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Harabi, Najib

University of Applied Sciences, Northwestern Switzerland

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# The Formation of New Firms – An Empirical Analysis from Switzerland

Najib Harabi\*

\*Professor of Economics at Solothurn University of Applied Sciences, School of Economics and Business Administration, Riggbachstrasse 16, 4000 Olten, Switzerland, Tel.: 0041 62 286 0153.  
Email: najib.harabi@fhnw.ch

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## Abstract

Because of its importance to a dynamic development of the economy, the formation of new firms has been viewed with greater interest from policy makers at the national, regional and local levels and from representatives of private business associations, formal and informal networks.

According to statements of the Swiss Federal Office for Vocational Education and Technology (BBT, Bern), there are more than 200 initiatives that aim at encouraging the formation of new firms in Switzerland. However, an accompanying scientific study of these initiatives is lacking. Serious knowledge gaps exist. The present research project attempts to make a contribution, in a systematic way, to fill in some of these gaps. It is based on a systematic study of 20 case studies and of a large survey conducted in 1999 of 745 newly founded firms in Switzerland. Initial results are presented concerning the following areas: (1) Portrait of firm founders. (2) Success indicators of firm formation. (3) Factors affecting success of firm formation. (4) Relationships between success and success factors. (5) Future prospects. Finally policy recommendations are drawn from our findings.

**Key Words:** Formation of new firms, new enterprises, small firms, small-to-medium-sized enterprises, self-employed, start-ups, firm foundations, promoting start-ups, firm promotion, private sector promotion, Switzerland.

# 1 Introduction

Switzerland, like many other industrial nations, is currently changing from a society shaped by classic industries to an information and service-based society. The formation of new business ventures, among other things, plays a crucial part in this transformation process. From an economic viewpoint, the increasingly popular phenomenon of firm formation is relevant in many instances, particularly in relation to the following topics: the contribution of new firms (1) to economic and employment growth, (2) to structural change, (3) to technological change and innovation, and (4) to stimulation of competition in product and factor markets.

In spite of its economic importance, so far, recent economic analyses of firm formation have been missing in Switzerland. At present only older studies, which dealt only partly with some aspects of this phenomenon, are available. In his dissertation published in 1988 BALDEGGER studied the motivation of the founders of commercial manufacturing firms. In 1997 DETTE published a research report on financing as the bottleneck for new firms. In his dissertation published in 1990, KUIPERS studied the success factors of firm formation. In her dissertation ZIEGERER compared firm formations by women and men over a period of time. Finally, MOLL 1997 summarised all important studies on firm formation in Switzerland.

According to a recent lecture series by the Swiss Federal Institute of Technology (ETH, Zurich) on the topic of *Innovation, Venture Capital and Employment* and the book of the same title that it was based on (Scheidegger et al, 1998), there is currently in Switzerland only anecdotal evidence on the phenomenon of “firm formation” and its economic importance. Hence major research gaps exist in this area. The present research project wants to fill some of these gaps.

The remainder of this paper, which itself summarises an extensive study on the same topic (Harabi/Meyer 2000), is structured as follows: After formulating the main research questions and the methodology more precisely in the next chapter (Point 2), the most important results are presented (Point 3). Finally conclusions are drawn for economic policy, amongst other things (Point 4).

## 2 Research Questions and Methodology

### 2.1 Research Questions of the Study

The objective of this research project is to empirically analyse the phenomenon of “firm formation” in Switzerland. The following main questions are central to the study:

1. Who are these new self-employed?
2. What factors affect their success or failure?
3. What conclusions can be drawn from this analysis for practical economic policy and the self-employed?

Industrial organisation and business economics literature points out a number of central factors which are potentially helpful in understanding the success and failure of firm formations.<sup>1</sup> These factors can be roughly divided into: (1) person-related success factors, (2) firm-level related success factors, (3) environment or sector-related success factors. These three types of success factors do not affect a firm's success independently of each other; instead, their effects are to a large degree linked with each other.

