

## ESTABLISHING NEW ENTERPRISES, WITH SPECIAL REFERENCE TO YOUNG ENTREPRENEURS

### 1. Introduction

Establishing enterprises plays an important role in the industrial policies of all countries, irrespective of their level of development. For the countries with advanced industrialisation, setting up enterprises represents an increase in the rate of growth of the system and a renewal of the "entrepreneurial park". For the countries in the course of industrialization or re-industrialization, it represents a sine qua non condition for their development, as well as a process of disseminating the young generation especially.

Although the policy of establishing enterprises gets maximum agreement both in the scientific and in the economic fields, most of the countries have difficulties in applying it. This is the case in Europe, where entrepreneurial dynamism is lower than in the United States and Japan, which affects the competitiveness of the system and which has measurable effects in the low rates of growth and employment.

But founding new enterprises is not enough if they are unable to live, grow and have an innovative development\*. It is therefore necessary to take the same care in supporting the young enterprises in their delicate phase of consolidation in order to allow the economic system to get advantage out of the positive balance between birth and deaths. Otherwise the same positive balance could hide an impoverishment of the system, if the numerical increase is given by the entrance in the competitive challenge of enterprises unable to grow and develop.

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\* In a strict sense the innovative development regards the adoption of new technologies able to satisfy the demand of the market or a social need. But the concept of innovation adopted by Schumpeter adds to the technological factors (products and processes) commercial, organizing and relational factors as well.

## 2. The Death of Enterprises

Sooner or later the biological cycle naturally ends in death. It is optimal if it ends when the organism is not functional for the system anymore. This rule applies both to living organisms and to organizations. Thus the end of an enterprise is also a natural process and it must happen at the right moment and in the shortest time possible. This death can be decided by a third party on the basis of legal right (in the case of successorial procedures), or by the owners themselves (in the case of voluntary liquidation). In both cases, it is necessary that the legal and administrative backgrounds make the closing process as economical and quick as possible in the interest of the closing enterprise itself and especially in the interest of the system. Unfortunately, things do not happen like that: besides the resistance from inside the enterprise, there are bureaucratic, administrative and legal obstacles. The efficiency of economic systems must be measured on this plan as well, both for the countries members of the European Union and for future members.

## 3. The Birth of New Enterprises

The process of setting up new enterprises can be spontaneous or facilitated. In either case the following factors play an important role:

- the profit expected;
- the psychological impulse;
- sociological conditions;
- environmental situations.

The decision to become an entrepreneur is affected by a variety of elements, all of which able to influence the way of establishing and developing the enterprise. My experience in small enterprises makes me attribute an important role to the presence of a pre-existent network of small and medium enterprises. The research done by Cooper, Johnson and Cathcart [1] demonstrates that minor enterprises represent a fertile ground for new entrepreneurial experiences, as they enable the future entrepreneur to acquire and apply the competence necessary for a new start-up.

In a paper published in the Annals of "Gheorghe Zane" Institute of Economic Research, we declared this concept when we asserted that one of the aims of the described network of firms was to introduce a new line of

products in the productive, commercial and managerial culture of the company [2].

The environmental factors are also fundamental from the point of view of economic policy. The increasing appreciation of the importance of these factors gave strength to the policies of territory promotion, where the traditional approach of mobility is substituted by concepts based on the potential for local development.

I am a convinced supporter of the human right to mobility. However, I think each person should pursue and obtain the expected standard of living in their own original country, without having to run away elsewhere. Therefore it is desirable that, when establishing new enterprises, all territories find their necessary strengths in order to explain their internal capacities. This kind of approach is based on a new school of studies that values the concepts of environment and territory with their cultural, social, economic patrimony, where new forms of relations among economic and institutional subjects can be consolidated.

It is in this frame that we place the phenomenon of spin-off, so much appreciated by the great Italian economist Paolo Syllas Labini [3]. In spite of such a famous sponsor, Italy is rather late in applying this methodology which has been used in Europe for some decades. Those of us who know of big enterprises can easily observe an accumulation of resources and potential which sometimes are not used completely, such as: empty land and sheds, poorly used equipment and tools, niches of market not served and even know-how not exploited. The accumulation is often superior to the needs of the business.

But those resources could be decisive for a new enterprise from which even the big company can benefit in processes of reorganization, replacement of workers in excess, or other specific interests.

On the other hand, the new entrepreneur who has an enterprise born through spin-off can benefit from the connection with the original enterprise. The advantages can be:

- technical;
- commercial\*\*;
- consultancy.

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\*\* A profile of spin-off with a particular focus on the commercial activity is in the case of franchising.

Many franchisors can obtain important marketing targets without getting heavier with big fixed costs. In the same time franchisees have the opportunity to enter in important networks, otherwise out for small entrepreneurs, with the advantage of having access to famous trade-marks and of getting first quality services.

