (Stanworth and Gray, 1991, p. 151). Ray (1993) suggests that there is no ideal-type personality or marginal set of attributes that guarantee success for a new venture. In order to understand why some individuals become entrepreneurs and some are more successful than others, according to Ray, three key elements must be addressed: personality or attributes; background and experience; and skills. Ray (1993) posits that the probability of launching a successful business is not based on a fixed set of attributes but on an infinite variety of combinations in which an individual’s positive attributes might outweigh their negative attributes.

While the idea that small businesses and their founders are heterogeneous was made explicit by the Bolton Inquiry, certain commonalities were emphasized. Founders were likely to be both owners and managers and supported by the family. Their closeness to the firm explains their involvement, flexibility, special role in risk-taking and innovation, and their fervently guarded sense of independence. Money, it was suggested, was not their prime source of motivation, there is a quality of life issue – personal involvement in owning and managing one’s own firm led to greater satisfaction on a number of fronts all associated with the notion of independence. Gray (1990) states that the strong desire of many small business owners to retain personal control and business independence has been well recognized as a key factor limiting the growth of many potentially successful small enterprises.

Some authors view business success from an entirely different perspective, for example, Osborne (1993), in a study of entrepreneurial success, rejects the idea that success is equated with entrepreneurial competence. Osborne recommends a shift from a focus on the personality or characteristics of the business founder to the firm’s underlying business concept and capacity to accumulate capital. In starting up a business, Osborne suggests that entrepreneurs should start or buy a business which has a hospitable environment; understand how customers assess product/service benefits; avoid markets dominated by one or several companies with product or price leadership; understand the underlying economics in which the firm operates and be cautious about starting a business where capital requirements suppress or eliminate discretionary cashflow.

Problems experienced by small firms
Studies which focus on the problems experienced by small firms and how the successful owner-managers overcome such problems lend some support for Osborne’s argument (Osborne, 1993), especially concerning the managerial competences required to understand the nature of specific markets. However, these studies also draw attention to the importance of personal and family situations impacting on the performance of the business.
For example, Cromie (1991), in a study of male and female owners of young firms in the demarrage phase of development (period between launch and take off into sustained growth), found that young organisations experienced problems primarily in the areas of accounting and finance, marketing and the management of people. In addition, personal problems attributed to the workload, the loneliness of running a new venture and ambiguity of owner managing causes some concern. The age and family circumstances of the founders under investigation will have a bearing on success/failure. Those founders with a stable and supportive family structure and/or family experience of self-employment may be better able to cope with the demands of a new venture. There were few significant differences in the problems experienced by the genders. However, women were more likely to cite problems concerning the financing of their ventures.

Similarly, Smallbone (1991) investigated the problems faced by new and small firms which were supported by a local enterprise agency situated in an outer London borough. He found that the most frequently cited problem was marketing or selling the product or service, followed by financial control and unsuitable premises. Also, problems varied accordingly to the stage of development: 30 per cent said raising finance was a problem in the pre-start phase. Establishing a market and a customer base was expected to be a significant hurdle for those new ventures that were attempting to establish products or services outside of the founder’s immediate area of expertise or skills.

Research propositions
Based on our conceptual framework and the literature review the following broad propositions were developed:

P1. There are likely to be distinctive differences between successful business founders and unsuccessful business founders concerning their background, experience, skills and knowledge which they bring to the new business venture.

P2. There are likely to be distinctive differences between successful business founders and unsuccessful business founders concerning their motivations for starting a business and objectives in business ownership.

P3. The owners of growth businesses are more likely to possess entrepreneurial characteristics than the owners of static or non-growth businesses.

Methodology
This empirical study investigates the characteristics of a cohort of new start small businesses set up during a period of economic recession (1989-1993) by founders who had experienced various spells of unemployment prior to start-up.
In the initial phase, at least, these founders can be thought of as making the transition from unemployment to self-employment. In the light of the literature review, the study specifically addresses the founders’ motivations for business start-up, their personal background, education, employment history and experience, problems encountered in operating the business, training and advice received from support agencies, and their aims, objectives and expectations for the future of their businesses. Data relating to the performance of the businesses were obtained from a detailed postal questionnaire together with basic business data such as industry sector, ownership structure, employment, period of trading and capital employed.