Ad (1): Management literature puts great emphasis on the personal characteristics of the entrepreneur to explain the differences in firm growth among

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<sup>1</sup>See eg. GEROSKI (1995) and KLANDT (1996).

individual firms.<sup>2</sup> The respective human capital takes on a crucial role here (Becker 1993). In this context it is generally established by age, education, sector and professional experience. Most empirical studies come to the conclusion that there is a relationship between the level of the human capital of firm founder and firm performance.<sup>3</sup> Studies which link the psychological characteristics of the entrepreneur with firm performance suggest that often very strongly achievement oriented, motivated people are at the top of firms that enjoy above average success. Even if the recording of such characteristics is difficult, it should not be forgotten that individual aspects in particular could play an important part in an explanation of firm performance.

Ad (2): The largest part of the literature on firm growth deals with analyses of the link between firm characteristics and firm growth. More recent studies<sup>4</sup> have shown that employment growth rates decrease with an increase in firm size. Furthermore, the majority of these studies confirm a negative correlation between firm age and employment growth rates. However, firms also differ with regard to their ownership structure. Harhoff et al (1998) argue that the legal liability position of a firm which is determined by the selected legal form, influences the growth rate of a firm. When selecting the legal form entrepreneurs also determine the state of liability limitation. The authors show that firms with limited liability have above average growth rates. A possible explanation of this finding may be that entrepreneurs who have selected a legal form with limited liability are tempted to pursue projects which have an above average risk factor and which when successful are also rewarded with an above average profit.

Ad (3): Audretsch (1995) has produced one of the first studies which explicitly models sector specific factors in connection with firm growth. He analyses the relationship between minimum optimal firm size, intensity of technology and firm growth and can demonstrate a positive correlation between the minimum optimal firm size in an industrial sector and the firm growth rate of

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<sup>2</sup> See Finkelstein & Hambrick (1990) and Bonne et al. (1996).

<sup>3</sup> See Brüderl (1996).

<sup>4</sup> See eg. Evans (1987 a, b), Hall (1987), Dunne et al. (1988, 1989), and Harhoff et al. (1998).

newly formed firms. Audretsch explains this result as follows: Newly formed firms are forced to quickly reach the minimum optimal firm size. Otherwise they must withdraw from the market due to competitive disadvantages. With regard to the intensity of technology in an industrial sector Audretsch shows that growth rates of firms in high-level technology sectors are high.

Dunne et al. (1989 a, b) analyse the determining factors of firm growth and failure of American firms in the manufacturing industry. The authors show that firms' growth rates vary significantly among the different sectors of the manufacturing industry. Harhoff et al (1998) can also confirm sector specific differences in growth rates. This study shows that services-sector firms in particular are characterised by above average employment growth figures. Brüderl et al (1996) also confirm significant sector specific differences in employment growth rates. Johnson et al (1997) see a close relation between the growth dynamics within a sector and firms' growth rates. They argue that growth rates of firms in growing sectors should be higher than those of firms in stagnating or declining sectors. Young and growing markets are as a rule characterised by low market entry barriers and thus by firms' extensive market entries and exits. Individual firms therefore have different growth potentials as determined by their sector's life cycle.

Based on the current state of scientific discussion on firm formation as has been briefly outlined above, standard qualitative and quantitative methods have been employed in our project, in order to answer our above mentioned research questions. In the following section we will describe the methodology in more detail.

## 2.2 Survey Methodology

### 2.2.1 Postal Survey

During the period June to July 1999 we sent a ten-page questionnaire (41 blocks of questions with around 200 individual questions) to a representative random sample of 5019 young entrepreneurs.

