

A Sketchy Overview of a Comprehensive Overview

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I have already commented at length elsewhere (Davidsson, 2005) on what an extraordinary contribution Paul Reynolds has made by making the PSED happen. So I will not dwell much on that here. Neither will I repeat here much of what else, beyond the US PSED, Paul Reynolds set in motion by establishing this new research paradigm. For those interested, I have in a previous *Foundation and Trends in Entrepreneurship* issue reviewed the PSED-inspired research across the globe, which never would have happened without Paul Reynolds' determination (Davidsson, 2006b) and which to a considerable extent remedies the single country problem Simon Parker points out in his commentary. Instead I will focus on a smaller set of issues that the publication of this report help raise or resolve, or both.

First, the type of research reported here is demanding. It takes time and monetary resources of a magnitude we are not used to in economic and business research to pull off a project like the PSED. But it is sure worth it. A wealth of detailed knowledge about the process of firm creation has been gained by a great number of people involved in the project (starting long before any publications from it were out). That aside, let me just point at one single set of results reported in the current volume: women are under represented among those who try to start firms but show no difference once they have entered the process. African Americans, on the other hand, are more likely than other groups to try, but less likely to complete the process. This is an extremely powerful combination of sociological findings. Given the amounts of money governments and NGOs spend on inspiring and assisting entrepreneurship there is little doubt that these findings alone, rightly used, can redirect efforts in ways that will pay for this project many times over. Research like the PSED may be costly, but then it achieves much more than adding lines to individual researchers' CVs.

Second, it is great that we now have an Overview report of this kind. As Paul notes in the manuscript, current research fashion leads to the publication of manuscripts deeply but narrowly focused on a small set of issues. The problem with that is that it is impossible to understand complex phenomena by just looking at one detail at a time. This report represents the opposite impossibility: to look both at entry and outcome at once, and to relate these two issues to a very broad array of possible explanatory factors. As a result the theoretical and methodological treatment of each individual issue will leave something to be desired. However, it allows us to see the broader patterns that elude us when we read, every now and then, another paper where the focal variables, albeit elegantly and convincingly argued from a conceptual point of view, explain some single digit percentage of the total outcome variance. We clearly need both of these impossible approaches to knowledge development.

Third, the PSED research highlights some really tricky issues regarding the level of analysis (Davidsson, 2006a; Davidsson & Wiklund, 2001). The process of firm creation arguably starts with an idea in somebody's head and may end with a sustainable economic entity in which that individual has no continued involvement. In the early days of the PSED we—the entrepreneurship research community—were

relatively naïve about issues of levels of analysis. Since then, and partly as a result of PSED, we have become more sophisticated, as evidenced by calls for a balanced emphasis on the characteristics of the venture itself along those of the individual(s) (Shane & Venkataraman, 2000) and a large number of studies on the team level, including those focusing on changes in team composition (Chandler, Honig, & Wiklund, 2005). When PSED was designed we mainly thought of it as a study of ‘nascent entrepreneurs’. As Simon Parker points out, it is really the venture that is nascent; the person interviewed may well be an entrepreneur already regardless of how this is defined. The research paradigm that PSED has established is, in my opinion, best seen as a paradigm for venture level studies. Human informants are no doubt needed, but design and analysis should be developed keeping in mind that a) the respondent may not be the most important member of the start-up team and/or may not even be a member of the team in later follow-ups even though the venture is alive and well, b) the focal venture may not be the only or most important venture the informant has a stake in, and c) other outcomes than the (marginal) survival of the focal venture may be much more important for the individual’s life satisfaction or ‘utility maximization’.

This relates, fourthly, to the selection of explanatory variables in this type of research. A key finding in the research presented is that activities—not the characteristics and resources of the respondent—explain what processes lead to completed firm creation. That is, Gartner (1988) was right. This shows, as the author highlights, in the results for gestation activities. It also shows in a way that is highlighted less by the author. Tables D1 and D2 show that resources like educational attainment, household income, and household net worth are statistically unrelated to completion of the business start-up process. When the venture is separated from the individual this is not at all as surprising as it may first seem. This is because the resources represented by the respondent are, in the case of team start-ups, not the only resources available to the venture. Further, the fact that the resources exist does not prove they are put to use in this venture. The respondent may well put her brainpower, money and collateral in another, on-going business, or concentrate on concurrent tasks as an employee while being reluctant to risk her money in the venture. By contrast, Table D6 shows that direct measures of what time and money the respondent and other team members actually *invest* in the venture do have a clear, positive relationship to making the start-up an up and running firm. This gives strong advice as regards how the role of resources should be assessed in future research of this kind. Mere availability of resources does not seem to make it for us—or for the venture. It is actual investment of resources that counts. Another indication of this is that in Table D6 that presence and size of social network seems inconsequential. This apparently runs counter to Swedish results, which point out social capital as the most important predictor of positive outcomes of the process (Davidsson & Honig, 2003). However, in the Swedish case the specific variable (not included in the US original) concerned new network contacts *for the specific purpose of furthering this start-up*.

