Formation of new businesses in Switzerland – An empirical analysis

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Abstract

Because of their importance for dynamic development of the Swiss economy, over the last few years business formation has been viewed with rapidly increasing interest from the perspectives of practical economic policy at national, cantonal, and communal level and from the perspectives of private clubs, federations, formal and informal networks.

According to statements of the Federal Office for Vocational Education and Technology (BBT, Bern), there are more than 200 initiatives for the promotion of business formation in Switzerland. However, a complementary scientific study of these initiatives is lacking. Serious deficits in knowledge exist, the present research project attempts to make a contribution to a systematic removal of some of them.
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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, business formation is deemed highly relevant to the discussion, in relation to the following topics in particular: the contribution of new businesses (1) to economic and employment growth, (2) to structural change, (3) to technological change and innovation, and (4) to stimulation of product and factor markets. 

In spite of their potential economic importance, so far, recent economics-based analyses of business 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 businesses. In 1997 DETTE published a research report on financing as the bottleneck for new businesses. In his dissertation published in 1990, KUIPERS studied the success factors of business formation. In her dissertation ZIEGERER compared business formations by women and men over a period of time. Finally, MOLL 1997 summarised all-important studies on business formation in Switzerland.

According to a recent circuit lecture by the ETH on the topic “Innovation, Venture Capital and Employment” and the book that it was based on, with the same title, published by Scheidegger et al (1998), currently in Switzerland there is only anecdotal evidence on the phenomenon “business formation” and its economic importance. Hence major deficits exist in this area. The present research project wants to make its contribution in this area.

The rest of this paper, which itself summarises an extensive study on the same topic (Harabi/Meyer 2000), is structured as follows: After formulating the main 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).

1 See eg. Harabi/Meyer (2000).
2 Main Questions and Methodology

2.1 Main Questions of the study

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

Who are these new self-employed?

What factors affect their success or failure?

What conclusions can be drawn from this analysis for practical economic policy and the self-employed?

From an economics viewpoint industrial and business economic literature points out a number of central factors which are potentially helpful in understanding the success and failure of business formations. These factors can be roughly divided into: (1) people-related success factors, (2) business-related success factors, (3) environment or sector-related success factors. These three success factors do not affect a business' success chances independently from each other; instead, their effects are to a degree linked with each other.

Ad (1): Management literature puts great emphasis on the personal characteristics of the entrepreneur to explain the differences in business growth between individual businesses. 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 empiric studies come to the conclusion that there is a correlation between the level of the human capital and business performance. Studies which link the psychological characteristics of the entrepreneur with business performance discover that often very strongly achievement oriented, motivated people are at the top of above averagely successful businesses. 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 business performance.

Ad (2): The largest part of the literature on business growth deals with analyses of the correlation between business characteristics and business growth. More recent studies have shown that employment growth rates decrease with an increase in business size. Furthermore, the majority of these studies confirm a negative correlation between business age and employment growth rates. However, businesses also differ with regard to their ownership structure. Harhoff et al (1998) argue that the legal liability position of a business which is determined by the selected legal form, influences the growth rate of a business. When selecting

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3 See Finkelstein & Hambrick (1990) and Bonne et al. (1996).
4 See Brüderl (1996).
the legal form entrepreneurs also determine the state of liability limitation. The authors show that businesses 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 business growth. He analyses the relationship between minimum optimal business size, intensity of technology and business growth and can demonstrate a positive correlation between the minimum optimal business size in an industrial sector and the business growth rate of newly formed businesses. Audretsch explains this result as follows: Newly formed businesses are forced to quickly reach the minimum optimal business 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 businesses in high-level technology sectors are high.

Dunne et al. (1989 a, b) analyse the determining factors of business growth and failure of American businesses in the manufacturing industry. The authors show that businesses’ growth rates vary significantly between 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 businesses 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 developmental dynamics within a sector and businesses‘ growth rates. They argue that growth rates of businesses in developing sectors should be higher than those of businesses in stagnating or decreasing sectors. Young and growing markets are as a rule characterised by low market entry barriers and thus by businesses’ extensive market entries and departures. Individual businesses therefore have different growth potentials as determined by their sector’s development stage.

Based on the current state of scientific discussion of the economic and empirical formation research as has been outlined above, standard qualitative and quantitative methods for economic and social research have been employed. In the following section we will describe these in more detail in order to answer the above mentioned main questions.

2.2 Survey Methodology

2.2.1 Written 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 potential young entrepreneurs.
More than 5000 owners of businesses 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 West Swiss who received the questionnaire and accompanying letter in French. According to figures from Creditreform, the proportion of West Swiss businesses contacted corresponds to the proportion of business formations in West Switzerland. For business addresses we relied on the business CD-ROM from Orell Füssli which contains all businesses included in the trade register.

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

The businesses that replied can be classified as follows:

Around 100 businesses have either not yet started any business activities although they are already included in the trade register (some are simply “letter box” businesses), or they have returned the questionnaire uncompleted without any comment.
Almost 300 businesses were branches or subsidiaries of another business. Behind those businesses are no people who have become self-employed. These are not considered in our study.

