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„Organizational Emergence and Financial Support of Nascent
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1 Introduction

This master thesis examines the role of financial support in the venture creation process and what determines the amount of financial resources a firm has at its disposal. The financial resources of a firm have always been regarded as one of the most important factors deciding on the future of a nascent entrepreneur, but in the end what matters is if the firm survives or not and this does not solely depend on financial support. This is why the focus of my attention will not only be on the financial support of a new firm, but also on a variable reflecting the chances of venture survival, organizational emergence.

After discussing the structural and cultural environment for entrepreneurs in the US and Europe and in what respect they differ, I will present the PSED (= Panel Study of Entrepreneurial Dynamics) research program, a longitudinal study "[...] designed to enhance the scientific understanding of how people start businesses. (University of Michigan, 2013)". This study forms the basis of my thesis and provides the data for the empirical examinations of my hypotheses. The study will be presented in Section 3, along with the firm creation process as emphasized by the PSED research program.

In the next section, I will present the operationalisations of my two variables of interest, financial support and organisational emergence, together with the variables which I assume to have an influence on these two factors. The following Chapter 5 is concerned with financial considerations prior to the firm creation process, in which I give a short overview over the financial motives and consequences of self-employment. In Chapter 6, I will formulate my hypotheses based on literature findings for both of my focal variables, organizational emergence and financial support. In the next Chapter 7, the results of my analyses will be presented before I close my thesis with a discussion of the results and its implications.

2 Entrepreneurship in Europe and the US

Entrepreneurial activity is one of the main driving forces of economic prosperity, whereby the creation of new firms and their subsequent involvement in the market are of major importance. Recent literature holds the view, that the activities of newly founded firms are the main reason behind technological advancement and economic growth (Acs & Varga, 2005). In the US, evidence indicates that high entrepreneurial activity is strongly associated with faster economic growth. Furthermore, the only firms having a positive contribution to net job growth are those younger than 2 years, whereas the contributions of older firms were all negative. (Acs & Armington, 2004) Furthermore, the Council for Competitiveness stated in their competitiveness index of 2007 that small- and medium-sized firms are the source of new jobs in the US, with firms larger than 500 employees accounting for a net loss of a little less than 1 million jobs in 2003, compared to a plus of about 2 million for SMEs. (Council On Competitiveness, 2007) These findings not only suggest, that newly founded firms are a driving force behind economic growth in the US, but that they are also a crucial factor contributing to the creation of new jobs.

With regards to Europe, entrepreneurial studies examining such causalities are not very common. Nonetheless, I try to give a short overview over the situation for nascent entrepreneurs in Europe before returning to the US for the rest of my master thesis.

According to an article in the Economist (2009), the European Union is far less entrepreneurial than the United States. In this article elaborating on America as "a beacon of entrepreneurialism", the number of innovative entrepreneurs in Germany (less than half compared to America) and the percentage of companies since 1980 who made it into the list of the 1,000 biggest EU companies (5% compared to 22% in America) are named as examples of this bold statement (The Economist, 2009).

Generally, it is very difficult to find an objective measure reflecting the level of new entrepreneurial activity in both countries and subsequently allow for comparisons between the US and the EU. For example, Eurostat, the "Statistics Department" of the European Union, reports an average birth rate of all active employer enterprises (enterprises with at least one employee) among the member states of 11.3% in 2005, compared to 9.7% for the US in 2004. (Eurostat, 2008) Another possible measure of nascent entrepreneurial activity is the Total Early-Stage Entrepreneurial Activity rate (TEA rate), reflecting the percentage of individuals between 18 and 64 who are about to start or are already running a new business. According to

the figures, the unweighted average TEA rate of the EU member states was 8% in 2012, compared to 13% in the US. (Global Entrepreneurship Monitor, 2012) The discrepancy may partially be caused by the particular year being investigated or by the time period between the two observations but it also shows that the operationalisation of the measurement instrument also play a role in these measurements.

But regardless of the methodology used to measure nascent entrepreneurial activity, there are certain cultural and structural differences between the EU and the US, mostly with advantages for US start-ups. For example, the European Commission names cultural factors, a certain stigma attached to entrepreneurial failure and the difficulties of finding investors for a new business as the hindrances to entrepreneurship, whereas these factors can be seen as strengths of the US entrepreneurial landscape (European Commission, 2013a). However, the European Commission has vowed to tackle these issues and launched the "Entrepreneurship 2020 Action Plan". The plan's three main pillars are entrepreneurial education and training, creating a positive environment for entrepreneurs and to tap into currently unused entrepreneurial potential (e.g. women, seniors). (European Commission, 2013b) Given the acknowledgement of the structural and cultural disadvantages of the EU by the European Commission itself, it is safe to assume that the pre-conditions for American entrepreneurs are indeed more favourable compared to the European Union.

2.1 Entrepreneurship in the United States

As already mentioned, the United States seems to offer nascent entrepreneurs structural and cultural advantages compared to Europe. US citizens are being said to possess entrepreneurial spirit, which is being reflected by 70% of the US adult population stating that they would prefer being an entrepreneur, compared to for example 30% of the Scandinavian adult population. Also, the differing attitudes towards risk are a critical factor in which Europeans and Americans differ. (Poole & Wall, 2004). The structural factors create an environment that not only enables this spirit to thrive, but also fosters it. Besides the advantageous factors mentioned before, US entrepreneurs are able to profit from the close relations between universities and industry, the open immigration policy and the more "venturesome consumers", meaning that Americans are more willing to try out new products. Although, these factors do not necessarily make America the promised land for entrepreneurs, the US can still be considered as the global leader in terms of entrepreneurship. (The Economist, 2009)

Despite some criticism on the tax and legal system, the US is one of the easiest places to start a business, in terms of cost and time required. (Council On Competitiveness, 2007) To establish a business as a legal entity it only takes about 4 days time and costs \$ 210. With the business established as a legal entity, the entrepreneur gains access to the legal and financial system, allowing him to borrow and enforce contracts legally. (Poole & Wall, 2004) This easy and quick procedure is also being reflected by 12.4% of the adult American population owning or managing a firm, or have taken steps towards creating one. This figure is considerably higher than the numbers reported by the other major industrial economies, with the UK ranking second with 6.2%. (Council On Competitiveness, 2007)

The US labour law has a very lax approach to hiring and firing and the workplace regulations provide employers with a great deal of flexibility. European labour law, in contrast, is far more rigid. Whereas the US American labour law is probably not always in the best interest of employees, they help nascent entrepreneurs managing their business. Another important factor easing the transition to self-employment in the US is the relatively easy access to the capital market. Once you established the firm as a legal entity you have greater access to institutional financing and especially the venture capital industry helps nascent entrepreneurs to raise capital. (Poole & Wall, 2004) In 2003, the US accounted for 66% of the global venture capital spending, in the years before, this percentage was even higher. (Council On Competitiveness, 2007) However, these financial means are mostly restricted to a few high-potential firms, which on the other hand fuels the competition for these scarce financial resources. The US tax system also fosters self-employment, as it imposes only relatively low taxes on entrepreneurs. (Poole & Wall, 2004)

It can be said that the US succeeded in their efforts to provide entrepreneurs with an environment which helps them to set up their businesses and subsequently maintain and manage them. However, there are also certain hindrances which might prevent an entrepreneur from starting a business.

2.2 Barriers to Entrepreneurship

When an entrepreneur tries to set up a business, there are two main factors which mainly determine the success of his efforts: his own characteristics and the institutional environment which could enable or pose a hindrance to entrepreneurship. The characteristics defining an

entrepreneur are for example his education, work experience, managerial experience or innovativeness, which are also included in the empirical section of this thesis. On the other hand, the institutional environment consists of factors like rules and regulations, availability of education, culture or government. (Fogel, Hawk, Morck, & Yeung, 2006) As already elaborated in the previous section, these institutional factors can foster and enable entrepreneurship, but they can also be a barrier.

With regards to the legal aspects of entrepreneurship, an environment with well-defined rules and regulations, well-protected property rights and an efficient judicial system are all factors promoting entrepreneurship. (Fogel, Hawk, Morck, & Yeung, 2006) As outlined before, the start of a business in the US is not a real hindrance, as it is relatively inexpensive and quick. This would mean that regulative entry barriers to entrepreneurship in the US are not high. But as soon as the venture is set up and running, the tax and legal system can pose severe threats for businesses. For example, the complexity of the tax system requires considerable time to fill out forms, or innovative firms are threatened by "patent trolls", which are lawyers specialized on filing lawsuits against firms trying to obtain a patent which might be (remotely) related to an already existing patent. (The Economist, 2009) This can be especially very hazardous for firms trying to launch a new product or service, as patent law is a very intransparent field of law. As mentioned before, the lax labour law in the US is a factor promoting entrepreneurship, but the costs of hiring an employee are still substantial (Poole & Wall, 2004).

This last point addresses the issue which is being identified as the main barrier to self employment by most nascent entrepreneurs - the costs which are associated with setting up a business. These costs for example include the hiring fees for employees, costs for equipment and raw material or deposits for facilities. In this context, the so-called liquidity constraint theory was developed in the late 1980s which stated that individuals usually have only very limited financial resources at their disposal which could prevent them from entering self-employment. This liquidity constraint theory is being discussed in greater detail in chapter 5, which deals with financial considerations prior to the firm creation process.

But besides financial barriers preventing entrepreneurs from entering the firm creation process, there are also considerable financial resources necessary to operate and maintain a business. These costs are strongly related to the costs incurred at the beginning of the firm

creation process, but usually occur at regular intervals (e.g. rent, wages, advertising). Furthermore, there are also "hidden costs" which may not be primarily on the mind of an entrepreneur thinking about operating costs. This includes legal fees, permits, licences, interest on debt or repairs and maintenance only to name a few.

What is more, there are also some disadvantageous developments increasing these costs even further. For example, the before mentioned hiring of employees gets increasingly expensive due to the rising health care costs, as health care premiums have grown faster than inflation. Another factor is that on average, debt payments have increased, whereas savings rates have fallen, meaning nascent entrepreneurs have to take up more and more debt in order to be able to set up a business. (Council On Competitiveness, 2007)

To sum up, the environment in the US can be regarded as advantageous compared to the EU when trying to set up a business. But nonetheless, self-employment is connected with a variety of pitfalls which can prevent a nascent entrepreneur from owning and operating a business. Many of these pitfalls are connected to financial issues which are also one of the main topics in this master thesis.

But regardless of these facts and figures, what remains is, that the knowledge about entrepreneurial processes is very limited, as Reynolds et. al. remarked in 2004: "While entrepreneurs contribute so much to our society, we know little about them. While we can see the results of entrepreneurial activity in the form of new businesses and new innovations, we have limited information on how these new businesses actually came into existence. (Reynolds, Carter, Gartner, & Greene, 2004, p. 264)" This is the reason, why the University of Michigan created the PSED program, which will be presented in further detail in the next section.

3 The PSED program

The Panel Study of Entrepreneurial Dynamics research program has its roots in the efforts of the University of Michigan to develop a "comprehensive, objective description of the business creation process (Reynolds & Curtin, 2008, p. 165)".

3.1 The Firm Creation Process

The research design is based on a view of the firm creation process where the defining elements of the process are the actions of the individuals trying to set up a firm and the contextual factors (social, political, economic and historical factors) a firm is confronted with. These contextual factors have an impact throughout the whole creation process and are seen to be mediated by the actions taken by the individual. (Reynolds & Curtin, 2008). This life cycle of a firm as envisioned by Reynolds and Curtin (2008) is represented in Figure 1.