This matter requires additional attention and good practice. Lindholm [4] mentions three types of spin-off:

- academic;
- entrepreneurial;
- institutional.

Our role of professors requires that we pay special attention to the possibility of establishing new enterprises through the support which the academic world can offer either by permitting the researchers to use the results of theirs or their colleagues' activity, or by supporting the entrepreneurial ideas with resources offered by the university—not financial resources, but real services and consultancy. In this respect, the best practices come from the United States, whereas in Europe there is a terrible delay which we should hurry to make up for in the years to come. The European Union is engaged in this delicate job, but the academic world, which should make a big effort in the field, seems to be sleeping now, and is about to lose its principal role of experimenter, anticipator and educator. Therefore we are not surprised to see that European academic graduates are not prepared and motivated enough so as to set up and develop their own company.

Basic entrepreneurial skills must be part of the program of study in all universities, but especially in scientific and engineering faculties. We can mention here the case of the prestigious M.I.T in Boston, where the course on how to become an entrepreneur has the greatest attendance.

A similar example in Europe is the University of Twente in Holland.

#### **4. The Consolidation of New Enterprises**

Up to this point we have examined the birth of new enterprises, but we cannot disregard the coming steps of consolidation. The first 3 or 4 years of life are the most critical for the survival of young enterprises.

"Infantile death-rate" is high. In Italy it is between 25% and 40%, depending on sectors and territories.

The phenomenon of consolidation can be analyzed from three points of view:

- dimensional consolidation;
- managerial consolidation;
- market consolidation.

These coordinates are part of a "Synthetic Model of Performance" which was elaborated by the Society of Young Enterprises from Rome for their own evaluation and which is based on four areas:

- 1) dimensional growth
- 2) commercial stability
- 3) efficiency in the use of resources
- 4) financial dynamics

Although the four categories above have different degrees of correlation they have proved efficient in evaluating an enterprise and classifying it as being:

- in big crises;
- in difficulty;
- according to norm (standard);
- prosperous;
- excellent.

We would like to focus more on financial dynamics, as international studies have demonstrated that one of the main factors of crises for new enterprises is linked to the lack of equilibrium of the financial structure. This is usually caused by the scarcity of the financing resources that the new entrepreneur can afford to invest in the start-up. Sometimes the owner does not have enough capital and they may avoid investing their savings in a risky business. The external financing system, especially banks, not wanting to finance the start with risk capital, prefer leaving this role to the funds of venture capital. But these are either scarce or not very attractive for the entrepreneur. This is a kind of loop which often constrains the entrepreneur to start with scarcity of resources, to limit the investments and to make debts while trying to consolidate the business. The high interests paid to banks lead to the reduction of profitability and hence of the chances of self-financing.

This frame often keeps the new enterprise on the border of profitability and shakes the resistance of the new entrepreneur and the survival probability of the business. But the solution exists and it awaits to be adopted.

### **5. Financing with Venture Capital**

In our opinion, financing with venture capital must be interpreted as a mixture of real as well as financial services. The investor becomes a complete partner of the enterprise and he expects from it profit and

especially a quick development of the business, which will make him obtain an increased capital when he sells his shares.

To be an investor by using venture capital is a more difficult job than that of money lender. That is why this job is so little developed in Europe where venture capital funds are immature in their fundamental capacity of valuing the opportunity of the investment, especially in the case of recently established firms with a high technological content.

These funds are expected to have not only the capacity of investing, but also the quality and variety of personalized services and consultancy for different needs. Young enterprises, especially those created by innovative people—generally from the technical field—, need a lot of assistance which is good to be given by the same investors because of the atmosphere of mutual confidence which already exists.

Unfortunately, financial companies are not always able to supply good services to the enterprises and they prefer to move to the more secure field of financing companies already consolidated, instead of investing in setting up a company. A lot of experts have reported about the behavior and managerial limitations of merchant banks and venture capital funds, not so inclined to invest in new enterprises, especially in small ones.

And yet, who takes care of micro-businesses, considering that they represent most of the economic layer? A possible answer is business angels, that is informal investors, individual people willing to invest a part of their money in small firms and sometimes ready to support them with assistance and consultancy. Business angels were born in the United States, initially in order to finance the shows on Broadway. Later on they expanded over other sectors and now they are present in Europe too. The European Union counts on this category of informal investors in order to give an impulse to the innovation financed by venture capital.

If we go on examining the instruments able to support the establishment of new enterprises, we must mention management buy-out (M.B.O.). In this case a business is founded by some managers with the purpose to keep control of an existing company and to try to relaunch it or to avoid its death. The techniques of management buy-out/-in have enabled the rescue and relaunch of many companies in the areas of industrial crises. More often than not, healthy parts of a company risk to be closed together with the so-called "dry branches". The owner, especially if he is a public one, does not want to or is unable to save the healthy parts and to relaunch them. That is when it is the right moment to encourage the managers to become entrepreneurs.