A random sample of 504 new businesses was taken from the TEC records of supported businesses. All 504 business owner managers were surveyed by a postal questionnaire which was mailed first class to their private homes. The questions used included dichotomous, multi-choice and attitudinal scaled questions plus a small number of open-ended questions and covered the various characteristics deemed important from the literature, i.e. background details of the business; details about the founders’ background and employment history; the start-up period of the business; details about the business now and future prospects (completed by those still trading); and problems experienced and reasons for discontinuance (completed by those who had since ceased trading).

A covering letter was sent with the questionnaire, which aimed to encourage participation in the survey and assure participants of the confidentiality of individual survey responses. To ensure a good response rate, the business founders who did not return the questionnaire were contacted again, as follows: a reminder letter was sent to all founders who had not returned the questionnaire after one week; and a telephone call was made to all those who had not returned the questionnaire after two weeks. Thus, 437 reminder letters were mailed and an attempt was made to contact 310 founders by telephone.

A total of 166 (33 per cent) usable survey questionnaires were returned completed by the cut-off date in 1994. If the number of founders who had changed addresses and were not contactable (gone aways) are taken into account the response rate achieved was 35.5 per cent. Telephone contact with founders revealed that some of those who had ceased trading or only traded for a short time had assumed we would not be interested in their experiences or views. We were able to assure them that this was not the case and encourage their participation in the survey together with those who were still trading. As with all surveys non-response bias is a problem, which limits generalisability. In order to minimise this problem every effort was made to obtain a good response rate. The distribution of the respondent businesses was found to be similar to the population of TEC-supported new start small businesses on the criteria of business sector, age and start-up capital.

Statistical analysis of the generated data was performed using SPSS/PC+. An analysis of the frequency of responses to the questionnaire and the mean (sd) of
individual variables was undertaken in order to describe and understand the sample.

In one section of the questionnaire respondents were asked to indicate on a five-point Likert scale the importance they attached to various motivations for business start-up from a list of 11 items. Factor analysis was performed in order to distinguish different patterns of responses in this data. The “still trading” versus “ceased trading” categorisation was used to construct a dichotomous variable which we refer to as the survival/failure sub-sample. Within the survival category a further breakdown was performed in order to differentiate between “static” versus “growing” businesses. This categorisation was based on whether respondents intended to increase the number of people employed in their businesses in the next one or three years.

The initial focus of the research was on the characteristics of the survival/failure sub-samples and to a lesser extent the static/growth sub-samples. T-tests and chi-square tests were conducted in order to identify any significant differences in sub-sample characteristics and responses. The multivariate techniques of discriminant and logit analysis were then employed to isolate the combinations of variables associated with survival/failure. T-tests and factor analysis were used to examine gender specific problems and differences in the background/experiences between men and women.

Survey results
Sample characteristics
Frequency schedules were prepared to describe the total sample of 166 respondents. The key characteristics are presented briefly below:

- at the time of the survey 123 respondents (74 per cent) were still trading and 43 (26 per cent) had ceased trading;
- 70 per cent of the businesses were sole proprietorships;
- 67 per cent of the businesses operated from the home of the respondent;
- 69 per cent of the respondents were male and 31 per cent are female;
- 71 per cent of the respondents were married;
- 63 per cent of the respondents had CSEs, GCSEs or O Levels;
- 22 per cent of the respondents had technical qualifications;
- 19 per cent of the respondents had A or A/S Levels;
- 20 per cent of the respondents had a degree;
- 95 per cent of the respondents had previously been in paid employment;
- 28 per cent of the respondents had previously been self-employed;
- 51 per cent of the respondents had been unemployed for six months or less prior to start-up;
- 41 per cent of the respondents had been unemployed only once.
Motivations for start-up
One section of the questionnaires asked respondents to indicate on a five-point Likert scale the importance of various motivations for starting up in business from a list of 11 such motivations. The responses were subjected to the statistical technique of factor analysis in order to distinguish different patterns of responses among respondents. The factor analysis reduced the data to four patterns of responses which we have labelled as follows:

1. Entrepreneurial factor (26.8 per cent):
   - be independent/own boss;
   - use own creative skills;
   - do enjoyable work;
   - frustrated with previous job.