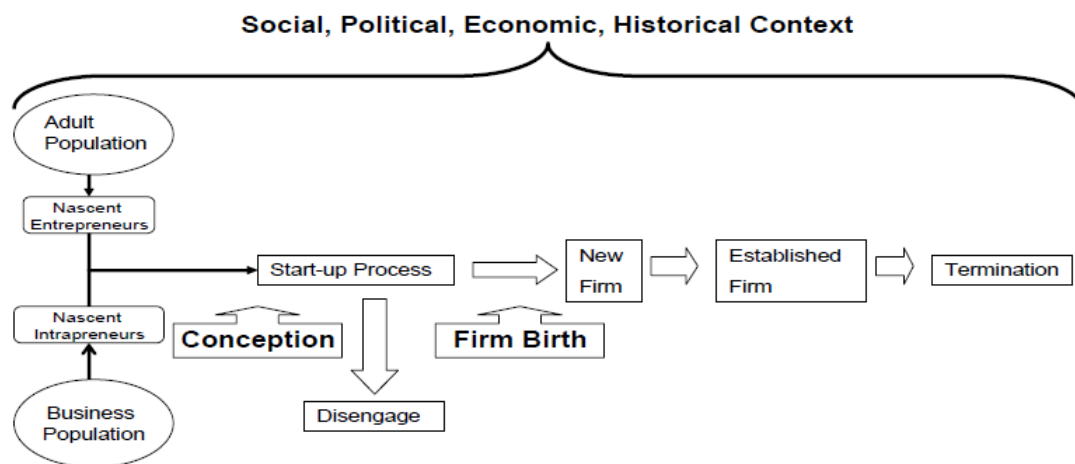


Figure 1: Business Life Course and Context (Reynolds & Curtin, 2008, p. 166)

The authors distinguish between nascent entrepreneurs and nascent intrapreneurs, depending on whether the entrepreneur emerges from the adult population (nascent entrepreneur) or from an existing business (nascent intrapreneur). There are three major transitions within the firm creation process.

The first is the conception, where a nascent entrepreneur is "created" and enters into the start-up process. The start-up process either results in the birth of a new firm or in the disengagement from the process where the nascent entrepreneur ceases his efforts to create a new firm. (Reynolds & Curtin, 2008) The birth of a new firm is the second possible transition in the business life course of a firm. In the PSED program, a new firm is being born when there is a report of an initial period of profits or a period of positive monthly cash flow. After a new firm has been created, it might become an established firm and eventually, the operations are being terminated in the third and last transition when the economic usefulness of the firm declines. (Reynolds, 2011)

Basically, the research design is aimed at identifying creators of new firms, collecting information on their personal and work career and finding out what they do to implement a new business (Reynolds & Curtin, 2008).

3.2 Research Design

The PSED program consists of two longitudinal studies, the PSED I and the PSED II, which are both based on the same design consisting of three phases. First, a representative sample of adults was screened to determine those who are active in the business creation process. Then in the second phase, detailed information about the initiation of the new firm were gathered. In the third phase, follow-up interviews were conducted to determine the outcome of these efforts. (Reynolds & Curtin, 2007)

The first study, the PSED I, was implemented in the late 1990s, with a screening process from 1998 to 2000 yielding 830 respondents (out of 62,612 potential respondents in the screening sample) which have been questioned in three follow-up interviews after 14, 27 and 40 months. (Reynolds & Curtin, 2008) But as mentioned in the introduction, the second study, the Panel Study of Entrepreneurial Dynamics II, forms the basis of this master thesis and all further elaborations will focus on this second study.

Phase 1: Screening Process

The screening process was used to identify nascent entrepreneurs from a representative sample of the adult population. The screening was completed with the help of phone interviews (average interviewing time: 2 minutes) conducted by a commercial survey firm. The screening process of the PSED II started in 2005 and was finished in early 2006 resulting in a total of 1,214 respondents out of 31,485 respondents initially being screened for interviewing. (Reynolds & Curtin, 2007) Nascent entrepreneurs were identified using the following four criteria:

"[...] 1) they consider themselves as involved in the firm creation process, 2) they have engaged in some start-up activity in the past 12 months, 3) they expect to own all or part of the new firm, and 4) the initiative has not progressed to the point it may be considered an operating business. (Reynolds & Curtin, 2007, p. 9)"

Phase 2: Detailed Interview:

The respondents to which the criteria mentioned before applied, were questioned afterwards in a 60 minute phone interview covering the start-up effort, their current situation and activities. The interviews were conducted by the University of Michigan Institute for Social Research and the topics covered in the interview are displayed in Figure 2 (column "Wave A") (Reynolds & Curtin, 2007).

Phase 3: Follow-up interviews

After completing the first wave A, the initial detailed interview, the respondents were approached with five yearly follow-up interviews (wave B - F) in which the development of the new firm was being observed. The topics covered in the follow-up interviews were basically the same as in wave A, but depending on the status of the business at the time of the follow-up (e.g. disbandment), only specific topic areas were covered (see Figure 2) and respondents stating that they were managing a firm in a follow-up interview were provided with some additional modules in the next follow-up (Reynolds & Curtin, 2007). The last wave F has been completed in early 2011.

Topic Modules	Screening	Wave A	Wave B (1,2)	Wave C (1,2)
Screening questions	All			
Assessment of criteria for nascent entrepreneur	All			
Socio-demographic	All			
A.1: Why involved, business opportunity (open ended)		All		
A.2: Confirm same business activity			All	All
A.3: Determine status: new firm, quit, continue			All	All
B: Type of business, location		All	NF,SU	NF,SU
C: Legal form		All	All	All
D: Start-up activities		All	All	All
E.1: Start-up finances, entry into firm registries (3)		All	All	All
E.2: Confirm quit, exit interview			Quits	Quits
F: Orientations toward competition		All	NF	NF
G: Owners, key non-owners, & helpers inventory		All	NF,SU	NF,SU
H: Owner demographics		All	NF,SU	NF,SU
J: Relationships among owners		All	NF,SU	NF,SU
K: Juristic (legal entity) owners		All	NF,SU	NF,SU
M: Key non-owner demographics		All	NF,SU	NF,SU
N: Helper demographics		All	NF,SU	NF,SU
P: Community resources, support for new firms		All	NF	NF
Q: Informal start-up financial support		All	NF,SU	NF,SU
R: Legal entity start-up investments, debts, net worth		All	NF,SU	NF,SU
S: Competitive strategy and target markets		All	NF	NF
T: Growth expectations		All	NF	NF
U.1: Respondent's motivation		All		
U.2: Employment structure (3)			NF	NF
V.1: Expense structure: summary (3)			NF	
V.2: Expense structure: detailed (3)				NF
X: Respondent's career background		All	SU	SU
Y: Respondent's self-descriptions		All		
Z: Respondent & household socio-demographics		All	NF,SU	NF,SU
NOTES: (1) After wave A, modules are provided to All respondents, only those that Quit, or those with a new firm (NF), or still active in the start-up process (SU).				
(2) After initial interview, modules are repeated to capture changes or new information about the activity or details on the current status.				
(3) Based on Kauffman Firm Survey interview schedule (Mathematica Policy Research, 2007).				

Figure 2: PSED II Interview Schedule (Reynolds & Curtin, 2008, p. 10)

Among the topics covered in the PSED program was also the financial support of the nascent entrepreneur, which is the centre of many research questions connected to the emergence of new businesses and will also be one of the central issues in this master thesis. The next chapter deals with the selection and the preparation of the data for my analyses.

4 Selected Content

The PSED II dataset consists of a variety of different variables, which are being reported multiple times across the different waves. In this section, the variables which are being used for the empirical analysis are being presented together with the procedures I applied to be able to use them. The dependent variables are the centre of attention of my analysis and I will try to investigate what factors influence these constructs. The independent variables are those variables I presume to have an influence on my dependent variables. I only included those respondents into my analysis which responded at least to one other wave than the initial wave A, as the PSED is a longitudinal study which focuses on the outcome of the firm creation process. This reduces the overall sample from 1,214 respondents to 1,110 respondents.

4.1 Dependent Variables

The two dependent variables which will be used in this master thesis are the financial support an organisation has received and the degree of organizational emergence.

4.1.1 Financial Support

The topic modules Q and R in the PSED II dataset are dedicated to the financial support of nascent entrepreneurs. The PSED research program distinguishes between two types of financial support, formal financial support and informal financial support. The distinction between the two different groups is based on the entry of the business as a legal entity. Topic module Q is concerned with the informal start-up financial support and topic module R displays the legal entity start-up investments, debts and net worth reflecting the formal side of financial support. For any hypothesis testing, the natural logarithm of the amounts of financial support is being used to be able to examine relative changes in the variable of interest, whereas absolute numbers are being used for descriptive statistics. In the following Figure 3, the content of the topic modules Q and R are displayed in further detail.

Item No	Content	Informal	Formal
	For each of up to five start-up team members		
Q4	Personal savings	X	
Q5	Personal loans, personal and family members	X	
Q6	Personal loans, friends, employers, or work colleagues,	X	
Q7	Credit card loans	X	
Q8	Personal loan from a bank or financial institution	X	
Q9	Any asset backed loan, like second mortgage	X	
Q10	Provided by any other source	X	
Q12	Of total provided via each member, how much for equity	X	
Q13	Of total provided via each member, how much a loan	X	
Q14	Month and year of initial investment by each member	X	
	Total provided to the new business, as a legal entity		
R4	Additional equity provided by the start-up team members		X
R6	Dollar amount of asset backed loans		X
R7	Dollar amount of lease commitments on physical assets		X
R8	Dollar amount of working capital loans		X
R9	Dollar amount of supplier credit		X
R10	Dollar amount of team member 1 personal loans		X
R11	Dollar amount of team members 2-5 personal loans		X
R12	Dollar amount of spouses, relatives, kin personal loans		X
R13	Dollar amount of employee personal loans		X
R14	Dollar amount of other persons personal loans		X
R15	Dollar amount of credit card debt to the new business		X
R16	Dollar amount of bank loans to the new business		X
R17	Dollar amount of venture capital firm loans		X
R18	Dollar amount of government agency loans		X
R19	Dollar amount of SBA guaranteed loans		X
R20	Dollar amount of any other loans or debts		X

Figure 3: Topic Modules Q and R in the PSED II (Reynolds, 2011, p. 37)

Informal Financial Support

According to the PSED II dataset, nascent entrepreneurs can receive 7 different forms of informal financial support, which is any financial contribution before the firm is registered as a legal entity. In Table 1 sources and amounts of informal financial support are provided. In the first two columns, the number of respondents who have reported the respective informal support source are given, in absolute and relative numbers. Followed by the minimum and maximum amount of informal financial support and the average amount with and without respondents who didn't receive any informal financial support. Additionally, the median and the 75, 90 and 95 percentile values are given. From these figures it is easy to see that the distribution is very skewed to the left as a large proportion of the respondents have received relatively small number of informal financial support. The number of respondents reporting to have received any amount of informal financial support is high (83.42%), which is mostly caused by the fact that the main source of informal financial support are the own personal savings with 79,64% of the respondents reporting that they used this source of informal financial support to set up the business.

