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Study looks at keys to start-up success

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Business Strategies

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It's not easy to let go.

A new business takes about 18 months to get operating, but the median time for quitting is 24 months, according to a new study of U.S. entrepreneurship.

"For some people it becomes a kind of hobby," says Paul Reynolds, director at the Entrepreneurship Research Institute at Florida International University's Pino Family Global Entrepreneurship Center.

The "U.S. Panel Study of Entrepreneurial Dynamics" was developed by the Entrepreneurial Research Consortium, which includes FIU. Reynolds was responsible for the analysis.

"This is the mother of all studies," says Reynolds, who has conducted previous entrepreneurship studies for FIU and Babson College.

What most stunned Reynolds about the results of this study is that the process of creating a business and seeing it through to the operating phase has nothing to do with race, age, education, wealth, or even start-up experience.

What mattered more were two factors: knowledge about the business and industry, and the entrepreneur's intensity of commitment.

The project began with the screening of 64,000 adults in the United States and was followed by four extensive interviews over a five-year period. In the analysis, 75 factors that may affect the decision of an adult to create a new business were reviewed. Businesses then were assessed using 130 factors that are associated with pursuing a start-up to the operation of a new business.

The study then focused on how the 200 nascent entrepreneurs that reported a new business within seven years were different from the 468 who quit or continued to work on the start-up.

Significant findings from the research include:

The large number of individuals involved as nascent entrepreneurs: 10 million in 1998-1999 when the research began; as many as 16 million in 2005.

Major factors such as age, gender, education, household income or net worth are

unrelated to an entrepreneur starting and completing the creation of a new business.

Activities pursued in the start-up process -- not the characteristics of the entrepreneur -- are what have an impact on the transition from start-up to a successful business.

"Any person with the knowledge, skill, ideas, drive and the ability to mobilize resources and organize a business can create a new firm," Reynolds writes in his analysis.

Perhaps the strongest impact is the entrepreneur's years of business experience, particularly in the same industry, the study says.

But Reynolds does point out some differences in achieving entrepreneurial success.

"Women are more likely to be in those groups that don't have the industry experience. There are minorities that don't put very much money into it," he says.

But what's critical "is the person's skills and resources, and they may be more unevenly distributed," he adds.

Reynolds says it doesn't matter how a budding entrepreneur obtains knowledge: it can be formal classes, an apprenticeship at another firm, or general business experience.

People often fall into small business ownership because of circumstances in their lives, comments Nancy Young, director of the Small Business Development Center at Florida Atlantic University in Boca Raton.

Community resources such as the small business center help start-ups move forward. "We help them decide whether a business is for them or not," Young says. "If you can anticipate situations and be better prepared, your chances of success will improve."

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