2. Personal-opportunistic factor (14.6 per cent):
   - able to work from home;
   - make a lot of money;
   - further career objectives.

3. Market-opportunistic factor (11.1 per cent):
   - meet a service or need;
   - exploit a market opportunity;

4. Financial needs factor (10.3 per cent):
   - earn a reasonable living;
   - get off the dole.

The total variance accounted by the four factors was 62.8 per cent and was deemed statistically acceptable by the appropriate diagnostic tests. Factor scores were calculated for each respondent and these four variables were then used in the further statistical analysis.

Comparison of sub-samples: survivors v. failures
T-tests of means were used to identify the significant differences between two sub-samples, defined as survivors (still trading) and failures (ceased trading). A summary of these results is as follows:

The survivors sub-sample were more likely to be male and to have two or more financial dependents. The failures sub-sample were more likely to have secondary education qualifications (CSE, GCSE, O Level) and to have children under the age of six years. Analysis of the differences in background/experiences between the genders is presented in a separate section below.

Concerning employment history, the survivors were more likely to have been in full time employment as opposed to part-time or temporary employment and to have been in their last job for more than one year. Also, they were more likely
to have been in senior/middle management or in skilled manual employment than those who had ceased trading; the latter are more likely to have worked for a family business. There is a very significant difference between the two sub-samples concerning apprenticeships: 36 per cent of respondents had served an apprenticeship and 86 per cent of these were still trading. This suggests that those who had served an apprenticeship were more likely to be successful, particularly if their business is related to their trade. The survivors were more likely to have been unemployed only once and their period of unemployment prior to starting up a business was more likely to have been less than six months.

In line with the factor analysis, referred to above, the t-tests showed that the two sub-samples differed concerning their motivations for start-up. The survivors attached greater importance to being their own boss, being independent, using creative skills and frustration in last job was a more important push factor. The failures trading attached greater importance to being able to work from home. Earning a reasonable living and doing enjoyable work was important for both sub-samples.

The two sub-samples differed in relation to advice/training received prior to start-up. The failures were more likely to have obtained advice/training in writing/using a business plan, market research, communications/promotions. Whereas, the survivors were more likely to have obtained advice/training in computer skills.

With regard to problems experienced in running the business, obtaining finance was significantly more important for the failures. For the survivors, finding/keeping appropriate skills; management skills; and keeping up with changes in the marketplace were more important. Important problems where there was no difference between the two sub-samples were finding/keeping sales outlets, marketing or selling the product or service and dealing with the competition.

Long term business aims and prospects
For the survivors the most important long term aim was to “earn income for me and my family” (86 per cent), followed by “be better than the competition” (71 per cent), “grow the business” (51 per cent) and “become a major player in the area” (35 per cent). To “create a profitable business which I can sell at a later date” was important for only 28 per cent of the survivors.

The founders’ perceptions of the prospects for their businesses for the next year was that 72 per cent expected their turnover to grow, 63 per cent expected their profit to grow and 53 per cent expected the size of their overall market to grow. The growth prospects for the next three years were perceived rather more optimistically; turnover (81 per cent), profit (80 per cent) and market size (67 per cent).

Reason for discontinuance of the business
Of the 43 respondents who had ceased trading, 19 (45 per cent) had gone into full time employment, 12 (29 per cent) were unemployed and two (5 per cent) were
either a housewife or househusband. The remaining ten (26 per cent) described their current status as “other”, which included retirement and sickness claimants. The most important reason for giving up was because “business not earning enough money” (65 per cent); followed by “poor trading conditions”; “cash flow problems” and “personal reasons” (42 per cent); then “poor long term prospects” (40 per cent) and “obtaining full time employment” (30 per cent).