Item No.	Source	Case Reports (Absolute)	Case Reports (Percent)	Min	Max	Avg	Avg (no 0)	Median	75 Pctl	90 Pctl	95 Pctl
Q4	Personal Savings	884	79.64%	0.0	5,000.0	22.2	27.9	2.5	10.0	35.0	67.2
Q5	Personal Loans - Family Members	166	14.95%	0.0	1,400.0	3.6	24.0	0.0	0.0	1.0	6.0
Q6	Personal Loans - Friends	65	5.86%	0.0	1,000.0	1.7	29.3	0.0	0.0	0.0	0.2
Q7	Credit Card Loans	141	12.70%	0.0	160.0	1.3	10.6	0.0	0.0	1.0	5.0
Q8	Personal Loan - Bank	119	10.72%	0.0	4,000.0	10.1	94.4	0.0	0.0	1.0	25.0
Q9	Personal Loan - Mortgage	61	5.50%	0.0	4,000.0	7.6	138.7	0.0	0.0	0.0	3.0
Q10	Personal Loan - Other Source	8	0.72%	0.0	500.0	0.9	118.3	0.0	0.0	0.0	0.0
Total		926	83.42%	0.0	13,000.0	47.5	56.9	4.0	18.1	73.9	150.0

Table 1: Informal Financial Support (n = 1,110; Values in 1,000\$)

Formal Financial Support

Formal financial support, which relates to any financial support received as soon as the business is registered as a legal entity, comprises of 15 different sources of financial support. Of the initial 1.110 respondents (after exclusion of those respondents who only responded to the first Wave A) 566 respondents registered their business as a legal entity, which translates into 50,99% of the filtered sample. Of these 566 respondents, 42,40% (240 respondents) have received some kind of formal financial support. In Table 2 sources and amounts of formal financial support are shown. The distribution is even stronger skewed to the left, again reflecting a very large amount of individuals having received little or no formal financial support.

Item No.	Source	Case Reports (Absolute)	Case Reports (Percent)	Min	Max	Avg	Avg (no 0)	Median	75 Pctl	90 Pctl	95 Pctl
R4	Additional Equity	177	31.27%	0.0	8,000.0	52.2	166.9	0.0	3.0	30.0	100.0
R6	Asset-Backed Loans	71	12.54%	0.0	5,000.0	43.3	344.8	0.0	0.0	10.0	100.0
R7	Lease commitments on physical assets	46	8.13%	0.0	700.0	4.5	55.3	0.0	0.0	0.0	7.3
R8	Working capital loans	65	11.48%	0.0	1,000.0	16.5	143.5	0.0	0.0	5.0	30.0
R9	Supplier credit	49	8.66%	0.0	500.0	3.8	43.7	0.0	0.0	0.0	3.0
R10	Personal Loan - Team Member 1	163	28.80%	0.0	6,000.0	27.3	94.7	0.0	2.6	25.0	78.3
R11	Personal Loan - Team Members 2-5	46	8.13%	0.0	33,000.0	66.7	820.3	0.0	0.0	0.0	10.0
R12	Personal Loan - Spouses, Relatives, Kin	35	6.18%	0.0	500.0	2.5	40.3	0.0	0.0	0.0	3.0
R13	Personal Loan - Employee	4	0.71%	0.0	20.0	0.1	8.6	0.0	0.0	0.0	0.0
R14	Personal Loan - Others	17	3.00%	0.0	800.0	1.8	59.9	0.0	0.0	0.0	0.0
R15	Credit Card Debt to Business	68	12.01%	0.0	500.0	2.2	18.4	0.0	0.0	1.9	10.0
R16	Bank Loan to Business	28	4.95%	0.0	1,100.0	8.4	169.4	0.0	0.0	0.0	1.0
R17	Ventura Capital Firm Loans	4	0.71%	0.0	650.0	1.4	193.8	0.0	0.0	0.0	0.0
R18	Government Agency Loans	3	0.53%	0.0	5.0	0.0	3.0	0.0	0.0	0.0	0.0
R19	Small Business Administration guaranteed Loans	9	1.59%	0.0	2,000.0	8.0	504.3	0.0	0.0	0.0	0.0
R20	Any other Loan or Debt	32	5.65%	0.0	400.0	2.1	37.7	0.0	0.0	0.0	0.5
	Total	240	42.40%	0.0	44,100.0	240.6	567.5	0.0	28.0	204.2	628.3

Table 2: Formal Financial Support (n = 566; Values in 1,000\$)

External & Internal Financial Support

In addition to the distinction based on the PSED research program between formal and informal financial support, I have also divided the financial support into internal and external financial support. The reason behind this is, that the distinction between funding received from outside versus internal sources might be a major factor for exploring the determinants of the amount of financial support, as the funding through external sources is often tied to meeting certain formal requirements, e.g. when applying for a bank loan. When dividing the financial support into these two categories, I followed Gartner, Frid and Alexander (2012) which proposed that these forms of financial support are external: "[...] financing from family and friends, loans from a bank, asset-backed debt, leases, supplier credit, venture capital, and loans from government agencies. (Gartner, Frid, & Alexander, 2012, p. 748)" In the following Figure 4 the classification of the different financial sources contained in the PSED dataset is being displayed. The authors did not include module R12, as money provided from spouses would be difficult to classify as either external or internal source when they might act as co-founder of the venture. (Gartner, Frid, & Alexander, 2012)

Financial sources	Personal sources	External sources
Q—personal savings (Q4)	●	—
R—personal loans (R10)	●	—
R—personal & team equity (R3 + R4)	●	—
R—team member loans (R11)	●	—
Q—credit card (Q7)	●	—
R—credit card (R15)	●	—
Q—second mortgage or car loan (Q9)	●	—
Q—family and relatives (Q5)	—	●
Q—friends, employers, & work colleagues (Q6)	—	●
R—loans from employees (R13)	—	●
Q—bank or other financial institution (Q8)	—	●
R—bank loan (R16)	—	●
R—bank line of credit or working capital (R8)	—	●
R—Small Business Administration (SBA)-guaranteed bank loans (R19)	—	●
R—asset backed debt (e.g. land, equipment) (R6)	—	●
R—leases on property and equipment (R7)	—	●
R—supplier credit (R9)	—	●
R—venture capital (R17)	—	●
R—government agencies (not SBA) (R18)	—	●
R—loans from other individuals (R14)	—	●
R—spouses, family, other kin (R12) ^a	—	—
Q—other (Q10) ^a	—	—
R—other (R20) ^a	—	—

Figure 4: Classification personal / external sources (Gartner, Frid, & Alexander, 2012, p. 751)

The following tables displays the descriptive statistics of internal (Table 3) and external (Table 4) financial support respectively. Unsurprisingly, the distribution is in both cases again strongly skewed to the left. With regards to internal financing, about 85% of the respondents indicated that they have raised at least one of the 7 forms of internal financial support, with personal savings being the most common form.

Item No.	Source	Case Reports (Absolute)	Case Reports (Percent)	Min	Max	Avg	Avg (no 0)	Median	75 Pctl	90 Pctl	95 Pctl
R4	Additional Equity	177	15.95%	0.0	8,000.0	26.6	166.9	0.0	0.0	6.5	30.0
R10	Personal Loan - Team Member 1	163	14.68%	0.0	6,000.0	13.9	94.7	0.0	0.0	6.5	25.0
R11	Personal Loan - Team Members 2-5	46	4.14%	0.0	33,000.0	34.0	820.3	0.0	0.0	0.0	0.0
R15	Credit Card Debt to Business	68	6.13%	0.0	500.0	1.1	18.4	0.0	0.0	0.0	2.0
Q4	Personal Savings	884	79.64%	0.0	5,000.0	22.2	27.9	2.5	10.0	35.0	67.2
Q7	Credit Card Loans	141	12.70%	0.0	160.0	1.3	10.6	0.0	0.0	1.0	5.0
Q9	Personal Loan - Mortgage	61	5.50%	0.0	4,000.0	7.6	138.7	0.0	0.0	0.0	3.0
	Total	941	84.77%	0.0	41,700.0	106.8	126.0	5.0	20.0	87.0	203.1

Table 3: Internal Financial Support (n = 1110; Values in 1,000\$)

In Table 4 the most common form of external financial support are personal loans by family members. It can be easily seen that sources of external financial support are less common than internal sources, which is most likely because some of the sources are connected with legal or contractual obligations (e.g. personal loan - bank) or with social obligations (e.g. personal loan - friends) and are therefore harder to obtain (Gartner, Frid, & Alexander, 2012). Overall approximately 34% of all respondents received one of the 13 forms of external financial support.

Item No.	Source	Case Reports (Absolute)	Case Reports (Percent)	Min	Max	Avg	Avg (no 0)	Median	75 Pctl	90 Pctl	95 Pctl
R6	Asset-Backed Loans	71	6.40%	0.0	5,000.0	22.1	344.8	0.0	0.0	0.0	10.0
R7	Lease commitments on physical assets	46	4.14%	0.0	700.0	2.3	55.3	0.0	0.0	0.0	0.0
R8	Working capital loans	65	5.86%	0.0	1,300.0	8.4	143.5	0.0	0.0	0.0	5.0
R9	Supplier credit	49	4.41%	0.0	500.0	1.9	43.7	0.0	0.0	0.0	0.0
R13	Personal Loan - Employee	4	0.36%	0.0	20.0	0.0	8.6	0.0	0.0	0.0	0.0
R14	Personal Loan - Others	17	1.53%	0.0	800.0	0.9	59.9	0.0	0.0	0.0	0.0
R16	Bank Loan to Business	28	2.52%	0.0	1,100.0	4.3	169.4	0.0	0.0	0.0	0.0
R17	Ventura Capital Firm Loans	4	0.36%	0.0	650.0	0.7	193.8	0.0	0.0	0.0	0.0
R18	Government Agency Loans	3	0.27%	0.0	5.0	0.0	3.0	0.0	0.0	0.0	0.0
R19	Small Business Administration guaranteed Loans	9	0.81%	0.0	2,000.0	4.1	504.3	0.0	0.0	0.0	0.0
Q5	Personal Loans - Family Members	166	14.95%	0.0	1,400.0	3.6	24.0	0.0	0.0	1.0	6.0
Q6	Personal Loans - Friends	65	5.86%	0.0	1,000.0	1.7	29.3	0.0	0.0	0.0	0.2
Q8	Personal Loan - Bank	119	10.72%	0.0	4,000.0	10.1	94.4	0.0	0.0	1.0	25.0
Total		376	33.87%	0.0	5,000.0	60.1	177.5	0.0	2.0	45.0	150.0

Table 4: External Financial Support (n = 1110; Values in 1,000\$)

4.1.2 Organizational Emergence

According to the PSED program, a new firm has been established when initial profitability has been achieved. This is operationalised as the achievement of a "[...] positive monthly cash flow covering all expenses and owners salaries and wages for six months in a 12-month period. (Reynolds, 2011, p. 37)" When a nascent enterprise doesn't receive any more effort from the team members, it is considered as disengagement (or "Quit") from the start-up. When the start-up effort can neither be classified as a new firm nor as disengagement, it is considered as an active start-up. (Reynolds, 2011) The descriptive statistics displaying the status of the businesses contained in the PSED II after Wave F can be found in Table 5.

Start-Up Status	Case Reports (Absolute)	Case Reports (Percent)
Disengagement	640	57.7%
New Firm	184	16.6%
Still Active	286	25.8%
Total	1,110	100.0%

Table 5: Descriptive Statistics Start-Up Status

Another view emphasizes the firm birth through legitimization by the firm's immediate audiences. Here the focus lies not on the resource endowments of a firm, but on how the firm is perceived by institutions and individuals they are dealing with. If a nascent organization wants to succeed it has to be seen as a "legitimate" (i.e. capable and credible) organisation and in order to achieve this legitimisation the firm must undertake certain actions which alter the perception of the firm by external audiences. (Tornikoski & Newbert, 2007) According to Reynolds and Miller (1992) an organization emerges when the entrepreneur invests personal commitment, when the first sale has been made, when employees have been hired and when external financing has been received.

