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## PREDICTING LONG-TERM SURVIVAL CHANCES OF NEWLY FOUNDED BUSINESS VENTURES: BEARING UNCERTAINTY VERSUS MANAGING UNCERTAINTY (INTERACTIVE PAPER)

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## INTERACTIVE PAPER

### PREDICTING LONG-TERM SURVIVAL CHANCES OF NEWLY FOUNDED BUSINESS VENTURES: BEARING UNCERTAINTY VERSUS MANAGING UNCERTAINTY

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#### Principal Topic

While there is consensus among scientists about the importance of business formation on economic development, failure rates of newly founded enterprises are high. Attempts to study the causes of business failure are predominantly based on the ecological approach. Unfortunately, most of these studies investigated closure rates and firm dissolution without distinguishing appropriately between “successful” closure and failure. Studies addressing individual-level predictors of long-term success and failure of business ventures are comparably rare. Moreover, most of them used a limited timeframe, making it impossible to detect long-term effects.

We distinguished between long term success and venture failure, the latter referring to venture closure because of financial problems, such as insolvency. Our model developed here draws on the concept of uncertainty to explain long term outcomes of new business ventures. Specifically, the amount of perceived uncertainty (human capital), the willingness to bear uncertainty (risk-propensity), and the way in which owners specify challenges and unknown issues to manage uncertainty successfully (business planning) help managing uncertainty successfully and produce positive long-term consequences.

#### Method

Our study relies on a sample of 201 small scale business start ups which were studied over a period of 12 years. Wave one was drawn in 1993/94 and consisted of 201 newly founded enterprises with at least one employee. Wave 2 was drawn in 1997 and consisted of 119 enterprises. In 2006, information about venture survival was collected from 189 enterprises of the original sample. We relied on interviews and questionnaires.

#### Findings and Implications

Our findings suggest that human capital and risk-propensity predict long term growth. Moreover, human capital and start-up planning predict negatively venture failure. Notably, the negative effects of our predictors on failure were not mediated by prior growth, a result that contradicts major economic theorizing. We rather found direct and long term effects of our predictors. These findings suggest a number of theoretical and practical implications. Entrepreneurship theory needs to address the question why early characteristics and activities produce such long term consequences. Moreover, since uncertain and dynamic environments provide opportunities to run an enterprise successfully, entrepreneurs should not avoid such situations but rather face them head on, risk and all.

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