Comparison of sub-samples: growth and static businesses
A comparison was made between two sub-samples based on their growth in employment intentions. The “growth” group intended to increase the number of employees in the business in the next one or three years whereas the “static” group did not. T-tests of means identified 38 significant differences between these two sub-samples as shown in Table I.

Notably, the growth sub-sample were more likely to want to introduce new products, increase customers and be better than the competition. Also, they wished to increase turnover and profits and reduce costs. They were more likely to have obtained additional finance since start-up, were less likely to operate the business from home and were more likely to have both large competitors and large buyers. Also, the growth sub-sample were more likely to have received advice in leadership/motivation, staff training and recruitment. The static group were more likely to be over 50 years old, to have started up to enable work from home and to actually work from home and it is more likely that their longest spell of unemployment was over one year.

Multivariate analysis: characteristics of survivors and failures
A considerable volume of literature has grown up around the problem of predicting individual corporate failure, using primarily company financial information and variants of the Z-score technique. Multivariate models (discriminant, logit, multi-logit and hazard functions) are constructed by analysing a large number of financial ratios for a sample of “healthy” and “failed” companies. Statistical analysis is then used to identify a small number of key ratios which can be weighted and combined in order to classify firms into “healthy” or “failing” categories. The essence of this technique has been to identify those characteristics from a given stock of companies which increase the risk of failure. Such models were built using data from a sample of failed and non-failed small firms in the UK (Keasey and Watson, 1986). Increasingly, these models have incorporated non-financial characteristics as both a means of improving predictive accuracy and understanding the reasons underlying business failures as opposed to simply identifying symptoms.

Both discriminant and logit techniques were used in an attempt to isolate the start-up characteristics of the new businesses in our sample which might be associated with survival/failure. Initially, discriminant analysis was applied in order to identify clusters of key discriminating variables. A within-sample classification accuracy of 87-90 per cent was obtained using this technique. A model determining the probability of survival-failure was then estimated using
a logit estimator. The dependent variable was constructed as (1=FAILURE; 0=SURVIVOR). The advantage of using the logit estimator is that a wide variety (non-normally distributed) of qualitative characteristics of the businesses can be built into the multivariate model and the significance of individual variables in the model are more easily determined. Logit models provide a probability of failure as the output i.e. a score between 0 and 1; cut-off points of 0.5 are usually used to identify failing and surviving businesses.

Table II presents the results of this analysis. The estimated model achieved a within-sample classification accuracy of approximately 90 per cent and appears to be well specified. A number of interesting results emerge from this analysis which support previous results and have policy implications. Concentrating on the variables in the equation that are significant at 5 per cent level or better,