These four dimensions, or milestones, can be operationalised with the information included in the PSED II dataset. Personal commitment is seen as constant, as all respondents were actively trying to set up a business. (Tornikoski & Newbert, 2007) The information concerning the other three milestones can be found in section A of the PSED II dataset. In the questions AE4 - FE4, AE8 - FE8 and AE14 - FE14 it was asked when they have reached the respective milestones. The answers were recoded resulting in a dichotomous variable reflecting if the respondent has received the milestone or not. In the next step the number of milestones reached were added up and divided by the number of milestones the respondent indicated were relevant to the start-up, whereas achieving first sales was considered relevant to all start-up efforts. (Renko, 2012) The result is a continuous variable ranging from 0 to 1.

Organizational Emergence	Case Reports (Absolute)	Case Reports (Percent)
0	298	26.85
0.33	51	4.59
0.5	115	10.36
0.66	68	6.13
1	578	52.07
Total (n)	1,110	100

Table 6: Descriptive Statistics Organizational Emergence

4.2 Independent Variables

The variables education, experience, teamsize, novelty and the amount of time invested in the venture serve as independent variables which I hypothesize to have an influence on my two variables of interest, financial support and organizational emergence.

4.2.1 Education

The variable education (AH6 - FH6), in which the respondents were being asked about the highest level of education they have completed, was recoded in order to represent the number of years of education a respondent has received (recoding scheme see Appendix A). Additionally, the years of education of all team members were summed up and divided by the number of team members in order to obtain an averaged "team education". In the following table 3 the descriptive statistics concerning the team education are being displayed.

	Total (n)	Std. Dev.	Min	Q1	Mean	Q3	Max
Education	1,109	1.98	8	13	14.49	16	19

Table 7: Descriptive Statistics Team Education

4.2.2 Experience

The PSED II program distinguishes between three different types of experience, industry experience, full time experience and management experience. Industry experience (AH11 - FH11) relates to experience in the field in which the business will compete in. Full time experience (AH20 - FH20) reflects the years the respondent or one of the team members has spent in a full time, paid working profession. Management experience (AH21 - FH21) shows how many years of managerial, supervisory or administrative responsibility the respondent has had. Again, the years of experience for all team members were summed up and divided by the number of team members in order to obtain an averaged number of years.

	Total (n)	Std. Dev.	Min	Q1	Mean	Q3	Max
Industry Experience	930	9.88	1	3.5	11.91	19	51
Full Time Experience	1,097	11.05	1	12	21.14	29.5	55
Management Experience	1,012	8.99	1	5	12.13	17.5	45

Table 8: Descriptive Statistics Experience

4.2.3 Novelty

This variable is based on two questions the respondents were asked about the novelty of the product or service and follows the operationalisation of Renko (2012). In the first question, the respondents were asked if all, some or none customers will find the product or service being offered new and unfamiliar (AS1 - FS1). The second question (AS2 - FS2) wanted to determine if there are many, few or no other businesses offering the same products or services to potential customers. The recoding procedure in order to obtain the novelty variable is outlined in the Appendix B. The final novelty variable is a continuous variable ranging from 0 to 1, whereas 1 reflects the highest degree of novelty (i.e. a product or service the customers are unfamiliar with and that is not offered by any other business).

Novelty	Case Reports (Absolute)	Case Reports (Percent)
0	259	23.44
0.25	353	31.95
0.5	291	26.33
0.75	135	12.22
1	67	6.06
Total (n)	1,105	100

Table 9: Descriptive Statistics Novelty

4.2.4 Time Invested

Question AH14 - FH14 asked the respondents how many hours in total they have devoted to the new business. To allow for comparisons between different team sizes, the hours of all team members were summed up and divided by the team size. The descriptive statistics given in Table 10 displays absolute numbers, for the analysis in Section 7 I have used the time invested variable in 100 hour steps.

	Total (n)	Std. Dev.	Min	Q1	Mean	Q3	Max
Time Invested	1,025	4,282.76	1	100	1,417,79	1,000	60,000

Table 10: Descriptive Statistics Time Invested

4.2.5 Completion of a Business Plan

The respondent was also asked when he completed the first version of a business plan (question AD4 - FD4). Slightly less than half the respondents reported the completion of a business plan.

Business Plan Completed?	Case Reports (Absolute)	Case Reports (Percent)
Yes	539	51.44
No	571	48.56
Total (n)	1,110	100

Table 11: Descriptive Statistics Completion Business Plan

5 Financial Considerations prior to the Firm Creation Process

Extensive research is connected with the financial side of starting a new business, as financial factors are regarded to be of major importance throughout the whole process of setting up a business. Before the firm creation process even starts, monetary considerations will certainly play a major role in the thoughts of the potential nascent entrepreneur. In this section, I will focus on the financial considerations before the start-up process even begins.

Probably one of the first reasons offered for entering into self-employment, is the prospect of a higher income compared to a wage-paying profession. But the majority of start-up attempts cannot be compared with the success stories of famous entrepreneurs and the monetary benefits that go along with owning a successful firm. But these so-called 'Superstars' (Rosen, 1981) are very rare and should not necessarily be the only reason for entering self-employment. When an entrepreneur starts a new firm, one has to consider the scale of a business at the time of its foundation. Usually a firm starts out very small and when looking at small business owners, literature suggests these entrepreneurs have lower initial earnings and lower earnings growth than employees with similar characteristics. These differences can still be observed after 10 years of time and when alternative measures of self-employment earnings are being used. (Hamilton, 2000) Certainly the prospect of becoming a 'Superstar' is very appealing, but starting a business solely based on the expectation of a higher income might not be a good idea. What is more, a nascent entrepreneur even has to cut back his financial expectations compared to an alternative employment. That raises the question what attracts individuals to enter into self-employment?

Among other explanations, one of the main reasons why individuals decide to enter into self-employment is that having your own firm offers benefits which cannot be expressed in financial terms (e.g. "being your own boss"). It even appears that many entrepreneurs are willing to accept lower earnings in comparison to their alternative wage to enter or remain in self-employment. (Hamilton, 2000) This is also being reflected by entrepreneurs reporting to have higher life and job satisfaction than conventional employees (Blanchflower & Oswald, 1998). Therefore it can be assumed, that the benefits of self-employment are mostly non-pecuniary, especially at the beginning of the business venture. On the other hand, the potential drawbacks of starting a new business appear to be very strongly related to financial considerations.

Following the reasoning above, upon creating a new firm, an entrepreneur will probably earn less than in an alternative wage paying profession. What is more, the income will largely depend on the success of the business and compared to a paycheck, success will not necessarily come at regular intervals. Also there won't be any benefits (e.g. social security in the US) that are commonly connected to an employment.

Additionally, when entering the firm creation process, nascent entrepreneurs will most likely be concerned with the provision of funds necessary to set up the business and to subsequently maintain operations. It was found, that men with greater assets have a higher probability of switching into self-employment, all else being equal. In other words, individuals starting a new business face a liquidity constraint, which will sometimes make an entry into self-employment impossible or at least difficult. (Evans & Leighton, 1989)

This effect of liquidity constraints on entrepreneurship were investigated in further detail by Evans and Jovanovic in 1989. They found that liquidity constraints can reduce financial resources in two different ways. First, some people won't enter into self-employment in the first place and second, individuals who do try to set up their own businesses use less capital because of the constraint. The authors estimated that nascent entrepreneurs only have 1.5 times more financial resources for founding a firm at their disposal than their initial wealth. This means nascent entrepreneurs usually start out their business venture without sufficient financial resources. (Evans & Jovanovic, 1989)

These findings of liquidity constraint theory have been (partially) confirmed in other works by Dunn & Holtz-Eakin (1996) and Holtz-Eakin, Joulfaian & Rosen (1994). The latter found, that receiving an inheritance increases the probability of an entrepreneur staying in business, which points to the existence of capital constraints (Holtz-Eakin, Joulfaian, & Rosen, 1994). The results of Dunn & Holtz-Eakin report that "[...] the financial assets of young men exert a statistically significant, but quantitatively modest effect on the transition into self-employment (Dunn & Holtz-Eakin, 1996, p. 17)". But this second result also shows that the findings regarding liquidity constraint theory are not undisputed, which will be discussed in further detail in section 6.2.

This is the reason why the financial support of start-up enterprises is one of the most important issues in entrepreneurship and will also form a central part of this master thesis. In the next section, I will present my hypotheses regarding the determinants of organizational emergence and financial support.

6 Hypotheses

After examining financial considerations before entering the firm creation process, I will now focus my attention on two main questions: First, what are the determinants of organizational emergence and second, what determines the financial resources of start-ups. Both these questions are connected, as financial support is assumed to be a major determinant (among others) of the survival of newly founded organizations. I will try to formulate hypotheses regarding several factors which most likely influence the emergence of an organization. In the second section of this chapter, I try to establish what determines the financial support of a nascent organization.

6.1 Organizational Emergence

As described in section 4.1.2, organizational emergence is a continuous variable ranging from 0 to 1 reflecting the achievement of four milestones (personal commitment, first sale, hiring of employees and external financing). The independent variable which I assume to influence the degree of organizational emergence are financial support, education, experience, novelty, the completion of a business plan and the time invested in the venture.

6.1.1 Financial Support

The relationship between financial support and organizational emergence has already been partly discussed in section 5, where I presented some findings regarding liquidity constraint theory. In short, this theory states that newly founded businesses face liquidity constraints, which probably pose a hindrance to nascent entrepreneurs. Therefore the probability of becoming an entrepreneur should be an increasing function of wealth. (Evans & Jovanovic, 1989) But as already hinted before, these findings are not undisputed.

It is being argued, that liquidity constraints do not really affect relatively poor individuals as the capital requirements for most start-ups are not that substantial. This would mean that financial constraints are not an issue when attempting entrepreneurship. This theory was also tested and support, which contradicts the liquidity constraint theory. (Kim, Aldrich, & Keister, 2006) Furthermore, with regards to the relationship between wealth and the probability of becoming an entrepreneur it has been found, that this correlation is driven only by very wealthy households (top 3% of the wealth distribution) and that evidence supporting liquidity constraint theory is very weak. (Hurst & Lusardi, 2004) An extension of the Evans and

Jovanovic (1989) model tested the liquidity constraint theory for part-time entrepreneurs, which make up the majority of nascent entrepreneurs. Again, the findings suggest that there are no liquidity constraint present, neither for part-time, nor for full-time entrepreneurs. (Petrova, 2012)

But regardless of these claims that the financial resources of an individual do not impact the chances of entering the start-up process, when asking the entrepreneurs themselves the lack of finances was certainly a concern. When being interviewed, the most common reason named for not setting up a business was that the necessary capital could not be obtained (British Social Attitude Survey) or that most anxieties and concerns in the start-up phase are connected with the question of how to raise the necessary finances (National Survey of the Self-Employed). (Blanchflower & Oswald, 1998)

What is more, most of the findings regarding liquidity theory predict the chances of entry into the firm creation process and not the emergence of a viable organisation, as emphasized by the definition of the variable. All in all, I nonetheless postulate a positive relationship between financial support and the organizational emergence variable.

H 1.1: Financial Support has a positive effect on the chances of organizational emergence of a new firm.

6.1.2 Education

There are several findings linking education to various facets of the establishment of a new firm with very different results. In connection with the organizational emergence variable used in this master thesis, college education is apparently unrelated to any indicator of organizational emergence. (Tornikoski & Newbert, 2007) Another study using profitability as a proxy for establishment of a viable firm also suggests that there is no effect of education. (Davidsson & Honig, 2003)

There is evidence suggesting that advanced formal education has a somewhat positive association with being a nascent entrepreneur, with the limitation that very high and very low levels of education both discourage attempts to start an own firm. (Kim, Aldrich, & Keister, 2006) Similarly, college education has been found to have a statistically significant positive effect on the probability to start a new business venture. (Petrova, 2012) Other findings

confirm this relationship, but only for innovative start-up firms. For imitative ventures the relationship is even negative. (Samuelsson & Davidsson, 2009) A positive effect of education on small business longevity was also being found for highly educated owners who employ large financial capital inputs. But this relationship could also be caused by financial inputs. (Bates, 1990)

Despite the findings using the same operationalisation of the organizational emergence variable from Tornikoski & Newbert (2007), I postulate a positive effect of education on the organizational emergence variable. This is because the study from Tornikoski & Newbert (2007) only uses a binary operationalisation of education, reflecting if the respondent received a college degree or not, which might be too broad.