Posted: 5019						
undeliverable	deliverable (4561)					
	no reply	received reply (1461)				
		questionnaire not fully completed (489)			questionnaire (almost fully) completed (972)	
		No entries or no inclusion of firm activities	branch/ subsidiary	formation pre 1993 (90)	formation pre 1993 (229)	formation 1993 or after
				formation pre 1993		
458	3100	105	294	319		743
% of posted:		2.09%	5.86%	6.36%		14.80%
% of delivered:		2.30%	6.45%	6.99%		16.29%
% replying firms		7.19%	20.12%	21.83%		50.86%

Table 1: Overview of progression and return of written questionnaire

More than 5000 owners of firms that had been entered in the trade register between the years 1993 and 1997 were contacted. Of those, 3861 were German Swiss and 1158 were French Swiss (who received the questionnaire and accompanying letter in French). According to figures from *Creditreform*, the proportion of French Swiss firms contacted corresponds to the proportion of firm formations in French Switzerland. For firm addresses we relied on the firm CD-ROM from *Orell Füssli* which contains all firms included in the trade register.

Out of a total of 4561 people contacted 1461 or 32.03% have replied. A good response rate, taking into consideration that the completion of the ten-page questionnaire takes at least 45 minutes.

The firms that replied can be classified as follows:

- Around 100 firms have either not yet started any business activities although they are already included in the trade register (some are simply

“letter box” firms), or they have returned the questionnaire uncompleted without any comment.

- Almost 300 firms were branches or subsidiaries of another firm. Behind those firms are no people who have become self-employed. These are not considered in our study.
- Another 300 firms had already started trading before 1993. Between the years 1993 and 1997 they were either entered in the trade register for the first time – or a formal change of the firm took place (e.g. change of legal form, change of name, or re-structuring within a conglomerate ), which was entered in the trade register as a “new firm”. These firms were also excluded from the study as they are registered as a new firm only from a legal point of view but not however from an economic point of view.
- 743 firms remain which were actually formed between 1993 and 1997, or to be more precise, started trading after 1993. Behind these firms are people who, with this firm formation, ventured into self-employment. 602 of these firms come from German Switzerland, 141 from French Switzerland. Thus, the net return in French Switzerland is a little smaller than in German Switzerland.

### 2.2.2 Case Studies

During the months of April and May 1999 we interviewed 20 people who had become self-employed during the previous years. Interviews lasted around 90 minutes and were generally held either in the self-employed person’s home or office.

The interview followed a rough guideline that determined the topics to be addressed. Within this topic area – e.g. the road to self-employment or preparation of the business idea – initially a lot of scope was left for the personal story of the self-employed person. At a later stage the interviewer used some well-targeted follow-up questions regarding particular aspects. The interviews were recorded on tape and later transcribed. A number of inter-

views were then put into an easily readable form and later published in the *Discussion Papers Series* of Solothurn University.<sup>5</sup>

In the selection of interview partners, care was taken to ensure consideration of different age, origin, education and social status. Furthermore, we selected a disproportionately high number of women, as they were likely to be underrepresented in the written questionnaire – as a consequence of a disproportionately high level of self-employed women not being registered in the trade register. In addition, we also carried out some interviews with people – mainly women – who had not registered their firm in the trade register.

## 3 The most important results

From the multitude of empirical results that can be gained from an analysis of the survey data, a selection from the following topics follows: (1) Portrait of business founders. (2) Success of firm formations. (3) Factors affecting success of new firms. (4) Links between success and success factors. (5) Future prospects.<sup>6</sup>

### 3.1 Portrait of business entrepreneurs

New firm founders were mainly male (84%) and had an average age of 42. The majority lived in a stable relationship (80%), had children (71 %) and were Swiss nationals (91%).

### 3.2 Success of firm formations

The most important proof of success of a newly formed firm is its survival on the market several years after its formation. As our random sample is based only on surviving firms, strictly speaking we cannot give any reliable informa-

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<sup>5</sup> See Meyer et al (2000).