<table>
<thead>
<tr>
<th>The growth group (approx. 45 respondents)</th>
<th>Significance (per cent)</th>
<th>Significance (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Start-up reason</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To further career</td>
<td>&lt; 1</td>
<td>To grow the business</td>
</tr>
<tr>
<td>To make a lot of money</td>
<td>&lt; 1</td>
<td>To be a major player</td>
</tr>
<tr>
<td>To exploit a market opportunity</td>
<td>&lt; 1</td>
<td>To be better than competition</td>
</tr>
<tr>
<td>To be own boss</td>
<td>&lt; 5</td>
<td>To create a profitable firm</td>
</tr>
<tr>
<td>Choice product/service</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Choice due to knowledge/</td>
<td></td>
<td></td>
</tr>
<tr>
<td>experience gained in previous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>employment</td>
<td>&lt; 1</td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>More S/M management</td>
<td>&lt; 1</td>
<td></td>
</tr>
<tr>
<td>More made redundant</td>
<td>&lt; 5</td>
<td></td>
</tr>
<tr>
<td>More full-time in last job</td>
<td>&lt; 10</td>
<td></td>
</tr>
<tr>
<td>A dvice received</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leadership/motivation</td>
<td>&lt; 10</td>
<td>Finding/keeping people</td>
</tr>
<tr>
<td>Staff training/recruitment</td>
<td>&lt; 10</td>
<td>Obtaining premises</td>
</tr>
<tr>
<td>Business circumstances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do not operate from home</td>
<td>&lt; 1</td>
<td>Finding/keeping skills</td>
</tr>
<tr>
<td>Have large competitors</td>
<td>&lt; 5</td>
<td>Management skills</td>
</tr>
<tr>
<td>Have large buyers</td>
<td>&lt; 10</td>
<td></td>
</tr>
<tr>
<td>Obtained additional finance since</td>
<td>&lt; 5</td>
<td></td>
</tr>
<tr>
<td>start-up</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table I. Comparison of growth and static sub-samples (student’s t-test)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment</td>
</tr>
<tr>
<td>More over 50 years old</td>
</tr>
<tr>
<td>More secondary/comprehensive education</td>
</tr>
<tr>
<td>Business operation</td>
</tr>
<tr>
<td>Start-up to enable work from home</td>
</tr>
<tr>
<td>More work from home</td>
</tr>
</tbody>
</table>
associated with the probability of survival are: sex, age, work experience, skills, previous experience of self-employment or having a close relative in self-employment. The model suggests that the surviving category is typically middle-aged males who have acquired a skill with one employer and are applying this experience and skill in their new business, and have experienced only short spells of unemployment. The entrepreneurial factor (i.e. those setting up for positive reasons: to be independent, to be creative, to do enjoyable work, and frustration with previous employer) is associated with survival. Factors which appear to reduce the probability of survival are: setting up to exploit a market opportunity or meet a perceived service need (Factor 3), gender, long and/or frequent spells of unemployment and little long-term employment experience with one employer.
Comparison of sub-samples: men and women
Fifty-two (31 per cent) of the respondents were women and 114 (69 per cent) were men. At the time of the survey 30 (58 per cent) of the women and 93 (82 per cent) of the men were still trading (22 women and 21 men had ceased trading). Further analysis (t-tests, factor analysis) was carried out to see if there were any gender specific problems or differences in background, experience which resulted in a higher proportion of women terminating their business operation.

There were significant differences between the genders in relation to previous employment history; motivations for business start up; training/advice received prior to start up and reasons for discontinuance. There was an age difference between the two sub-samples; the women sub-sample were more likely to be under 30 years and men sub-sample were more likely to be between 30 and 50 years. The men were more likely to have no children and the women more likely to have one or two children.

With regard to previous employment history, men were more likely to have been in full time employment; in senior/intermediate management or manual work; to have served an apprenticeship; and to have worked for a private company. Women were more likely to have been in part-time or temporary employment; junior management, clerical, other professional or small business services. Men were more likely to have been made redundant. Of the female respondents, 16 were not unemployed prior to start-up but entered small business from maternity leave, career break, retirement or following husband's redundancy. Excluding these respondents, there were no differences between men and women concerning their unemployment history (length of unemployment, number of times unemployed).

Men were more likely to state that their reasons for starting up are: to earn a reasonable living; to get off the dole; to make a lot of money; to earn income for me and my family; and because of frustration with previous job. There was no significant difference between the genders concerning the following start-up reasons: to further career; to do enjoyable work; to be independent/own boss; to use creative skills; to meet a service need in an area; to exploit a market opportunity and to enable work from home.

T-tests showed significant differences indicating that women received more training/advice on obtaining finance; writing/using a business plan; selling skills; market research and time management. Overall the amount of training/advice received prior to start-up was greater for women than for men. The means for men and women for each of 14 variables (measured 1-0) are given in Table III. An estimate of the overall amount of training/advice received by men and women is indicated by the sum of means. A t-test, significant at less than 5 per cent, showed that overall the women sub-sample had received more training than the men sub-sample.

