1. Introduction

> On October 28, 2003 Harvard students could use "Facemash" to compare which photos of two undergraduates were "hot" or "not hot." Developed as personal project by Mark Zuckerberg it was followed by several other efforts that led to the implementation of "Thefacebook" on February 4, 2004; this provided students a mechanism for internet based social interaction. A five person start-up team embellished the potential for interaction and expanded access to other universities, high schools and eventually anybody over 13 years old. When the first public offering was initiated in 2012, "Facebook" reported annual revenue of $5 billion, yearly profits of $53 million, one billion users, and 4,619 employees.[1]
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> Convinced that a properly designed website could provide an efficient and economical interface between citizens and government agencies, high school buddies Kaleil Tuzman and Tom Herman used seed money from Herman's mother to implement "Govworks.com" to process parking tickets in May 1999. A four person start-up team led the website development and within 18 months "Govworks.com" raised $70 million to support 250 employees. Out maneuvered by competitors such as "ezgov.com," unable to manage the complex technical issues, and confronted with a dramatic decline in stock market valuations of internet based initial public offerings, by January 2001 the remnants of the firm were sold for $12 million.[2]
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> In 2003 a team of three men and one women began developing "Southeast Foundations Are Us," which would prepare building sites for new construction. They anticipated a firm that would be easy to manage and have 25 employees in five years. Within two and a half years they became profitable; two years later they had sales of $2.4 million and ten full-time employees.[3]
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> In 2005 two sisters worked on creating "Mountain States Jewelry of Distinction," hoping to have annual sales of $300,000 in five years with an easy to manage business. Within four months the store reached profitability and in two years the sisters and three employees had an annual revenue of $264,000. Sales declined to $120,000 in the third year and the store was shut down.[4]

Business creation takes many forms with many outcomes. Facebook is a well-known example that went from zero to a billion users in nine years. Less well known is Startup.com. Initiated in 1999 it burned through $70 million in venture capital funds and never came close to profitability in 21 months. Southeast Foundations represents a more modest effort that appears to be on track to become a successful part of the construction industry. Mountain States Jewelry of Distinction had two years of success, but in the third year the founders disengaged. These real-life examples are interesting, but do not provide clear implications for those seeking to create a new business.

In the early 1990s a great deal of research provided important new information about market economies—entrepreneurship and new firm creation were a major source of growth and adaptations. In addition, there was growing evidence that a substantial minority of those in the workforce were attracted to business creation. But other than a wealth of individual success stories and analyses reflecting samples of convenience, there was little systematic information about the nature of those involved in business creation or the basic features of the process. This led to the development of a research program that involved the identification of representative samples of those active in business creation and tracking their progress and outcomes. Since 1995 this research protocol, the Panel Study of Entrepreneurial Dynamics (PSED), has now been implemented in a dozen countries and the resulting data sets have been used to explore a wide range of entrepreneurial phenomena.

A precise understanding of firm creation begins with a conceptualization of the phenomena. Business creation is the beginning of the business life course, represented in Figure 1.1.

Businesses are created by people. This conception assumes those individuals do so on their own, as nascent entrepreneurs, or as they work for an existing business, nascent intrapreneurs. Over half of nascent ventures are team efforts; more than one person expects to own the new firm. There are two important transitions in the initial stages of the firm life course: entry into the start-up process and firm birth. Firm birth reflecting the shift from a nascent venture to a new firm. As will be seen, the majority of nascent ventures complete a third transition. They are terminated before they become new firms, represented by the "quit" arrow in Figure 1.1. The entire process exists in a unique political, social, economic and historical context, which can vary dramatically between countries and among regions within a country.