<sup>6</sup> For an extensive presentation of results see Harabi/Meyer (2000).

tion about this success indicator.<sup>7</sup> The results summarised below refer to the success of firms which have survived their birth stage.

- The majority of the entrepreneurs interviewed generally felt either “rather successful” or “very successful”.
- Asked about precise material success criteria, around 70% answered that they were between “rather successful” and “very successful” in relation to sales, 56% in relation to profit, and only 31% in relation to number of employees.
- These ‘success figures’ become even clearer when compared to the alternative earnings potential, the employee salary, which self-employed people are giving up. The majority of those interviewed (60%) estimated their current earnings as “the same” or “significantly lower” than the earnings they would receive in a similar position as an employee.
- With regard to non-material success criteria the picture is as follows: Considering “independence”, around 80% of people interviewed felt between “rather successful” to “very successful”, considering “personal satisfaction”, 76% fall into this category. It can be assumed that around 70% of these people do not want to give up their self-employment even if an equally interesting, adequately paid position were offered.

### 3.3 Success factors of newly formed firms

In order to understand the findings regarding the success of newly formed firms, questions were asked on the factors which contributed to success. As has already been mentioned above, these can be roughly divided into 3 categories: person-related, firm-level related and environment or sector-related success factors. Although in reality these 3 categories do not affect a firm's chance of success independently and are indeed to a large degree linked with each other, for analytical reasons and to assist clear presentation they will initially be presented individually.

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<sup>7</sup> We are however attempting to carry out an estimate on the survival probability of firms, see S Harabi/Meyer (2000).

The findings regarding person-related success factors can be summarised as follows:

- The general human capital of entrepreneurs interviewed is relatively high: Almost all had a school-leaving certificate (99%), around 80% had a solid professional education including technical college (formerly HTL and HWV etc) and around 16% had graduated from university or ETH. Furthermore, the majority (95%) had a work experience of around 18 years.
- The work-specific human capital of entrepreneurs interviewed is also high: Sector experience was relatively wide (an average of 11 years work experience in the current activity field of self-employment) and leadership experience was also widespread (66%). However, only very few (10%) had previous experience of being self-employed.
- In addition to human capital, motivation and other personal attitudes and ambitions of entrepreneurs are important success factors for the formation of firms. 90% of those interviewed regarded intrinsic motives such as “independence”, “implementation of one’s own ideas”, or “self-realisation” as either “rather important” or “very important”. “Extrinsic” motives such as “finding a market niche” etc. follow a long way behind.
- This high intrinsic motivation, amongst other things, has helped the new self-employed to thoroughly prepare themselves for the formation (particularly in formulating the business), to work long unpaid hours and to master the many occupational/professional and personal difficulties associated with forming a new firm.
- A further success factor is the mobilisation of contacts. The recently self-employed are embedded in familiar social relationships and firm networks which can result in various forms of support (active co-operation, financial support, advice, etc).

Firm- level related success factors can be summarised as follows:

- Firm size at the time of formation. Firstly, 80% of all firms interviewed had a starting capital of FR 100,000 or less, 77% of this sum was private capital. Secondly, the average number of employees at formation was three people or an average workplace percentage of 240%. In their first year in business (40% of all interviewed) firms realised sales of up to Fr. 100,000, and (22% of all interviewed) between Fr. 100,000 and Fr. 250,000. The typical firms interviewed were small firms.
- Actual “newness” of firms at the time of formation. A significant majority (73%) were original new formations; the rest were takeovers (10%), inheritances (5%), etc. Only a few firms were in the early phase of their life cycle (2%), the majority were either in the growth phase (54%) or in the consolidation phase (38%).
- Legal form of firms at the time of formation. While the dominant legal form was the sole trader (56%), the joint stock companies were represented with 21% for “AG” (public limited company) and 17% for “GmbH” (limited liability company).
- Firm strategies at the time of formation: Firstly, most firms interviewed selected the form of sole proprietorship (62%) with one fully employed founder (87%) and an average of 1.5 partners. Secondly they established the firm location in their own home, mainly for economic reasons. Furthermore, at the time of formation, they offered predominantly imitative goods, i.e. products and services already available on the market, and this normally only for the domestic market (75%). The majority of their clients were private individuals and SMEs (small-to-medium-sized enterprises) whom they reach either directly or indirectly, mainly through adverts/mailings or through acquaintances/relatives.