There were virtually no differences between men and women concerning problems experienced in running the business and their aims and objectives for their businesses. The only difference being that men were more likely to state that finding a product/service to provide is a problem and women were more likely to state that increasing sales revenue is an objective. Other variables where
there was no difference between men and women were: how long in last job, size of organisation last worked for; qualifications; type of businesses (e.g. partnership etc); changing plans since start-up; operating from home or business premises; previous experience of self-employment; close relatives who have run a business; and family help in running the business.

For those who had ceased trading there were differences between men and women concerning their reasons for discontinuance. From a list of ten reasons for discontinuance, t-tests showed that men were more likely to have ceased trading because they obtained full time paid employment and women were more likely to have ceased trading due to personal reasons.

Thirteen (59 per cent) of the 22 women and five (24 per cent) of the men who had ceased trading cited personal reasons in relation to their discontinuance of the business. These respondents were asked to specify what specific personal reasons were applicable. Examples of the personal reasons stated by women were: health; needed at home; difficult balance between work and home; got married; had another baby; now divorced (ex-husband business partner); separated; chose wrong business partner; heavy work; thought I was getting nowhere; bought wrong stock which did not sell; easier to work for a company; and ceased trading in order to travel round the world. For the men who cited personal reasons in relation to their discontinuance, examples were: injury and advised to stay out of manual work; had another child; pressure/problems in running the business; and changing to providing a different service.

Eight of the variables cited as reasons for discontinuance were reduced to three patterns of responses using factor analysis. Only two respondents cited “someone else took over the business” as a reason for discontinuance and only one respondent cited “went into full time education” as a reason; consequently, these variables were not used in the factor analysis.

<table>
<thead>
<tr>
<th>Training/advice received in the following areas, prior to start-up</th>
<th>Men mean</th>
<th>Women mean</th>
<th>Total sample mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>How to obtain finance</td>
<td>0.3333</td>
<td>0.4808</td>
<td>0.3795</td>
</tr>
<tr>
<td>How to write/use a business plan</td>
<td>0.6491</td>
<td>0.8462</td>
<td>0.7108</td>
</tr>
<tr>
<td>Bookkeeping</td>
<td>0.3772</td>
<td>0.5000</td>
<td>0.4157</td>
</tr>
<tr>
<td>Financial planning/budgets</td>
<td>0.3860</td>
<td>0.4423</td>
<td>0.4036</td>
</tr>
<tr>
<td>Creditor/debtor control</td>
<td>0.1667</td>
<td>0.1538</td>
<td>0.1627</td>
</tr>
<tr>
<td>Taxation</td>
<td>0.2544</td>
<td>0.2692</td>
<td>0.2590</td>
</tr>
<tr>
<td>Personnel law</td>
<td>0.0877</td>
<td>0.0962</td>
<td>0.0904</td>
</tr>
<tr>
<td>Leadership and motivation</td>
<td>0.0965</td>
<td>0.1346</td>
<td>0.1084</td>
</tr>
<tr>
<td>Staff training and recruitment</td>
<td>0.0614</td>
<td>0.0577</td>
<td>0.0602</td>
</tr>
<tr>
<td>Selling skills</td>
<td>0.2193</td>
<td>0.3846</td>
<td>0.2711</td>
</tr>
<tr>
<td>Market research</td>
<td>0.3421</td>
<td>0.5577</td>
<td>0.4096</td>
</tr>
<tr>
<td>Time management</td>
<td>0.1053</td>
<td>0.2308</td>
<td>0.1446</td>
</tr>
<tr>
<td>Communications and promotions</td>
<td>0.2018</td>
<td>0.3077</td>
<td>0.2349</td>
</tr>
<tr>
<td>Computer skills</td>
<td>0.0965</td>
<td>0.1538</td>
<td>0.1145</td>
</tr>
<tr>
<td>Total advice</td>
<td>3.4685</td>
<td>4.6154</td>
<td></td>
</tr>
</tbody>
</table>
The three factors produced by the analysis are:

1. Business marginality (44.7 per cent)
   - cash flow problems;
   - lack of finance;
   - poor long term business prospects;
   - poor trading conditions;
   - business not earning enough money;
   - increased competition.