H 1.2: Education has a positive effect on the chances of organizational emergence of a new firm.

6.1.3 Experience

One construct that is regularly examined in connection with the emergence of new firms and transition into self-employment is experience. Tornikoski & Newbert (2007) found that although managerial experience has a significant positive relation to more than one dimension of organizational emergence, the results are not robust across different models, suggesting only limited importance in the start-up process. Industry experience has no relation to any indicator of organizational emergence. (Tornikoski & Newbert, 2007) The positive relationship for managerial experience is being confirmed by other researchers, whereas full-time experience seems to be negatively associated with start-up attempts. (Kim, Aldrich, & Keister, 2006)

These findings hint at a positive relationship between managerial experience and organizational emergence. With regards to the industry experience variable, Delmar & Shane (2006) listed studies examining the effect of industry experience. In 7 out of 10 studies which examined the industry experience they found a positive effect of this variable on the survival of a firm, which I will also postulate in my hypothesis. (Delmar & Shane, 2006) Full-time experience is seen to have no relation to organizational emergence. It is hypothesized that employment experience cannot substitute experience gained from self-employment. (Parker, 2004, p. 72)

H 1.3: Managerial experience has a positive effect on the chances of organizational emergence of a new firm.

H 1.4: Full-Time experience has a no effect on the chances of organizational emergence of a new firm.

H 1.5: Industry experience has a positive effect on the chances of organizational emergence of a new firm.

6.1.4 Novelty

When looking at the chances of survival of a new firm, literature suggests that the novelty of a business' offering also has an effect on the outcome. Novelty of a new firms' product or service offering is closely connected to the overall innovativeness of a new firm and both are being determined by individual factors (e.g. education, employment status and self-confidence) and the environment the firm operates in. (Koellinger, 2008)

The effect of novelty can already be seen when looking at the start-up process. Samuelsson & Davidsson (2009) found out that the venture creation process of innovative businesses differs from the creation process of firms based on imitative offerings. On average, innovative firms have completed more gestation activities (e.g. preparing a business plan, applying for a loan or renting a location) in one observation period than imitative ventures. Also the effects of human (education) and social capital (reinforcement from the environment) are different. (Samuelsson & Davidsson, 2009)

But still the direction of the effect of the novelty of a business' offering on the organizational emergence variable cannot be determined from these findings. Just because an innovative venture completes more activities within one observation period it does not necessarily mean that these venture will be more successful.

In fact, research suggests that the mortality risk of an organization is positively associated with the degree of novelty in the market, production and management (Shepherd, Douglas, & Shanley, 2000). This positive relationship can be explained by a number of factors including higher development costs and higher demand uncertainty (Renko, 2012). Also the higher complexity of such ventures and the higher degree of effort necessary to keep the firm alive

causes this relation. This would also explain the previously mentioned higher number of gestation activities for innovative ventures. (Samuelsson & Davidsson, 2009). Therefore I will hypothesize a negative relationship between organizational emergence and novelty of a product/service offering.

H 1.6: Novelty of the product/service has a negative effect on the chances of organizational emergence of a new firm.

6.1.5 Completion of a Business Plan

The effect of writing a business plan is subject to extensive discussion in the literature. While some researchers suggest that business planning is not a worthwhile activity that takes time away from more valuable activities, there are also opposing views that emphasize business planning as an activity that improves the subsequent (planned) actions. Following Delmar and Shane (2003) I propose that the completion of a business plan has a positive effect on the organizational emergence variable. They observed that business planning facilitates product development in new ventures, facilitates venture-organizing activities and, in line with this hypothesis, reduces the hazard of new venture disbanding. (Delmar & Shane, 2003)

H 1.7: Completion of a business plan has a positive effect on the chances of organizational emergence of a new firm.

6.1.6 Time Invested

The effect of the time invested in the start-up venture is relatively straight forward. The more hours the team members spend working on the new firm, the more likely it is that the start-up effort is going to be a success. This hypothesis is also in line with previous findings from Reynolds (2007) and Renko (2012).

H 1.8: Time invested (by the nascent entrepreneur) has a positive effect on the chances of organizational emergence of a new firm.

6.1.7 Control Variables

I will control for the age and gender of a respondent, both of which have been hypothesized to be a factor influencing the probability of establishing a firm. (Davidsson & Honig, 2003). Furthermore, I will also include a binary control variable reflecting whether the firm operates in an asset-intensive industry (retailing, restaurant, manufacturing, construction, agriculture, mining, wholesale distribution, transportation and utilities) or in a service-oriented industry (consumer service, health services, finance, insurance, real estate and business consulting services). (Gartner, Frid, & Alexander, 2012) Finally I will also include a control variable for team size to reflect if there are any team effects on the organizational emergence variable. Descriptive statistics to all control variables are included in the Appendix C.

6.2 Financial Support

The possible determinants of financial support that I will present in this section are the novelty of the venture, human capital (i.e. education and experience) of the founder and the completion of a business plan. In contrast to the various facets of organizational emergence, the determinants of the financial support of a nascent entrepreneur are rarely explored in literature.

I will base most of my reasoning behind these hypotheses on the "legitimacy perspective" emphasized by Tornikoski and Newbert (2007) in which they state that, "[...] in order for nascent organizations to succeed, they must be perceived as "legitimate" to those institutions and individuals with which they hope to engage in exchanges. (Tornikoski & Newbert, 2007, p. 312)" This legitimacy perspective translates in convincing the external audiences that they run a viable organisation. (Tornikoski & Newbert, 2007) Applied to the financial support of nascent organisation it means persuading the resource holders, that the firm is a worthwhile investment. This should be especially true for external financing as this form of financing often requires convincing another person from the success potential of the firm. This is why I will test my hypotheses not only for the total amount of financial support, but also for the amount of external financial support.

6.2.1 Human Capital

A potential financier will consider the characteristics of the firm, as well as the characteristics of the owners when deciding whether or not to invest in a start-up. In this context, human capital (i.e. education and experience) can act as a signalling device with which nascent entrepreneurs can convince the resource gatekeepers that their venture is a legitimate business to invest in.

According to Cassar (2004) the major decision makers' characteristics have no impact on start-up financing and offers two explanations for this relationship. first, that different founders do not have different financing preferences and second, that firm characteristics are more important for financiers than owner characteristics. (Cassar, 2004) On the other hand, there are several findings that confirm that there are certain connections between financing and the characteristics of the owner. For example, higher levels of education were found to have a significant positive relationship with acquiring external financial resources. (Gartner, Frid, & Alexander, 2012) When Storey (1994) looked at the personal characteristics of nascent entrepreneurs and bank lending, the only personal characteristic of the entrepreneur which was significant was the QUALIF-variable, which suggests that individuals with a formal educational qualification are more likely to obtain a bank loan. A degree didn't have any effect on the chances of obtaining a bank loan. Otherwise, he didn't include any of the experience variables used in this thesis in the model. (Storey, 1994) In other findings, it was found that highly educated owners are most likely to create firms that remained in operation. (Bates, 1990) In Bates' study of the firm creation process of Korean and Chinese immigrants, he found that college-educated non-minorities received larger loans than other non-minority borrowers, in difference to the Korean and Chinese immigrants where no such difference was present. (Bates, 1997) This is why I will postulate a positive influence of education on the financial support of the new venture, which should be even stronger for external financing.

Experience as a determinant to financial support was rarely included in the various models. In the before mentioned study of Korean and Chinese immigrants, Bates also found that managerial experience of non-minorities was related to receiving larger loans. (Bates, 1997) Industry experience is also assumed to have a positive effect on the amount of external financing. (Gartner, Frid, & Alexander, 2012) Similar to the reasoning with regards to full-time work experience and organizational emergence I postulate that work experience has no effect on the amount of financial support, as it cannot substitute self-employment experience.

H 2.1: Education has a positive effect on the amount of financial support.

H 2.2: Industry Experience has a positive effect on the amount of financial support.

H 2.3: Full-Time Experience has no effect on the amount of financial support.

H 2.4: Managerial Experience has a positive effect on the amount of financial support.

6.2.2 Completion of a Business Plan

A business plan could potentially have a positive effect on the amount of financial support, as financial institutions often require a business plan in order to evaluate the potential of a new venture. This would translate in a positive relationship between completing a business plan and financial support, whereas the relationship should be even stronger for external financial support. Similarly Gartner, Frid & Alexander (2012) tested if nascent entrepreneurs who have completed financial projections (i.e. income statements, cash-flow statements and breakeven analyses) acquire more external financing compared to entrepreneurs who did not prepare those projections. Although the hypothesis found no support, they stated that entrepreneurs who completed these statements were 1.5 times more likely to acquire external funds. Nonetheless I hypothesize that there is a positive relationship between the completion of a business plan and the amount of financial support, as a business plan possibly presents a more differentiated view of the new firm and increases the chances of approval of the financing.

In support of this suggested direction, in the paper of Delmar and Shane (2003), the authors found that business planning facilitates venture organizing activities. Among others, venture organizing activities comprise of the purchasing of raw materials, inventory, supplies or components for start-up, the purchasing (leasing, renting) of major items like equipment, facilities or property and marketing or promotion efforts. (Delmar & Shane, 2003) All these activities require financial resources and the positive relationship between the variables suggest also a positive relationship between completion of a business plan and the financial support of a new firm.

H 2.5: The completion of a business plan has a positive effect on the amount of financial support.

6.2.3 Novelty

"[...] in order to be perceived as a legitimate exchange partner, a nascent organization must convince resource gatekeepers that it has identified a product-market opportunity that will allow it to compete with incumbent organizations. (Tornikoski & Newbert, 2007, p. 318)" This statement reflects the problem of novel ventures looking for financial support very well. As outlined above, in order to obtain financial resources, entrepreneurs have to convince these "resource gatekeepers" that their venture is a worthwhile investment. This is a difficult task for all organisations, but when it comes to novel product and services it is even more difficult as the potential lender does not know which benefits a novel product or service holds. For obtaining internal financing this might not be a problem, as convincing family and friends to provide capital for a novel venture is probably relatively easy. But when it comes to raising external capital, it is far more difficult to convince an executive at a bank or another form of "resource gatekeeper" from the success potential of the venture. This is why I propose a negative relationship between novelty and the financial support of a nascent entrepreneur, which might be even stronger when looking at the external financial support of a nascent entrepreneur.

H 2.6: Novelty of the product/service has a negative effect on the amount of financial support.

6.2.4 Time Invested

Similar to the effect postulated in hypothesis 1.8, in which I assumed a positive effect of the amount of time invested on the chances of organizational emergence, I will also hypothesize a positive effect of the invested on the amount of financial support. When a nascent entrepreneur has spend more time working on his venture, it is likely that he also invested some time in trying to obtain financial resources.

H 2.7: Time invested (by the nascent entrepreneur) has a positive effect on the amount of financial support

6.2.5 Control Variables

Although evidence suggest otherwise (Coleman, 2000), I will control for discrimination against women with regards to financial support. Additionally I will control for the age of the respondent, team size and the industry (service-oriented or asset-intensive) in which the firm operates in. Furthermore, similar to Gartner, Frid & Alexander (2012) I will include registration as a legal entity as a control variable. In the PSED dataset this variable is the basis for the distinction between informal and formal financial support. Controlling for the influence of this variable on the amount of external financial support can possibly reveal if registration as a legal entity is seen as some sort of legitimization of the new business. Again, all descriptive statistics can be found in the Appendix C.