After having studied closely the Italian reality, we are wondering whether the situation is not similar to the big industrial plants in Romania and in other countries of Middle-East Europe. We know for sure that the quality of some managers is very high and so is their disposition to risk. Maybe what they lack is the support of good financial organizations.

## 6. Young Entrepreneurs

We are going to focus on young entrepreneurs now out of two reasons:

- generation takeover of a business is a condition of innovation and continuity;
- as academic educators, we cannot forget our duty to support our students when they start their professional life.

We must say it clearly that neither in Europe, nor in any other part of the world can reduction of unemployment rely on subordinate work. Therefore the young have to pay more attention to self-employment, in which most of them will find their professional achievement. These are the guidelines of the European Union, although we have to admit that this way of thinking is not so easily accepted by the people who used to be educated in the culture of subordinate work. Those who work in the field of stimulating young entrepreneurs know how much resistance has to be faced.

Let us take a view at the Italian experience: in Italy there is a state organization specialized in supporting self-employment among the young, which has been operating since 1986. The company IG (which recently merged with the Company SVILUPPO ITALIA) has formulated some laws and by the end of July 1999 it accepted more than 1500 ideas out of 6000 proposals. The disbursements amounted to 2,500 milliard Italian Pounds offering jobs to 27,000 workers with an average investment per capita of 151 million Italian Pounds.

But the best data regard the high rate of survival of financed, young enterprises. Thus, for example, the enterprises that passed the point of crisis of the first five years and are consolidated represent 74%.

The general balance is good, especially because IG combines the activities of setting up and financing new enterprises with activities of supporting and training post start-up.

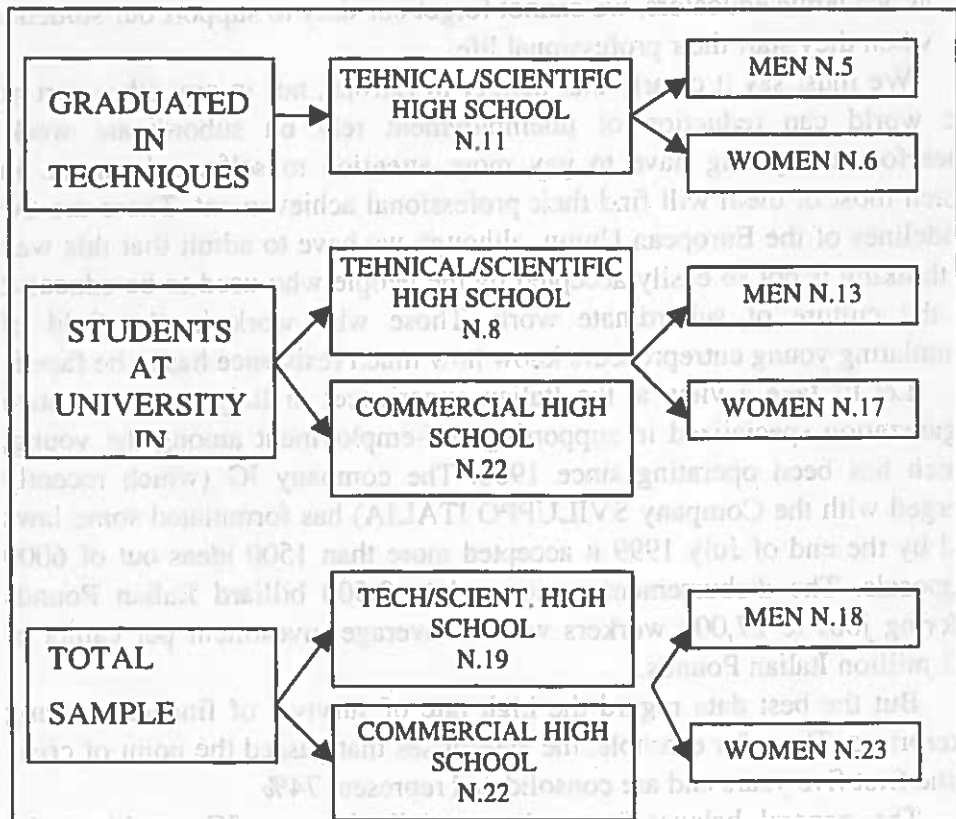


We are all aware of the importance of providing the young with an attractive and rewarding professional future, especially the young with higher education. During the last academic year I conducted some pilot-research about the students who attended my classes. The findings pointed out two categories of youth:

- a group of students in "Business Economics";
- a group of graduates from technical and scientific profile who attended a Master's Degree specialization in "Technical and Economic Management for Business".