2. Obtained full-time paid employment (16.5 per cent).

3. Personal reasons (13.8 per cent).

The total variance accounted for by the three factors was 75 per cent. Factor scores were calculated for each respondent who had ceased trading and t-tests on the factor scores revealed significant differences between men and women on Factor 2 and Factor 3. There was no significant difference between the genders concerning Factor 1 – business marginality. These results are consistent with the findings above and confirm that personal reasons, mainly related to family or problems in coping with running both a home and a business, are important factors causing a higher rate of discontinuance by women. For men an important reason for discontinuance is finding full time paid employment.

**Concluding remarks**

Summary and discussion

As expected, the results of this empirical study confirm many of the findings of other researchers in the same field, especially concerning the heterogeneity of small businesses and their founders and the influence of “push” and “pull” factors in the decision to start a new business venture. However, this study has taken our understanding of the issues concerning small business start-up and early development a stage further, as outlined in this section. Furthermore, one notes that the study has produced consistent results using a broad range of statistical analysis techniques.

The study confirms our propositions that even among the very small businesses there are considerable differences in:

- the owners’ personal backgrounds and experiences and problems encountered in running their businesses (P1);
- motivations for start-up and objectives in running a business (P2);
- growth orientations and objectives for business development (P3).

Also, it is apparent that there are significant differences concerning:

- the level of training and advice received from support agencies;
- where applicable, the reasons for discontinuance of the business.
Although most of the respondents had been unemployed prior to starting their business (some for only a short time), there were, of course, differences in the education levels and employment histories of the sample respondents. The results concerning employment history confirm the findings of Birley and Westhead (1993) that the incubator organisation can have a significant influence on the business venture. Our results are inconclusive concerning education levels, however, an interesting result was that those who had served an apprenticeship were more likely to survive.

Consistent with the research findings of Cromie (1991) and Smallbone (1991), our results show that marketing and finance are particular problems for small business owner-managers. Finding/keeping sales outlets and marketing/selling the product or service and dealing with the competition were important problems for all respondents. Obtaining finance was more of a problem for those who had ceased trading, and for those still trading keeping up with changes in the marketplace and retaining necessary skills were more problematic. In agreement with Osborne (1993) our results support the view that the owner-manager’s underlying business concept is of considerable importance.

Consistent with the labour market economists’ work concerning small business formation we found differences in the importance of various “push” and “pull” factors as motivators for business start-up. “Push” criteria such as redundancy, unemployment, frustration with previous employment and the need to earn a reasonable living are important motivators for start-up, more so for men than women. However, “pull” criteria such as independence, being one’s own boss, using creative skills, doing enjoyable work and making a lot of money are more important motivators and these are more closely associated with survival. Factor analysis of the motivations for start-up shows that the pattern of responses which we have labelled the entrepreneurial factor (be independent/own boss, use creative skills, do enjoyable work, and frustrated in previous employment) accounted for 26.8 per cent of the variance and z-scores on this factor were higher for the survivors (still trading) than the failures (ceased trading). The entrepreneurial factor was also significant in the multivariate logistic regression analysis.

From a review of the literature on entrepreneurship it is apparent that the variables included in our entrepreneurship factor are associated with entrepreneurial behaviour and suggest a positive or “pull” motivation for business start-up. However, the literature suggests that there are many other characteristics associated with entrepreneurship, for example, risk-taking, achievement, locus of control, innovation, etc. and consequently we recognize that this issue needs further investigation, especially concerning very small businesses.

