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What makes start-up companies successful?

BY JIM WYSS

EQUAL OPPORTUNITIES

In a new study upending decades of conventional wisdom, Florida International University researchers found that neither age, education, gender, nationality nor household income were major factors in determining whether a start-up venture would take flight or flounder.

"It would appear that creating a new business is truly an egalitarian opportunity," the study found. "Everyone has a good chance to succeed or fail, regardless of their station in life or social attributes."

Researchers followed 830 entrepreneurs over four years to glean the data. At the end of the period, about one third had created a viable business, one third had given up and the remainder were still trying to get the venture off the ground.

But the real surprise came when the active businesses were screened for 130 factors commonly tied to success -- including education, prior exposure to entrepreneurship, social outlook and the number of years the business owner had been in the country.

"It's quite remarkable to have 130 different independent variables and most of them don't seem to make a difference," said Paul Reynolds, the study's author and the director of the Entrepreneurial Research Institute at FIU's Eugenio Pino and Family Global Entrepreneurship Center.

If the FIU study seems to put meat on the myth of the American Dream, it also suggests that the dream isn't color blind. While Hispanics and blacks are more likely to form start-ups than whites, Hispanics and whites are more likely to turn those start-ups into viable businesses.

Blacks lag behind not because they give up, rather because they are more likely to remain in the start-up phase longer -- sometimes for years. In this sense, they are "more tenacious than others," the study said.

But what makes a start-up successful?

Researchers found that start-ups that put intense and early effort into "production implementation" and "business presence" -- mundane activities such as acquiring supplies

and inventory, hiring employees, registering a company, listing in the Yellow Pages and pushing sales -- were rewarded for their efforts.

NUANCED FINDINGS

Some of the other findings are more nuanced: While those who come from a wealthy background are no more likely to succeed than their poor counterparts, entrepreneurs that put more money into the start-up tended to do better. And while success seems to care little whether entrepreneurs have prior start-up experience or a higher education degree, it smiled on those who have industry-related job experience.

So a restaurant manager with a high-school education may have a better chance of successfully launching his own café than, say, a serial entrepreneur with a Ph.D trying to start a company outside of his or her field of expertise.

Those lessons resonate with Olga Marina Gómez. When she arrived to Miami from Colombia in 2000, she had little to her name except some jewelry-making equipment, a trusted employee and years of experience.

With no business background, little English and zero financing, she managed to start a jewelry workshop in downtown Miami and had her first clients within three months.

Now, the company, called Casa Mayo Jewelry, has seven employees, a thriving trade and is expanding into the interior design industry.

"What is important is to stay focused and work hard," said Gómez, 56. While she regrets never having the opportunity to take a business course, "what I think is more important is to know *your* business -- and I know jewelry and jewelry-making from head to tail."

The study, to be published soon by the academic journal *Foundations and Trends in Entrepreneurial Research* is based on data gathered during a massive tracking effort called the U.S. Panel Study of Entrepreneurial Dynamics, which started with the screening of 64,000 adults.

That study suggests that as many as 16 million people in the United States were pursuing their own business in 2005. Even considering that many treat entrepreneurship as a hobby, "This is more U.S. adults than have children or get married in a given year," the study found.

Zoltan Acs, a professor of Public Policy at George Mason University and the editor of the journal publishing Reynold's study, agrees with some of its findings.

But he said the entrepreneurial landscape is by no means an even playing field.

EDUCATION MATTERS

A recent study he did analyzing small-business survival in different cities found education plays a huge role. Regions with higher high-school dropout rates had lower new-firm survival rates, and regions with a higher share of college degrees had better survival rates.

If you make the leap and tie education to income levels then new-firm survival is "almost a class issue," he said. Individuals with "access to resources and skills" are the ones "that have the ability to build [successful] businesses in society," said Acs.

Reynolds is the first to admit that his study stirs up additional questions.

But he said the implications of these findings are clear. "There is no magic associated with being white, black or Hispanic, having more education, being a man, [having] experience with an earlier start-up, or having an entrepreneurial personality," he writes in his conclusion. "Anybody with the knowledge, skill, ideas, drive and resources that emphasize business creation may establish a new business."

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