7 Results

All hypotheses for organizational emergence and financial support will be tested using three different regression methods to ensure that the results are robust. Besides the OLS regression, I will use regression with robust standard errors and regression using robust weights. The results for both dependent variables will be presented in this section, whereas the implications will be discussed in the following chapter.

7.1 Organizational Emergence

The hypotheses for organizational emergence will be tested using three different model groups with different operationalisation of the financial support variable. The first model group (models A - C) includes the total amount of financial support, the second model group (models D - F) informal and formal financial support and the third model group (models G - I) internal and external financial support. This approach is due to concerns of multicollinearity between these variables. The results of the pairwise correlations of the various forms of financial support included in the Appendix D raise concern regarding the inclusion of all forms of financial support in one regression (e.g. correlation of about 84% between informal and internal financial support).

In tables 12 - 14 the results of the regression analyses explaining organizational emergence are displayed. In general, the results are robust across the different regression methods, with only minor deviation of the results for the robust weighted regression (model C, F & I). The models explain between 12.15% and 15.45% of the variance in organizational emergence, reflected by the adjusted R^2 value in each table. I find support for three of my hypotheses, namely H 1.1 (financial support), H 1.4 (full-time experience) and H 1.6 (novelty). This means that there is no influence of education, industry experience, managerial experience, the completion of a business plan or the amount of time invested on the chances of organizational emergence. Additionally, none of the control variables has any influence on the dependent variable.

H 1.1 hypothesised a positive effect of financial support on the chances of organizational emergence. This relationship is being confirmed for each form of financial support included in the analysis. The results will be discussed in greater detail below the tables 12 - 14.

With regards to H 1.4, my hypothesis stating that there is no significant effect of full-time experience on the chances of organizational emergence is also being confirmed.

As previously mentioned, a significant relationship exists between organizational emergence and the novelty of the product or service, supporting H 1.6. As displayed in the tables 12 - 14, novelty has a highly significant negative effect on the chances of organizational emergence of a new firm. The coefficients range between -0.182 and -0.220 depending on the regression method and which form of financial support is included in the model. This means that the chances of organizational emergence are between 18.2% and 22% lower for firms offering products or services that no other business offers and which all customers find new and unfamiliar.

	Model A	Model B	Model C
<i>Organizational Emergence</i>			
Financial Support (Total)	0.0400*** (0.00403)	0.0400*** (0.00428)	0.0481*** (0.00441)
Education	-0.0000334 (0.00765)	-0.0000334 (0.00773)	-0.000586 (0.00837)
Industry Experience	-0.00161 (0.00160)	-0.00161 (0.00157)	-0.00229 (0.00175)
Full-Time Experience	-0.000654 (0.00211)	-0.000654 (0.00217)	-0.000222 (0.00231)
Managerial Experience	-0.00114 (0.00224)	-0.00114 (0.00228)	-0.00256 (0.00245)
Business Plan Completed (0/1)	-0.0242 (0.0290)	-0.0242 (0.0299)	-0.0439 (0.0318)
Novelty	-0.182*** (0.0500)	-0.182*** (0.0518)	-0.199*** (0.0548)
Time Invested (in 100 hours)	0.000148 (0.000301)	0.000148 (0.000355)	0.000168 (0.000330)
<i>Control Variables</i>			
Team Size	-0.00179 (0.0161)	-0.00179 (0.0159)	-0.00608 (0.0176)
Industry (0/1)	0.0306 (0.0286)	0.0306 (0.0281)	0.0375 (0.0313)
Gender (0/1)	0.0519 (0.0293)	0.0519 (0.0292)	0.0651* (0.0321)
Age	0.00228 (0.00169)	0.00228 (0.00176)	0.00293 (0.00185)
_cons	0.259* (0.126)	0.259* (0.127)	0.215 (0.138)
N	788	788	788
adj. R^2	0.1335	0.1335	0.1545
F-Statistic	11.11	11.08	12.98
Prob > F	1.10e-20	1.22e-20	1.59e-24

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Model A is unadjusted / Model B uses robust standard errors / Model C uses robust weighted regression.

Table 12: Regression Analysis Organizational Emergence & Total Financial Support

Naturally, the total amount of financial support has the largest influence on the dependent variable compared to the effect of formal, informal, internal or external financial support. The results show that with an additional amount of 1,000\$ of any form of financial support, the chances of organizational emergence increase between 4% and 4.8%, depending on the regression method.

	Model D	Model E	Model F
<i>Organizational Emergence</i>			
Financial Support (Formal)	0.0241*** (0.00307)	0.0241*** (0.00250)	0.0240*** (0.00337)
Financial Support (Informal)	0.0224*** (0.00387)	0.0224*** (0.00392)	0.0247*** (0.00425)
Education	0.000934 (0.00765)	0.000934 (0.00776)	0.00158 (0.00839)
Industry Experience	-0.00206 (0.00160)	-0.00206 (0.00159)	-0.00260 (0.00176)
Full-Time Experience	-0.000393 (0.00212)	-0.000393 (0.00216)	-0.0000883 (0.00232)
Managerial Experience	-0.00159 (0.00225)	-0.00159 (0.00229)	-0.00225 (0.00247)
Business Plan Completed (0/1)	-0.0353 (0.0292)	-0.0353 (0.0298)	-0.0436 (0.0321)
Novelty	-0.196*** (0.0500)	-0.196*** (0.0516)	-0.217*** (0.0548)
Time Invested (in 100 hours)	0.0000998 (0.000302)	0.0000998 (0.000353)	0.000125 (0.000331)
<i>Control Variables</i>			
Team Size	-0.00459 (0.0162)	-0.00459 (0.0162)	-0.00489 (0.0178)
Industry (0/1)	0.0312 (0.0286)	0.0312 (0.0283)	0.0362 (0.0314)
Gender (0/1)	0.0414 (0.0294)	0.0414 (0.0293)	0.0494 (0.0322)
Age	0.00190 (0.00169)	0.00190 (0.00173)	0.00220 (0.00186)
_cons	0.401** (0.127)	0.401** (0.128)	0.383** (0.139)
<i>N</i>	788	788	788
adj. <i>R</i> ²	0.1318	0.1318	0.1215
F-Statistic	10.19	13.50	9.374
Prob > F	4.91e-20	2.70e-27	3.12e-18

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Model D is unadjusted / Model E uses robust standard errors / Model F uses robust weighted regression.

Table 13: Regression Analysis Organizational Emergence & Formal & Informal Financial Support

Formal and informal financial support have also a highly significant positive effect on organizational emergence. Unsurprisingly, the coefficients are lower compared to the total amount of financial support, around 0.024 for formal financial support and between 0.0224 and 0.0247 for informal financial support. The results indicate that formal financial support has a slightly stronger positive influence than informal financial support on the chances of organizational emergence.

	Model G	Model H	Model I
<i>Organizational Emergence</i>			
Financial Support (External)	0.0186*** (0.00327)	0.0186*** (0.00280)	0.0183*** (0.00357)
Financial Support (Internal)	0.0275*** (0.00421)	0.0275*** (0.00451)	0.0320*** (0.00460)
Education	0.000379 (0.00760)	0.000379 (0.00776)	0.000233 (0.00831)
Industry Experience	-0.00146 (0.00159)	-0.00146 (0.00157)	-0.00198 (0.00174)
Full-Time Experience	0.000113 (0.00210)	0.000113 (0.00218)	0.000723 (0.00230)
Managerial Experience	-0.000958 (0.00222)	-0.000958 (0.00231)	-0.00204 (0.00243)
Business Plan Completed (0/1)	-0.0330 (0.0290)	-0.0330 (0.0295)	-0.0426 (0.0317)
Novelty	-0.194*** (0.0497)	-0.194*** (0.0513)	-0.220*** (0.0543)
Time Invested (in 100 hours)	0.000175 (0.000299)	0.000175 (0.000364)	0.000197 (0.000327)
<i>Control Variables</i>			
Team Size	-0.00228 (0.0160)	-0.00228 (0.0156)	-0.00410 (0.0175)
Industry (0/1)	0.0346 (0.0284)	0.0346 (0.0280)	0.0429 (0.0311)
Gender (0/1)	0.0504 (0.0291)	0.0504 (0.0291)	0.0568 (0.0319)
Age	0.00188 (0.00168)	0.00188 (0.00173)	0.00218 (0.00184)
_cons	0.320* (0.125)	0.320* (0.127)	0.301* (0.137)
<i>N</i>	788	788	788
adj. <i>R</i> ²	0.1436	0.1436	0.1433
F-Statistic	11.15	13.40	11.13
Prob > F	3.68e-22	4.61e-27	4.06e-22

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Model G is unadjusted / Model H uses robust standard errors / Model I uses robust weighted regression.

Table 14: Regression Analysis Organizational Emergence & External/Internal Financial Support

The results of internal and external financial support show a similar relation, both variables have a highly significant positive effect on organizational emergence. Internal financial support has a stronger positive influence with each 1,000\$ of internal financial support increasing the chances of organizational emergence between 2.75% and 3.2%. In comparison, 1,000\$ of external financial support increase the chances only by about 1.86%.

7.2 Financial Support

First, I have examined if there are any selection bias regarding the receipt of financial support. Therefore I have estimated a heckman model including my variables of interest, except full-time experience for which I have hypothesized it has no effect on financial support. As selection variable I have used a binary variable reflecting whether or not a person has received financial support. According to the results there is no problem of self-selection for neither form of financial support examined (total, internal & external). The detailed results can be found in the Appendix E.

In the next step, I have estimated the OLS regressions for total, internal and external financial support using the three different regression methods. The results of the analyses can be found in tables 15 - 17. The results are robust across the unadjusted models (models A, D & F) and the models using robust standard errors (models B, E, G), whereas there is some deviation with regards to the magnitude of the effect in comparison to the robust weighted regression (models C & H). But as all regression methods agree on the direction and significance of the effects, the results can be analyzed further. The models explain between 10.98% and 23.77% of the variance in financial support, with the robust weighted regression reporting the considerably higher levels of R^2 than the two other regression methods (R^2 between 10.98% and 15.74%).

All in all, I find full support for two of my hypotheses, namely 2.3 (full-time experience) and 2.5 (Completion of a business plan). The completion of a business plan has a positive effect and full-time experience has no effect on the amount of financial support. Furthermore I have found partial support for hypotheses 2.4 (managerial experience), 2.6 (novelty) and 2.7 (time invested) in connection with the total amount of financial support and internal financial support. The control variables gender, age and legal registration have an effect on the total amount of financial support and the internal financial support, whereas only legal registration has an effect on the external financial support. The results will be examined in further detail below the respective tables.