#### Environment or sector-related success factors

- The vast majority of firm formations was in the services-sector (90%); firms therefore work under the environment and sector-specific conditions which are normal in this. Firm formation in manufacturing was significantly less frequent (9.5%). These figures show that the new entrepre-

neurs interviewed also make a contribution to the structural change in the Swiss economy mentioned in the introduction.

- Amongst the sector-specific factors that have a predominantly positive effect on the success of the firms interviewed, “new technological developments” in particular are mentioned. Presumably, as we are mainly dealing with firms in the services-sector, this relates to the fast developments in information and communication technologies.
- Elements of market structure have had a generally negative effect on the success of firms interviewed (strength of competition, entry of new competitors, pricing structure etc). Whereas this negative attitude towards market mechanisms is understandable from the point of view of the firms interviewed (competition and the resulting behaviour are often regarded as negative!), it must however also be seen as positive from an economic point of view (aspects of efficient allocation of resources and the related welfare consequences for consumers etc). New firms have a positive competitive effect.
- The majority of firms interviewed (72%) saw public support measures as neutral – with regard to their influence on the firm's success. Furthermore there was a slightly higher percentage of positive (a surplus of around 3%) over negative attitudes. As a whole, public support measures have a neutral to positive effect.
- Legal regulations and formalities were regarded as neutral (61%). However, here the percentage of negative opinions was significantly higher (21%) than positive ones. In general, legal regulations and formalities have a neutral to negative effect.

### 3.4 The relationship between success and success factors

So far in this study, the individual success indicators and the success factors that explain them have been deliberately dealt with separately and have not

been put in a systematic relationship with each other. A further step explores the underlying relationships between these variables. As has already been mentioned, the three success factor groups do not affect a firm's chance of success independently of each other; instead their effects are to a large degree linked. In order to analyse these links and the underlying relationships an econometric model was set up. Firm success is the dependent variable – operationalised as the average annual sales growth rate of a firm. A selection of the above mentioned success factors were used as explanatory variables. The empirical results of our model estimates are briefly summarised here<sup>8</sup>:

#### Person-related success factors

- As theoretically expected, the type and length of a founder's school education improve the growth potentials of his firm. A higher education correlates with higher sales growth rates. However, in Switzerland this correlation is neither strong nor statistically significant.
- Also theoretically expected is a relationship between the length of the founder's general professional experience and the sales growth rates of his/her firm. Swiss data shows a positive correlation; however it is statistically weak and not significant.
- The number of years of a founder's professional experience in his/her current field of activity also has a positive influence on his/her firm's sales growth rates.
- The hypothesis that a founder's experience of self-employment has a positive influence on a firm's success is confirmed. This relationship is statistically significant.
- However a founder's experience of leadership has no positive influence on firm success. According to the estimated results of our model, the relationship is both negative and statistically significant. Having belonged to

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<sup>8</sup> The econometric value of this model can be regarded as very good. It is statistically significant (at the 0.001 level) and the R-square lies at 45%, which is good for a cross section analysis. For further information on this model see the paper by Harabi (2001) which is currently in preparation.

middle or senior management before self-employment is no guarantee of successful later self-employment, at least not if measured in sales development.