Fifth, as regards the dependent variable much early research in entrepreneurship focused on comparing the characteristics of ‘entrepreneurs’ with some other group. Apart from the risk that causation runs in the reverse direction than this cross-sectional, retrospective design assumes, any ‘positive’ results confound three things: the propensity to *engage* in entrepreneurial behaviour; the propensity to *persist* at a given level of success, and the propensity to *succeed* at such endeavours. *Ceteris*

paribus, at any given time those more prone to start new firms should be more likely to be found among current firm owners. However, if no personal characteristics distinguish between ‘triers’ and ‘non-triers’ any observed difference would have to be due to differential propensity to stay in business, either because of relative success or relative tolerance for substandard economic yield. We could not tell. The current report demonstrates very clearly that the variables that explain entry into the process are different from those that explain completion of it. The strength of this finding is dramatic and important. It is one of the main points of the current report, and justifiably so.

However, the distinction between persistence and success is not solved to full satisfaction by the PSED design or the current report. The problem is that there is good persistence and bad. Psychological processes like escalation of commitment (McCarthy, Schoorman, & Cooper, 1993) or failure to use negative information (Davidsson & Wahlund, 1992) may make firm founders throw good money after bad instead of pulling out in time. From an individual level perspective, nascent entrepreneurs may unwisely be staying with a low potential start-up effort in the presence of lucrative and rewarding employment opportunities (Gimeno, Folta, Cooper, & Woo, 1997). Therefore, in this context *success factors* (as distinct from persistence factors) may be related both to termination and completion of the start-up process. In the case of termination, we would expect such success factors (or indicators of *entrepreneurial competence*) to be associated with:

- Shorter time to termination
- Lesser financial loss associated with the terminated start-up
- Less regret
- A better ‘other alternative’, i.e., the informant having moved on to attractive employment or a more promising start-up rather to unemployment or ‘last resort’ employment.

In the case of continuation, we would expect the indicators of entrepreneurial competence to be associated with:

- Greater likelihood of completion (rather than being in a ‘still trying’ state; cf. the ‘dilettantes’ Parker discusses)
- Higher profits
- Higher growth
- More satisfaction

There is nothing inherent in the PSED research paradigm that prohibits such ‘forked’ assessment and analysis of outcomes, now that the PSED effort has pointed out the importance of doing it. In fact, even in the publicly available PSED data set there are hitherto unused opportunities to go some distance in that direction. Presumably, some factors will be prove to be associated with better outcomes on both sides of the main divide whereas other factors may be associated only with cushioning termination or only with boosting performance of continued ventures. Importantly, some alleged ‘success factors’ may reveal what they really are by being associated both with costly failures and with the most spectacular cases of success.

Finally, Paul Reynolds' research in PSED and GEM (Global Entrepreneurship Monitor) has demonstrated that firm founding is not something only a small minority of the population is engaged in. This is also highlighted in the current report; it is a mass phenomenon. This, too, has implication for how the basic design is best used. The PSED paradigm catches the nascent entrepreneurs early in the process and follows them over time. This gives some insurance against retrospection biases and reversed causality. However, when first 'caught' the individuals will undoubtedly already be in the process—and very likely psychologically affected by being in that situation. At the same time, we know that a significant proportion of the comparison group—those currently not involved in a start-up—will be 'nascent entrepreneurs' at some future point in time, or have been such in some earlier period. Therefore, for individual level analysis the design may be better suited for asking 'what does being a nascent entrepreneur do to people' rather than 'which characteristics of people affect their propensity to become a nascent entrepreneurs'. Thus, individual level research can focus on dependent variables such as stress level, self esteem, life satisfaction, and a whole range of other alternatives. The PSED research paradigm allows such a focus for future studies and despite the lack of follow-ups of the comparison group the existing data set may also allow some efforts in that direction.

In this commentary I have tried to highlight some issues to consider for future research based on some of the key findings in this report. Apart from highlighting some of its many merits this exercise also shows that the PSED has some shortcomings. Importantly, these shortcomings are such only in relation to yet non-existing competition. Further, it is only thanks to the PSED effort that we can even begin to see these remaining issues and try to rectify them in future research endeavours.

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