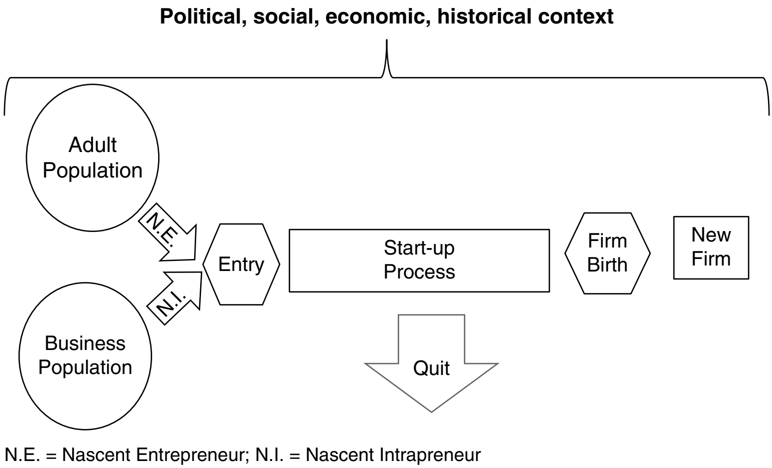

Figure 1.1 Conception of the start-up process

The firm life course may be complicated. The start-up period may be brief, intense, and hectic or it may take years of trial and error development to arrive at a useful product or service. Precise descriptions of the process are complicated by the lack of agreement on the criteria for identifying the transitions and different types of businesses.[5] For the following discussion, beginning the start-up process is defined as the date of the first of two activities initiated within 12 months. A firm birth is considered the first occurrence of profits, identified as the beginning of a period of positive monthly cash flow.

These rich descriptions of the start-up process provide a great deal of systematic information about the business creation experience. Information very relevant for those considering or involved in business creation. They also provide substantial evidence relevant to adjusting public policy to facilitate entrepreneurial activity.

These "lessons learned" can be summarized as ten statements, provided in Table 1.1.

The following reviews the best available evidence related to these ten issues from representative samples of those active in U.S. business creation. These samples reflect the patterns to be expected by 16 million nascent entrepreneurs working on ten million nascent ventures.

Table 1.1 Ten things to know about business creation

1	It can be very satisfying.
2	Everybody gets involved; some more than others.
3	Motives are diverse and may change.
4	It is a social experience.
5	Know what you are doing.
6	Do it!
7	Some activities are more helpful than others.
8	It takes some effort.
9	Money may be necessary, but is not sufficient.
10	Profits are elusive, prepare to pivot.

The focus on these relationships reflect an assumption that those considering business creation:

- Seek to implement a venture that will become profitable or economically self-sustaining.
- Wish to minimize the costs of reaching profitability.
- Would like to reduce the cost in time and money of identifying a still-born venture, one that would not become profitable.

While the focus of the assessment is on commercial or for-profit new ventures, the basic patterns are applicable to those seeking to implement not-for-profit initiatives to achieve social objectives. Such efforts must be economically viable to have a social impact.

It is assumed that policy makers seek to gain the advantages of firm creation—increased productivity, job creation, and the adaptation and creation of economic sectors. But, as shown in Chapter 9, start-up activity involves substantial costs in time and money. Almost all of this cost is borne by the start-up teams and about half by teams that do not reach profitability. This reflects the low proportion of start-up efforts, about two-fifths, that achieve profitability. Policy makers are confronted with a dilemma: efforts to increase business creation will increase the social costs. But without more new firms, there will be less job creation, less improved productivity, and less innovation.

The major relationships discussed in the following chapters will be considered in terms of several policy related issues.

- What actions may increase participation in business creation?
- What actions may increase the proportion of nascent ventures that reach profitability?
- What actions may reduce the social costs associated with business creation?

Given that the majority of start-up efforts are abandoned, small gains in the proportion that become profitable can lead to major increases in benefit versus cost ratios.

NOTES

1. Summary based on SEC Form 10-K filing (U.S. Securities and Exchange Commission, 2013) and public access summary of the firm's history (Wikipedia, 2013).
2. Based on close viewing of the movie, *Startup.com* (Hegedus and Noujaim, 2001) and related commentaries (Steiner, 2010; Writers Institute, undated).
3. U.S. PSED II case number 51609; fictitious firm name.
4. U.S. PSED II case number 51578; fictitious firm name.
5. The diverse interpretations that emerge from different theoretical and operational definitions of "firm birth" are explored in Reynolds (2017).