The number of people (see Table 1) is not very high (41), but the information obtained is able to stimulate a lot of conclusions.

Table 1  
Characteristics of the sample



The complete elaboration of the answers is still on the way; for the moment I can only anticipate things. A first group of information regards the



opinions of the young about the influence of their studies on three fundamental aptitudes in contemporary life: creativity, innovation, capacity of change (see Table 2).

Table 2

UNIVERSITY STUDIES	APTITUDE TO:		
	CREATIVITY	INNOVATION	CHANGE
TECHNICAL YES	100%	100%	100%
ECONOMIC YES	35%	65%	45%
NO	65%	35%	35%
TOTAL YES	67,5%	82,5%	72,5%
NO	32.5%	17.5%	27.5%

It results that more than two thirds of the young seem to have these aptitudes. An important distinction should be made: all the technical graduates believe in their aptitudes, while the students in economics feel ready to face professional life from the point of view of innovation (65%), but not the same for creativity (35%) and change (45%).

It is evident that we, as professors in economics, are unable to give our students this kind of confidence, and probably we need to examine our position. I think that we are losing time and opportunities to conform to new scenarios.

Another piece of information given by the pilot-research (see Table 3) refers to the kind of work preferred. Thus we can notice a balance between self-employment (55%) and subordinated work (45%). It is interesting to notice that young technical specialists show a clear preference for professional self-employment and for subordinated work in industry, while young economists prefer entrepreneurial activities and subordinated work in services. I think an important role is played by the nature of the academic studies. In particular we must note that no space is given in scientific faculties to entrepreneurial training.

Very interesting and comfortable is the fact that 84% of the young believe in the possibility of pursuing their own professional targets.

Table 3

**Professional aspirations  
(Percentages)**

UNIVERSITY STUDIES	SELF-EMPLOYMENT			SUBORDINATED WORK		
	ENTERPRISE	SERVICES	NOT DECLARED	INDUSTRY	SERVICES	NOT DECLARED
TECHNICAL	22%	78%	//	50%	33%	17%
ECONOMIC	80%	13%	7%	33%	60%	7%
TOTAL	51%	45.5%	3.5%	41.5%	46.5%	12%
DISTRIBUTION BETWEEN SELF-EMPLOYMENT AND SUBORDINATED WORK IN PARTICULAR: TECHNICAL STUDIES ECONOMIC STUDIES	55%			45%		
			60%			40%
			50%			50%
TRUST IN THE ACHIEVEMENT OF ASPIRATIONS	YES 91%	← 84%		→ 75%		NO
	YES 9%	← 16%		→ 25%		NO

Young enterprises want help in the start-up first from business consultants (52.5%) and in the second place from skilled relatives and friends (34.5%). At the same time, they have low confidence in institutional organizations (13%).

Table 4

**Assistance in start-up  
(Percentage)**

UNIVERSITY STUDIES	NON FINANCIAL SERVICES			FINANCIAL SERVICES					
	RELATIVES/ FRIENDS	CONSULTANTS	INSTITUTIONAL ORGANIZATIONS	FAMILY		BANKS		SPECIAL LAWS	
				YES	NO	YES	NO	YES	NO
TECHNICAL	55%	36%	9%	27%	73%	36%	64%	100%	//
ECONOMIC	14%	69%	17%	64%	36%	68%	32%	89%	11%
TOTAL	34.5%	52.5%	13%	45.5%	54.5%	52%	48%	94.5%	5.5%
				24	//	27%	//	49%	//

For the start-up financing they prefer the recourse to special laws (49%), while the support of banks and family is not frequently asked (27% and 24%).

Young technical specialists in particular neglect financial help from family and banks, whereas young economists are more interested in them because they know better the role and the functions of banking.

In conclusion, this paper tried to demonstrate the interest which thorough and organized research on this topic can have.

At this point, we would like to formulate a proposal of cooperation. We suggest establishing a permanent network between the Faculty of Economics of Perugia and the similar Faculty of Iași, as well as with other European economic and technical faculties in order to obtain the following objectives:

- to project, organize and guide research among the students, with the purpose to compare the trends in entrepreneurship. This kind of research can be interesting for the European Union and it has big chances to be financed;
- to set up, in every participant faculty, an "entrepreneurial point" able to assist students and researchers in the start-up of entrepreneurial job. All these points will be connected with each other in order to exchange any kind of experiences and transnational projects;
- to promote the organization of local nets of business angels, so that they can participate together with the universities in growing services and financial support to the young who are going to start companies.

The young expect help from adults and they continue to trust them. More is expected from us, professors, because we instill the thirst of knowledge, success and richness in our students.

We do not possess the "magic wand of Merlin the Wizard", but we cannot ignore the challenge to participate in the building of a world where the quality of life of young people is increasing, to their and our welfare.

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