#### Firm-level related success factors

- In contrast to empirical studies done thus far, original new firm start-ups seem to be more successful than firm takeovers (of any kind). This relationship is statistically significant.
- The age of the newly formed firm seems to have a positive influence on the firm's success. The longer a newly formed firm survives, the higher is its average annual sales growth rate. This unexpected result – according to hitherto studies abroad – is statistically significant.
- The amount of starting capital in the first year of formation seems to have a negative influence on later sales development. When measuring firm size against this factor the hypothesis is confirmed that the smaller a new company is the higher is its future annual sales growth rate. This relationship which has also been confirmed in numerous other studies is statistically significant in Switzerland.
- The size of sales in the first year, however, has a decisive positive influence on the later sales development of a newly founded firm. This relationship is quantitatively strong and statistically significant.
- Finally there is no statistically significant relationship between the legal form and the sales development of a newly formed firm. Public and private limited companies do not necessarily achieve higher annual sales growth rates than sole traders.

## Environmental and sector-specific factors

According to our survey most new firms were formed in the sector “other services” (28% of all new firms). Taking this sector as a benchmark, as is customary in research in this field, the following results can be derived from our estimates:

- In the industrial sectors “manufacturing”, “construction”, “hospitality”, “trade”, and “data processing/Informatics”, environmental conditions for new firms are worse than in the reference sector “other services”. Firms in the first four mentioned sectors have a lower sales development than those in the last mentioned sector.
- In the sectors “transport”, “training/education” and “health and social services” environmental conditions are better than in the reference sector. Average sales growth rates in these three sectors are better than in the benchmark sector “other services”.

## 3.5 Future prospects

The new firms interviewed look towards the future with positive expectations. Almost 80% expect an increase in sales and profit over the next 2 years which means that they would make a greater contribution to economic growth. Firms are a bit more reluctant as regards employing additional staff: Only 43% intend to recruit personnel over the next 2 years.

Over the next two years, on the other hand, 41.5% of those interviewed are intending to introduce new or considerably improved products (product innovations) onto the market and 22.1% are intending to introduce new or considerably improved production processes into their firm (process innovations). When comparing these future plans with the situation at the time of formation (see above), a considerable increase in new firms’ innovation dynamics can be observed: Start-ups mostly take place with traditional, well-known products or services (only 26% started with innovative products or services, less than 10% introduced process innovations right at the beginning). However, already after a short period of time innovations are increas-

ing. This is a clear indication that in time, newly formed firms will contribute to the innovation process and the technological change of the Swiss economy, as it was mentioned in the introduction.

## 4 Conclusions

From the results of the present study several conclusions can be made for firm founders, supporting organisations and public policies.

### 4.1 Firm founders

In a liberal society such as Switzerland, formation and continuation of a firm are primarily acts of free individuals and groups. Such decisions are made individually on the basis of individual cost/benefit calculations and the personal values and preferences based on them, and the consequences are also carried individually. If the rules laid down by the state (company law, liability law, tax law etc) are observed, public authorities should be reluctant to interfere.

This basis shaped the present study. It has been conceived primarily from the viewpoint of firm founders with the aim of producing a profile of strengths and weaknesses for the various phases of firm formation. Every currently active or potential firm founder can use these findings as a benchmark. If active new firm founders attempt to explain the success (or failure) of their new firms hitherto or if potential firm founders attempt a prognosis of success (or failure) of their future plans, they can orientate themselves on the individual features and behaviour patterns of the majority of the founders surveyed here. They can include in their considerations the firm start-up characteristics and/or the respective background factors that illustrate the close and wider economic and social environment of the majority of the firms surveyed here. They must consider that the three success criteria do not affect a firm's chance of success independently but that their effects are to a large degree linked together.