	Model A	Model B	Model C
<i>Financial Support (Total)</i>			
Education	0.125 (0.0658)	0.125 (0.0649)	0.127** (0.0462)
Industry Experience	-0.00917 (0.0138)	-0.00917 (0.0141)	0.0129 (0.00970)
Full-Time Experience	0.0212 (0.0182)	0.0212 (0.0200)	0.00719 (0.0128)
Managerial Experience	0.0597** (0.0192)	0.0597** (0.0198)	0.0448*** (0.0135)
Business Plan Completed (0/1)	0.785** (0.251)	0.785** (0.245)	0.668*** (0.177)
Novelty	-1.444*** (0.428)	-1.444*** (0.437)	-0.915** (0.301)
Time Invested (in 100 hours)	0.00700** (0.00259)	0.00700*** (0.00197)	0.00395* (0.00182)
<i>Control Variables</i>			
Team Size	0.243 (0.139)	0.243 (0.151)	0.490*** (0.0975)
Industry (0/1)	-0.321 (0.247)	-0.321 (0.249)	-0.497** (0.173)
Gender (0/1)	-0.653** (0.252)	-0.653** (0.250)	-0.760*** (0.177)
Age	-0.0465** (0.0145)	-0.0465** (0.0176)	-0.0177 (0.0102)
Legal Registration (0/1)	1.820*** (0.250)	1.820*** (0.245)	1.493*** (0.175)
_cons	7.302** (1.054)	7.302** (1.050)	6.980*** (0.741)
N	788	788	788
adj. R^2	0.1574	0.1574	0.2377
F-Statistic	13.25	14.06	21.45
Prob > F	4.58e-25	1.05e-26	4.14e-41

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Model A is unadjusted / Model B uses robust standard errors / Model C uses robust weighted regression.

Table 15: Regression Analysis Financial Support (Total)

According to the results of the regression, the total amount of financial support is being determined by managerial experience, the completion of a business plan, novelty and the time invested. The completion of a business plan increases the total amount of financial support between 66.8% and 78.5%. Managerial experience and the time invested in the venture have also a significant positive effect on the amount of financial support, whereas the total amount of financial support is between 91.5% and 144.4% lower for products and services with which the customers are completely unfamiliar and which are not offered in the marketplace. The legal registration of the firm has a very strong positive effect on the amount of financial support of a firm, whereas being female and older is negatively related to this measure.

	Model D	Model E
	<i>Financial Support (External)</i>	
Education	0.0619 (0.0849)	0.0619 (0.0830)
Industry Experience	-0.00691 (0.0178)	-0.00691 (0.0182)
Full-Time Experience	-0.0209 (0.0235)	-0.0209 (0.0237)
Managerial Experience	0.0374 (0.0248)	0.0374 (0.0253)
Business Plan Completed (0/1)	1.062** (0.324)	1.062*** (0.315)
Novelty	-0.306 (0.553)	-0.306 (0.548)
Time Invested (in 100 hours)	0.00178 (0.00335)	0.00178 (0.00371)
<i>Control Variables</i>		
Team Size	0.314 (0.179)	0.314 (0.194)
Industry (0/1)	-0.506 (0.318)	-0.506 (0.325)
Gender (0/1)	-0.473 (0.325)	-0.473 (0.318)
Age	-0.0215 (0.0187)	-0.0215 (0.0186)
Legal Registration (0/1)	2.395*** (0.322)	2.395*** (0.304)
_cons	1.745 (1.361)	1.745 (1.336)
N	788	788
adj. R^2	0.1098	0.1098
F-Statistic	9.088	9.465
Prob > F	1.66e-16	2.73e-17

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Model D is unadjusted / Model E uses robust standard errors

Table 16: Regression Analysis Financial Support (External)

In contrast to the results of the other operationalisations of financial support, only one dependent variable has a significant effect on the amount of external financial support. The completion of a business plan increases the amount of external financial support by 106.2%. Controlling for legal registration reveals, that legally registered businesses have about 240% more external funds at their disposal than not registered businesses.

	Model F	Model G	Model H
<i>Financial Support (Internal)</i>			
Education	0.120 (0.0667)	0.120 (0.0653)	0.122** (0.0447)
Industry Experience	-0.0140 (0.0140)	-0.0140 (0.0141)	0.00971 (0.00938)
Full-Time Experience	0.0180 (0.0184)	0.0180 (0.0198)	0.00767 (0.0124)
Managerial Experience	0.0523** (0.0195)	0.0523** (0.0198)	0.0442*** (0.0130)
Business Plan Completed (0/1)	0.643* (0.255)	0.643** (0.249)	0.600*** (0.171)
Novelty	-1.392** (0.434)	-1.392** (0.436)	-0.898** (0.291)
Time Invested (in 100 hours)	0.00735** (0.00263)	0.00735*** (0.00187)	0.00438* (0.00176)
<i>Control Variables</i>			
Team Size	0.128 (0.141)	0.128 (0.159)	0.435*** (0.0943)
Industry (0/1)	-0.303 (0.250)	-0.303 (0.251)	-0.453** (0.168)
Gender (0/1)	-0.588* (0.255)	-0.588* (0.252)	-0.666*** (0.171)
Age	-0.0383** (0.0147)	-0.0383* (0.0175)	-0.0142 (0.00986)
Legal Registration (0/1)	1.564*** (0.253)	1.564*** (0.248)	1.286*** (0.170)
_cons	7.161*** (1.069)	7.161*** (1.065)	6.766*** (0.717)
N	788	788	788
adj. R^2	0.1192	0.1192	0.2134
F-Statistic	9.872	10.70	18.80
Prob > F	3.89e-18	7.61e-20	4.70e-36

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Model F is unadjusted / Model G uses robust standard errors / Model H uses robust weighted regression.

Table 17: Regression Analysis Financial Support (Internal)

The regression analysis of the amount of internal financial support shows a very similar picture compared to the determinants of the total amount. Managerial experience, time invested and the completion of a business plan have a positive influence on the amounts of internal financial support, whereas novelty exerts a strong negative influence. The control variables reveal a negative effect of being a woman and older on this form of financial support, whereas legal registration, on the other hand, has a strong positive effect.

Possibly the most notable finding is that the completion of a business plan has a very strong positive influence on all forms of financial support, between 60% and 106.2%, depending on the regression method and the form of financial support. Therefore I will evaluate the effect of the completion of a business plan on the total and external amount of financial support with the help of a treatment model.

	Model I	Model J
	<i>Financial Support (Total)</i>	<i>Financial Support (External)</i>
main		
Education	-0.112 (0.0978)	-0.508** (0.166)
Industry Experience	-0.00139 (0.0198)	-0.0121 (0.0342)
Managerial Experience	0.0492* (0.0229)	0.0440 (0.0395)
Business Plan Completed (0/1)	6.577*** (0.456)	14.27*** (0.317)
_cons	5.326*** (1.387)	0.669 (2.395)
bpcompleted		
Education	0.104*** (0.0283)	0.0988*** (0.0235)
Industry Experience	-0.00385 (0.00580)	0.000628 (0.00481)
Managerial Experience	-0.00546 (0.00684)	-0.00283 (0.00563)
Novelty	-0.109 (0.141)	-0.0455 (0.0553)
Time Invested (in 100 hours)	0.00105 (0.000996)	0.0000463 (0.000245)
Legal Registration (0/1)	0.682*** (0.0817)	0.197*** (0.0564)
_cons	-1.328** (0.407)	-0.833* (0.351)
athrho		
_cons	-1.210*** (0.0963)	-3.139*** (0.234)
lnsigma		
_cons	1.477*** (0.0403)	2.023*** (0.0323)
N	611	611
adj. R^2		
F-Statistic		
Prob > F	7.76e-46	0

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 18: Treatment Model Financial Support (Total & External)

I have used a filter variable excluding all respondents who did not start a business plan in the first place. The results (see Table 18) show that there is a selection effect and that the sample selection process (business plan completed 0/1) is positively related to education and registration as a legal entity. This means, that entrepreneurs with more education and who have legally registered their business are more likely to complete a business plan. The estimated treatment effect shown by the coefficient associated with the completion of a business plan reflects that, other things being equal, entrepreneurs who completed a business plan receive more financial support than entrepreneurs that did not complete a business plan. The effect is even stronger for external financial support.

8 Conclusion

Regarding organizational emergence, I have found a significant effect of financial support and novelty on this variable, resulting in support for hypotheses H 1.1 and H 1.6. Furthermore, the results support my hypothesis that full-time experience has no effect on organizational emergence (H 1.4). The hypotheses for education (H 1.2), managerial experience (H 1.3), industry experience (H 1.5), the completion of a business plan (H 1.7) and the time invested (H 1.8) were not supported. The control variables were also insignificant.

The support for the positive effect of financial support is in line with the assumptions of liquidity constraint theory, stating that there are binding capital constraints when trying to establish a new firm. An important difference is, however, that the operationalisation of the organisational emergence variable relates to the establishment of a viable organisation, whereas liquidity theory emphasizes entry into self-employment. In general, most empirical studies focus on factors influencing the entry into self-employment, whereas I find the more interesting question what "causes" the establishment of a successful firm. The operationalisation of the organisational emergence variable adopted in this master thesis, is in my opinion a step in the right direction. The variable seems to be a good indicator when used as a proxy for the establishment of a firm, but personal commitment, first sale, the hiring of employees and the receipt of external financing do not necessarily result in a successful firm. This is why I would suggest a stronger emphasis on the identification of successful firms and their characteristics for future research.

Novelty, on the other hand, has a strong negative influence on the chances of organizational emergence. As discussed in 6.1.4, novelty seems to have a negative impact because of the higher risk and higher costs associated with bringing a new product or service to the market, as well as the complexity associated with unique products. Such findings may be discouraging for innovative entrepreneurs, as the chances of establishing a new firm based on a novel product or service seem to be considerably lower. But when such a product/service is able to successfully enter a market, the possibility of becoming a 'Superstar' is supposedly much higher than with an already existing variation of an offering. This potential outcome should also be taken into account when examining the downside risk of novelty.

The examination of my financial support hypotheses yielded support for two hypotheses. Again, full-time experience seems to have no effect on the variable of interest (H 2.3), whereas the completion of a business plan has a strong positive effect on any form of financial support (H 2.5). I found partial support for my hypotheses regarding managerial experience (H 2.4), novelty (H 2.6) and time invested (H 2.7), whereas I found no support for my hypothesised relationships regarding education (H 2.1) and industry experience (H 2.2).

The positive relationship between completion of a business plan is robust across the various regression methods and is present when looking at the total amount of financial support, as well as internal and external financing. Additionally, there is a positive treatment effect of completion of a business plan on total and external financial support. As predicted, the effect is stronger for external financial support compared to the two other forms tested. These findings show the relative importance of a business plan when trying to obtain financing for the new firm.

As previously mentioned, the reason behind this is probably, that business plans provide potential lenders with a more differentiated view of the firm and increase the chances of approval of financial support, given the business plan is sound. This explains the very strong influence on external financing of about 106% more of external financial support for persons who completed a business plan. But the coefficients are still very strong when looking at internal financing, with persons who completed a business plan receiving between 60% and 64.3% more internal financing than person who did not complete a plan. A possible explanation is that when a nascent entrepreneur drafts a business plan, he has to consider certain critical aspects of his new business (e.g. financial situation) in order to complete the plan. This may provide the entrepreneur with a more rational and objective view of the business, which allows him also to invest more of his personal resources into the venture. The positive effect of completing a business plan could also be partially caused by some sort of selection process in which certain individuals who started drafting a business plan realised along the way that their envisioned venture cannot be implemented and simply drop out of the venture creation process.

Another interesting finding is, that the results of the treatment model show that the completion of a business plan is also influenced by education with more educated people being more likely to complete a business plan.

Out of the control variables which I have examined, the legal registration of a business had also a very strong positive effect on each form of financial support. The amount of financial support was between 128.6% and 239.5% higher for persons who registered their business legally. These findings may indicate that the registration of a business also serves as a sort of legitimization of the business towards resource holders. There was also a positive relationship between the registration as a legal entity and the completion of a business plan.

All in all, my results suggest, that the financial support of a firm indeed has an effect on the chances of organizational emergence, contrary to recent findings in entrepreneurship literature. As previously mentioned, the concept of organizational emergence has rarely been explored in the literature, which focuses more on the entry into self-employment and not on the establishment of a viable firm. This might also be the reason why financial support is regarded to have only limited importance in the venture creation process. In my opinion, this is an oversight which should be corrected by future research. Furthermore, my analysis of the determinants of organizational emergence suggest, that the characteristics of the entrepreneur are not directly related to the success of a firm.

