

The New Venture Decision: An Analysis Based on the GEM Project Database*

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Abstract

The new venture decision is a crucial stage in the process of creating a new business and is influenced by a series of social, demographic, cultural and economic factors, amongst others. These factors have been the subject of several studies, though there is still no widely accepted agreement on exactly how they affect the decision to create a new enterprise. This study will provide evidence on which variables affect the new venture decision, as well as the extent of their influence based on the analysis of a sample of 7524 cases, using information obtained via the Global Entrepreneurship Monitor 2001 Project. At the same time, we provide evidence to show that there are differences in the way these variables affect new ventures born out of need or out of opportunity.

Keywords

Entrepreneurship, business creation, entrepreneurial decision

Introduction

During the last few decades, the phenomenon of entrepreneurship or “the business function” has gained unprecedented importance on a worldwide scale due to being regarded as a substantial source of new employment, innovation and economic growth (Audretsch, 2002; Reynolds, Levie and Autio, 1999; Veciana, 1999). Although there is still no complete consensus on the definition of this field of study, a large number of researchers coincide in the opinion that the creation of new enterprises is one of the principal outcomes of entrepreneurship.

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* Originally published in *International Entrepreneurship and Management Journal*, 2005, 1: 479–499.

Our aim is to shed light on which variables influence the decision to create an enterprise, and to what extent. In order to do this, we identified from among the variables included in the Global Entrepreneurship Monitor 2001 Project, those that, according to the literature used for research, have an impact on the process, to later go on to submit these variables to statistical contrast. We have also incorporated a segmentation of entrepreneurs according to their motivation for setting up a new business, as this could minimize the impact of certain factors in the new venture decision.

We will firstly present a theoretical review of the entrepreneurial decision as a process, taking Shapero's (1984) model of the entrepreneurial event as a reference, incorporating contributions from other authors such as Gnyawali and Fogel (1994), Krueger and Brazeal (1994) and Shane and Venkataraman (2000). Secondly we will put forward hypotheses related to the variables included within the framework of the GEM study and then present the methodology used for contrasting these hypotheses. We subsequently present the estimated regression models with the accompanying results and end with a discussion of the outcomes and the conclusions of the study.

Background

From a microeconomic perspective, the first models that explain the entrepreneurial decision were based on the assumption that this decision is based solely on the willingness to accept/ aversion to risk so that, for a given wage scale, everyone would have the same attitude toward working on the payroll or assuming the entrepreneurial role and vice versa (Kihlstrom and Laffont, 1979). This model is largely considered to be unrealistic, as it considers everyone as "having the same aptitude" to function either as entrepreneur or employee (Veciana, 1999: 18). However, new microeconomic models on entrepreneurial behaviour include both objective and subjective variables such as gender, age, socioeconomic level, area of residence, perceptions towards risk and social attitudes toward the figure of the entrepreneur, amongst others (Ashcroft, Holden and Low, 2004).

From a psychological perspective, pioneering studies were aimed at determining personality traits that would separate entrepreneurs from non-entrepreneurs, as well as successful entrepreneurs from less successful ones (Gartner, 1985; Veciana, 1999). Although there are numerous empirical studies on this theme, the outcomes are contradictory and have been questioned not only because of their focus but also due to the methodology used, which has brought about a reduction in the number of studies on this topic in recent years (Veciana, 1999).

Later on, models were created on the entrepreneurial process that incorporated behavioural and situational factors (Gartner, 1985; Veciana, 1988). More recently, models of intention that focus on attitudes and the reasons behind them have been proposed as a more likely explanation for the entrepreneurial process (Gnyawali and Fogel, 1994; Shapero, 1984; Shapero and Sokol, 1982).