Two central problems which appear in more than half of all new firms are client acquisition, and capital acquisition and liquidity. On the basis of our study the following recommendations can be deduced which would defuse these two very sensitive problems:

- Client acquisition is highly dependent on the personal characteristics of the entrepreneur. Persuasiveness, trustworthiness, openness, and communication skills in particular have a great influence on whether new clients can be acquired and whether they will return to the new firm again in the future. If these characteristics are not developed enough two possibilities are presented: A well targeted training and development of personal strengths on the one hand, or on the other hand – and too few people make use of this possibility – a firm partner who has the same interests but other capabilities can be the ideal complement. Team formations can be more successful.
- Besides, a good network of contacts is very helpful for client acquisition. It is important to build up a good network of contacts, to look after them and to use them for business purposes.
- Products and services offered must correspond to clients' needs. Therefore it is important to continually observe and analyse clients' needs and their development. It is surprising that analysing clients' needs had not been considered by 16% of those interviewed (a further 42% had dealt with this only sketchily).
- The competition, which has a significant influence on a new firm's success on the market, should be given the attention it deserves. It is difficult to understand that almost 30% of firm founders had not dealt with an analysis of the competition at all (a further 42% only sketchily). In general it can be said that founders of new firms would be well advised to consider not only themselves and their own ideas but also increasingly other relevant environmental factors. In particular clients' needs and competition analysis are neglected.
- It is therefore not surprising if banks and other financial supporters react rather sceptically if the above-mentioned points have not been considered

(and documented). Banks are likely to return any credit application (for revision) if, in addition, the new firm has not considered expected finance requirements and liquidity development. The majority of new firms have done this. However, it can be noted that new firms are often too optimistic in their planning. Apart from best-case scenarios, less favourable scenarios must also be anticipated and their financial consequences calculated. In this way financial bottlenecks can be anticipated sooner and measures to resolve them can be considered and carried out early on.

## 4.2 Banks/Financing institutions

Banks are important to firm founders for two reasons: firstly, as a source of finance and secondly, as advisers and supervisors of new firms. With regard to financing, around half of those interviewed stated that they had either medium (36%) or major (15%) problems either acquiring capital or with their liquidity. The second figure confirms the findings of the PROGNOS-report according to which 15% of SMEs in Switzerland are having major financial problems and are therefore in need of redevelopment.

In view of these findings banks are advised to resolve difficult relationships with SMEs in general and with new entrepreneurs in particular, objectively through a more intensive information policy. The mutual information exchange about the possibilities and limitations of project financing should be intensified within a framework of formal and informal networks. The relatively new credit policy of banks (on “risk-based” pricing principles) should on the one hand be explained better and on the other hand be adapted to the specific conditions of individual firm formations.

Furthermore, financial coaching of new entrepreneurs by the Swiss Bankers Federation and their supporting banks should be intensified. This coaching must support the new entrepreneurs, often inexperienced in questions of bank credits, to be better prepared when applying for finance and to present themselves in the best light to the credit-giving bank.

Not only banks, but also large firms – such as Novartis, Sulzer, ABB, Calida or Swisscom – should increasingly make corporate venture capital available.

Finally, not only cantonal and regional but also private banks should participate in the national credit guarantees system (*Bürgschaft 2000*). This would help them improve their reputation with new entrepreneurs and the public.

### 4.3 Business Organisations (e.g. Chambers of Commerce and Trade Associations)

The main tasks of business organisations are the provision of information, training and development, and advice as well as political representation of firms.

- A central success factor for new entrepreneurs is having previous experience of specific industries and of self-employment. Here, business organisations can offer valuable support in the form of further training and development and advisory services. Already existing initiatives such as “Pecopp” of the Swiss Trade Association (SGV) for example should be continued and adjusted to the financial and time-table requirements of new entrepreneurs.
- New entrepreneurs’ chances of success differ between the various industries. They often underestimate the market situation (e.g. competition, market development, etc) in their respective industries. Early pursuit of these problems based on solid information which can be supplied by business organisations should increase the chance of success of a new firm.
- Most business start-ups take place in the services-sectors and therefore reinforce the general trend towards a service society. The question arises whether traditional business organisations (such as the existing trade associations and the chambers of commerce) adequately represent the (economic and) political interests of these new firms. An opening-up to the concerns of new firms and improved co-operation are to be recommended.