Financial support, in turn, seems to have a strong connection to the completion of a business plan, which might also indicate an indirect relation between organizational emergence and completion of a business plan. I also find the determinants of financial support being somehow overlooked in the entrepreneurship literature, which might also be an interesting avenue for future research. Also, in this instance, the results suggest that entrepreneurial characteristics do not affect the amount of financial support, which also indicates that there is no indirect effect on organizational emergence with financial support as a mediator.

With the entrepreneurial characteristics not being related to organizational emergence, it might be interesting for future research to examine the effects of institutional factors on these variables.

Besides the (hopefully useful) insights provided by my empirical analysis, I have also discussed differences in entrepreneurial activity between the European Union and the United States in Chapter 2. Whereas the US is probably the global leader in terms of entrepreneurialism, the European Union lags behind as the cultural and structural factors do not provide entrepreneurs with the same conditions than in the US. In some instances, this should not necessarily be regarded as a deficit, as for example the labour law in the European Union is more protective of its employees and there is a certain trade-off connected with the decision to be more protective of either employers or employees. In my opinion, there are two important factors in which the EU needs to catch up in order to be able to compete with the US.

First, the venture capital industry is less developed than in the US. Although the European venture-capital industry grew by an average of 23% a year between 2003 and 2006 (compared to 0.3% in the US), in 2007 venture-capital investments in Europe accounted only for 0.1% of the GDP, whereas in the US this figure amounted to 0.22% (The Economist, 2009).

Second, the legal system should try to make the transition into self-employment easier. Depending on the particular country, establishing a business can cost up to 8,115\$ (Greece), can take 115 days (Spain) and requires 145.3% of the per capita income as minimum capital (Greece). Of course, not all European countries require such lengthy and costly procedures, but there are only a few countries (e.g. Sweden, UK and Denmark) having establishment procedures which can be compared to the US in terms of cost and duration. (Poole & Wall, 2004) This also displays another problem, the missing legislative harmonization within the European Union. This issue has also been recognized by the European Commission, as another aim of the mentioned Entrepreneurship 2020 Action Plan is to reduce the time it takes to start a business and obtain the necessary licenses and permits. (European Commission, 2013b) Similar to the effects of SMEs and newly founded firms on the US economy discussed in section 2, this could also have a positive effect on the economic growth and the creation of new jobs.

All in all, the European Union is, in my opinion, on the right track to catch up with the US and given the planned measures are implemented successfully, maybe the EU will develop the highly praised US entrepreneurial spirit for themselves.

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Appendix

Appendix A

Recoding Scheme Variable "Education

AH6 - FH6: What is the highest level of education you have completed — (up to the eighth grade, some high school, high school degree, technical or vocational degree, some college, community college degree, a bachelor's degree, some graduate training, a master's degree, or a law degree, medical degree, or Doctorate?)

Coding (PSED)	Description	Education (in years)
1	Up to eight grade	8
2	Some high school	10
3	High school degree	12
4	Technical or vocational degree	14
5	Some college	14
6	Community college degree	14
7	Bachelors degree	16
8	Some graduate training	17
9	Masters degree	18
10	Law, MD, PHD, EDD, degree	19

Appendix B

Recoding Scheme Variable "Novelty"

Step 1:

AS1 - FS1: Will all, some, or none of your potential customers consider this product or service new and unfamiliar?

Coding (PSED)	Description	Recoded
1	All	3
5	Some	2
6	None	1

Step 2:

AS2 - FS2: Right now, are there many, few, or no other businesses offering the same products or services to your potential customers?

Coding (PSED)	Description	Recoded
1	Many	1
5	Few	2
6	No Other	3

Step 3:

$$\frac{(\text{Recoded Value Step 1} + \text{Recoded Value Step 2}) - 2}{4}$$

Appendix C

Descriptive Statistics Control Variables

Gender

Gender	Case Reports (Absolute)	Case Reports (Percent)
Male (1)	684	61.62
Female (2)	426	38.38
Total (n)	1,110	100

Age

	Total (n)	Std. Dev.	Min	Q1	Mean	Q3	Max
Age	1,110	13.94	18	35	44.76	54	99

Teamsize

Teamsize	Case Reports (Absolute)	Case Reports (Percent)
1	598	53.87
2	386	34.77
3	66	5.95
4	51	4.59
5	9	0.81
Total (n)	1,110	100

Industry

Industry	Case Reports (Absolute)	Case Reports (Percent)
Asset-Intensive (0)	427	38.5
Service oriented (1)	682	61.5
Total (n)	1,109	100

Legal Registration

Legal Registration	Case Reports (Absolute)	Case Reports (Percent)
No (0)	544	49
Yes (1)	566	51
Total (n)	1,109	100

Appendix D

Pairwise Correlation Financial Support

	total	formal~s	inform~s	extern~s	intern~s
total	1.0000				
formal_fs	0.4791	1.0000			
informal_fs	0.8361	0.1105	1.0000		
external_fs	0.4830	0.5868	0.2623	1.0000	
internal_fs	0.9490	0.4109	0.8419	0.3544	1.0000

Appendix E

Heckman Model - Financial Support

	(1) Financial Support (Total)	(2) Financial Support (external)	(3) Financial Support (internal)
main			
Education	0.0984 (0.221)	0.0395 (0.352)	0.0984 (0.178)
Industry Experience	0.0626 (0.0546)	0.0714 (0.0868)	0.0467 (0.0439)
Managerial Experience	0.0172 (0.0615)	-0.00535 (0.0978)	0.0123 (0.0494)
Business Plan Completed (0/1)	-0.0431 (0.973)	0.250 (1.547)	-0.0687 (0.781)
Novelty	0.441 (1.714)	1.963 (2.725)	0.197 (1.376)
Time Invested (in 100 hours)	-0.00293 (0.0100)	-0.0103 (0.0159)	-0.00108 (0.00804)
Age	-0.00753 (0.0375)	-0.0228 (0.0596)	-0.00102 (0.0301)
Gender	-0.613 (0.751)	-0.390 (1.195)	-0.561 (0.603)
Industry	-0.400 (0.738)	-0.484 (1.173)	-0.391 (0.592)
Teamsize	0.501 (0.420)	0.476 (0.667)	0.362 (0.337)
_cons	9.135* (3.681)	5.441 (5.854)	8.545** (2.957)
Financial Support Received (0/1)			
Education	0.00662 (0.0331)	0.00662 (0.0331)	0.00662 (0.0331)
Industry Experience	-0.0150* (0.00677)	-0.0150* (0.00677)	-0.0150* (0.00677)
Managerial Experience	0.00636 (0.00827)	0.00636 (0.00827)	0.00636 (0.00827)
Business Plan Completed (0/1)	0.196 (0.129)	0.196 (0.129)	0.196 (0.129)
Novelty	-0.432* (0.214)	-0.432* (0.214)	-0.432* (0.214)
Time Invested (in 100 hours)	0.00848 (0.00446)	0.00848 (0.00446)	0.00848 (0.00446)
Legal Registration (0/1)	0.338** (0.129)	0.338** (0.129)	0.338** (0.129)
_cons	1.078* (0.470)	1.078* (0.470)	1.078* (0.470)
mills			
lambda	-11.13 (6.734)	-17.70 (10.71)	-8.939 (5.409)
N	792	792	792
adj. R^2			
F-Statistic			
Prob > F	0.839	0.988	0.834

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Appendix F

Abstract

Diese Masterarbeit beschäftigt sich mit der Frage, welche Determinanten einen Einfluss auf die Entstehung eines Unternehmens haben und welche Rolle die Kapitalausstattung dabei einnimmt. In weiterer Folge werden auch die bestimmenden Faktoren der Kapitalausstattung selbst untersucht.

Die Analysen zeigen, dass die Kapitalausstattung einen signifikant positiven Einfluss auf die Entstehungschancen eines Unternehmens haben, während die Neuheit der angebotenen Produkte oder Services einen signifikant negativen Einfluss hat. Die Erkenntnisse zum Einfluss der Kapitalausstattung bestätigen die in letzter Zeit teilweise angezweifelte Aussagen der sogenannten "Liquidity Constraint Theory", die behauptet, dass angehenden Unternehmern nur wenig finanzielle Mittel zur Verfügung stehen. Die Ergebnisse hinsichtlich des negativen Einflusses der Neuheit eines Produktes oder Services auf die Entstehungschancen eines Unternehmens sind besonders für innovative Jungunternehmer entmutigend, da die Chancen auf eine erfolgreiche Unternehmensgründung für neuartige Produkte oder Services wesentlich geringer ist.

Zusätzlich wurde ein signifikant positiver Einfluss des Erstellens eines Business Plans auf die Höhe der Kapitalausstattung gefunden. Dies ist höchstwahrscheinlich darin begründet, dass vor allem externe Finanzierung nur dann gewährt wird, wenn ein (schlüssiger) Business Plan vorgelegt wird. Der positive Einfluss auf die Höhe von interner Finanzierung kann darauf zurückgeführt werden, dass die Erstellung eines Business Plans auch eine Legitimation des eigenen Handelns darstellt und dadurch die Investition größerer Beträge rechtfertigbar wird.

Appendix G

CV

Thomas Holzer, BSc		Curriculum Vitae	
		Ausbildung	
		AHS Linz-Auhof 1997 bis 2001 HAK Linz-Auhof 2001 bis 2006 Wirtschaftsuniversität Wien 2006 bis 2011 Studienrichtung: Wirtschafts- und Sozialwissenschaften Spezialisierungen: Werbung- und Markenmanagement Finance Abschluss: Bachelor of Science Bachelorarbeit: Datenqualität bei Webbefragungen	
Angaben zur Person		Universität Wien seit 2011 Studienrichtung: Betriebswirtschaft Spezialisierungen: International Marketing (Englisch) Personal und Organisation (Englisch) Voraussichtlicher Abschluss: September 2013 (Master of Science) Masterarbeit: Organizational Emergence and Financial Support of Nascent Entrepreneurs	
Wohnadresse			
E-Mail			
Telefon			
Geburtsdatum			
Geburtsort			
Nationalität			
Familienstand			
Kenntnisse und Fähigkeiten		Berufserfahrung	
Sprachkenntnisse		UNIQA Österreich Versicherungen AG 2003 Ferialpraktikum VA Technologie AG 2004 / 2005 / 2006 Ferialpraktikum (Werkstischlerei)	
Deutsch Muttersprache		Volkskreditbank AG 2005 bis 2006 Aushilfskraft (geringfügig)	
Englisch Verhandlungssicher		ePunkt Internet Recruiting GmbH 2007 / 2008 Ferialpraktikum Tätigkeiten: Bewerberbroschüren und -management Entwurf von Storyboards Software Testing	
Französisch Grundkenntnisse		Unisys Österreich GmbH Oktober 2007 bis Juni 2010 HR Support (geringfügig) Tätigkeiten: Bewerberkorrespondenz Archivierungsarbeiten	
Statistikprogramme		T-Systems Österreich GmbH* seit August 2010 Service Management Support (Teilzeit) Tätigkeiten: Verrechnung Reporting	
SPSS / Stata Sehr gute Kenntnisse			
Webprogrammierung			
HTML / PHP / CSS Grundkenntnisse			
Sonstiges			
Microsoft Office Sehr gute Kenntnisse			
Microsoft Visio Grundkenntnisse			
SAP Grundkenntnisse			
Photoshop Grundkenntnisse			
Führerschein Klasse B			

*aufrechtes Dienstverhältnis (bis voraussichtlich Ende Oktober 2013)