Perhaps a rather unusual result from the multivariate analysis is that the factor labelled market opportunistic factor (where start-up is to meet a service need or exploit a market opportunity) is associated with business failure.
Comparing the growth and static sub-samples, it is clear that the growth group had far more ambitious aims and objectives in the development of their businesses. Also, managerial skills, particularly concerning employing people in the business and giving leadership/motivation, are more important for these business owners. The growth sub-sample had received more training/advice on leadership/motivation, staff training and recruitment.

We recognize that our dependent variable for growth, based on intentions to increase employment in the business, is a fairly crude measure of growth intentions and that multivariate analysis is likely to provide greater insight into this issue.

Training and advice
There were notable differences in training/advice received prior to start up. Overall women received more training/advice than men. Our findings suggest tentatively that potential new business founders seek and obtain training/advice which they perceive as relevant to their needs. However, the area where most training was obtained was in writing/using a business plan, which is a pre-requisite of being accepted for sponsorship by the TEC. In many other subject areas the amount of training received appears to be low, with mean levels for the total sample below 0.5 on 13 variables measured on a 1-0 scale (see Table III). This raises two questions: first, do applicants correctly perceive their training needs prior to business start-up, and second, is high quality training in appropriate areas readily available.

Business discontinuance
The most important reasons for business discontinuance were: business not earning enough money; poor trading conditions; cash flow problems and personal reasons. Factor analysis of the reasons for discontinuance showed that variables associated with business marginality were the primary factor for discontinuance but that women were more likely to cease trading due to personal problems, mainly associated with home and family, and men were more likely to cease trading because they had obtained full time paid employment. It is important to bear in mind that the sample of businesses under analysis was set up during a period of severe recession in the UK, which no doubt had some bearing on their performance in the early years. These results have given us some insight into the problems experienced by women business founders, however, there is clearly more research required in this area.

Implications for support agencies
Our study has shown that there are considerable differences in the characteristics of small business owner-managers and the nature of businesses which they have founded. This diversity has implications for support agencies concerning their appraisal techniques and ongoing training and advice. These implications are discussed below.
A major issue for support agencies such as the TECs is how to assess applications for business support schemes by potential business founders. In this respect we suggest that our conceptual framework (see Figure 1) is a useful indication of the complexity of issues which need to be addressed in such appraisals, as follows:

First, the fundamental issue which must be addressed is the viability of the business concept itself and this requires focusing on the external business environment and market specific factors. It may well be that the analytical skills of the prospective business founders are inadequate for making such an assessment and that assistance or training is required in this area. Clearly the use of business plans in screening procedures seeks to address this issue, however, the problem with this is that the business plan then becomes an obstacle to overcome in the selection procedure rather than a working document for running the business. Furthermore, if the business plan is based on erroneous assumptions it loses its validity as an analytical tool.

Second, appraisal should be made of the internal business environment and especially whether the prospective founder has the appropriate background, skills and experience to meet the demands of the new business venture. As Ray (1993) points out, there is no ideal set of attributes that guarantee success; the requirements of each business venture must be considered and an assessment made of each individual’s training and business advice needs.

At the outset it would be useful for both the business founder and the business support agency to have a clear idea of the motivations behind the new business venture and the founder’s objectives in developing the business. However, one needs to bear in mind that during the recent recession many people have become unemployed and a period of self-employment may enable them to retain their position within the labour market. Conversely, if they move to unemployment it is likely to be considerably more difficult to return to employment and their skills and experience will be lost.

Furthermore, support agencies need to be aware that quality of life issues, personal problems and family matters can be very important for small business owners and can impact on the success of the business venture. Some consideration needs to be given to the compatibility of the business venture with other demands on the owner’s time and the family network from which the founder can gain support. Constructive advice should be given on how to manage a whole variety of demands (possibly conflicting) made upon the business founder.

Our study suggests that those entrepreneurial business founders with relatively ambitious growth intentions need support on issues concerning the management of people, especially recruitment, training, motivation and
leadership. Furthermore, the management of change, especially keeping up with changes in the external market environment, appear to be critical.

References
Knight, F.H. (1921), Risk, Uncertainty and Profit, Houghton Mifflin, New York, NY.