## 4.4 Public Policies

As the formation of new firms can make a contribution to the general growth of employment and the economy, to structural change, to stimulating and maintaining competition in markets and finally to innovation processes and technological change in Switzerland, they are also an important topic for public policy. A well-founded knowledge of this firm group by policy makers could lead to an efficient economic policy at a national, regional and local level.<sup>9</sup> We hope that this study will make a contribution to that.

Furthermore, both direct and indirect conclusions for public authorities can be made on the basis of our findings.

- Education policy. According to our study a solid education is a central success factor for the formation of new firms. State support measures for education, training and continuous education should also take this into consideration. To this end additional academic positions (“chairs”) in the field “entrepreneurship” should be created at universities and other institutions of higher education. Within the framework of the federal initiative “Virtual Campus Switzerland” or alongside it, a virtual university (or college) for entrepreneurship and innovation should be created for the whole of Switzerland.
- Research and technology policy. The present study indicates that only a small proportion of new firms interviewed introduced innovations at the time of formation (only 25% introduced product innovations and 10% process innovations). Here a potential that should be systematically exploited lies fallow. Initiatives such as the “KTI Start up!” should be strengthened and made more professional.
- Financing of new firms. In view of the previously described problems numerous new firms have been regarding funding, the existing state meas-

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<sup>9</sup> National social policy is also very important for firm formation. In particular the social consequences of failed formations are linked with significant human and economic costs. We did not deal with this topic here as we have exclusively surveyed surviving and thus successful new firms which are therefore not affected by such social problems.

ures (such as interest rate credits, financial contributions to advisory services for new entrepreneurs etc) should be continued and new financing instruments (such as direct or indirect financial support of new firms particularly in the critical seed and start-up phases) should be explored. Tax relief on stock options or tax deduction on financial investment in new firms by the so-called “Business Angels” belong to the latter category.

- Competition policy. The chance of success of a new firm varies from one sector to another. The entrepreneurs interviewed regard an effective and ‘fair’ competition in individual markets as important. To help with this, the current opening-up (liberalisation and deregulation ) of markets should be intensified.
- General regulations and approval procedures. Young entrepreneurs complain, amongst other things, about elements of state approval procedures. Here a systematic dismantling of the existing obstacles and the prevention of new administrative burdens in new laws and regulations should be aimed at. Furthermore, regulations should be adapted in such a way that a cost saving application of new information and telecommunication technologies (e.g. completion of forms via the internet) is possible.
- Co-ordination of existing initiatives for encouraging new firms. In Switzerland numerous initiatives in favour of the formation of new firms exist. The state could take on a co-ordinating role by creating new (electronic) platforms and forums.
- Statistics on new business start-ups should be improved so that more reliable base line information is available.

Economic-political general frameworks and state regulations are of great importance for the formation of new firms. However they are in part either not considered at all or only negatively perceived by new firms. Some examples:

- A proportion of the young entrepreneurs interviewed (20%) state that federal and cantonal authorities (e.g. employment offices) explicitly hinder the decision to become self-employed.
- Start-up centres (and technology parks) are praised – very effectively in

the media – by cantonal and communal authorities. In reality however only 20 young entrepreneurs (out of a total of 740 interviewed) have set up their location there.

- When asked about location factors only a few young entrepreneurs stated that the factors that could be influenced by the state, such as taxes, location image and cantonal economic support, played an important part in their location decision. An exception was infrastructure, which was regarded as either “rather important” or “very important” by 80% of all those interviewed.
- In total – in the opinion of those interviewed – public support measures for the formation of new firms have neutral to slightly positive effects and legal regulations and approval procedures neutral to negative effects.

These examples show that state support measures in the area of firm formation are not adequately communicated to the potential beneficiaries. We recommend an improved information policy and a more intensive dialogue with those concerned.

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