Another 300 businesses had already started trading pre-1993. Between the years 1993 and 1997 they were either entered in the trade register for the first time – or a change of formation took place (eg change of legal form, change of name, or re-structuring within a concern), which was entered in the trade register as a “new formation”. These businesses were also excluded from the study as they are classed a new businesses only from a legal point of view but not however from an economic point of view.

743 businesses remain which were actually formed between 1993 and 1997, or to be more precise, started trading after 1993. Behind these businesses are people who, with this business formation, ventured into self-employment. 602 of these businesses come from German Switzerland, 141 from West Switzerland. Thus, the net return in West Switzerland is a little smaller than in German Switzerland.

2.2.2 Personal Survey

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 business.

The interview followed a rough guideline that determined the topics to be addressed. Within this topic area – eg the road to self-employment or preparation of the business formation – 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 interviews were then put into an easily readable form and later published in the serial Discussion Papers of the Fachhochschule Solothurn Nordwestschweiz. 6

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 business in the trade register.

3 The most important results

From the multitude of empirical results that can be gained from an evaluation of the survey data, a selection from the following topics follows: (1) Portrait of business entrepreneurs. (2) Success of business formations. (3) Success factors of business formation. (4) Correlation between success and success factors. (5) Future prospects.

3.1 Portrait of business entrepreneurs

Entrepreneurs 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 business formations

The most important proof of success of a newly formed business is its existence on the market several years after its formation. As our random sample is based only on surviving businesses, strictly speaking we cannot give any reliable information. The results summarised below refer to the success of businesses which have survived their formation stage.

The majority of interviewed entrepreneurs 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 turnover, 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 (ca 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 in 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 businesses

In order to understand the findings regarding the success of newly formed businesses, questions were asked on the factors which contributed to success. As has already been mentioned above, these can be roughly divided into 3 categories: people-related, business-related and environment or sector-related success factors. Although in reality these 3 categories do not affect a business’ chance of success independently and are indeed to a degree linked with each

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7 For an extensive presentation of results see Harabi/Meyer (2000).

8 We are however attempting to carry out an estimate on the survival probability of businesses, see S Harabi/Meyer (2000)).
other, for analytical reasons and to assist clear presentation they will initially be presented individually in the following.

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

The general human capital of people 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 people 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 businesses. 90% of those interviewed regarded intrinsic motives such as “independence”, “implementation of own ideas”, or “self-realisation” as either “rather important” or “very important”. “Extrinsic” motives such as “finding a gap in the market” 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 idea), to work long unpaid hours and to master the many occupational/professional and personal difficulties associated with forming a business.

A further success factor is the activation and mobilisation of contacts. The recently self-employed are embedded in familiar social relationships and business networks which can result in various forms of support (active co-operation, financial support, advice, etc).

Business-related success factors can be summarised as follows:

Business size at the time of formation. Firstly, 80% of all businesses 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) businesses realised a turnover of up to FR 100,000, and (22% of all interviewed) between FR 100,000 and FR 250,00. The typical businesses interviewed were small businesses.

Actual “novelty” of businesses at the time of formation. A significant majority (73%) were original new formations; the rest were takeovers (10%), inheritances (5%), etc. Only a few businesses were in the early phase of their life cycle (2%), the majority were either in the developmental phase (54%) or in the consolidation phase (38%).

Legal form of businesses 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” (private limited company).

The following can be said about business strategies at the time of formation: Firstly, most businesses interviewed selected the form of sole formation (62%) with one fully employed founder (87%) and an average of 1.5 partners. Secondly they established the business location in their own home canton, mainly for economic reasons. Furthermore, at the time of formation, they offered predominantly imitative goods, i.e. products and services already available on the
The most important results

market, and this normally only for the national 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 business formation was in the services sector (90%); businesses therefore work under the environment and sector-specific conditions which are normal in the services sector. Business formation in manufacturing and industry was significantly less frequent (9.5%). These figures show that the young entrepreneurs interviewed also make a contribution to the structural change in the Swiss economy.

Amongst the sector-specific factors that have a predominantly positive effect on the success of the businesses interviewed, technological developments in particular are mentioned. Presumably, as we are mainly dealing with businesses in the services sector this relates to the fast development in information and communication technologies in particular.

Elements of market structure have had a generally negative effect on the success of businesses 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 businesses interviewed (competition and the resulting behaviour are often regarded as negative!), it must however also be judged as positive from an economic point of view (aspects of efficient allocation of business resources and the related consequences for consumers etc).

New businesses have a positive competitive effect.

The majority of businesses interviewed (72%) judged public support measures as neutral - in regard to their influence on the business’ success. Furthermore there was a slightly higher percentage of positive (around 3%) over negative attitudes. As a whole, public support measures have a neutral to positive effect.

Legal regulations and formalities were regarded/estimated 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 underlying relationships between these variables. As has already been mentioned, the three success factor groups do not affect a business’ chance of success independently from each other; instead their effects are to a degree linked. In order to analyse these links and the underlying relationships an “econometric” model was set up. Business success is the variable in question – calculated on the turnover growth rate. A selection
of the above mentioned success factors were used as explanatory variables according to empirical formation research. The resultant outcomes of this model are briefly summarised here:

People-related success factors

As may be expected, the type and length of a founder’s school education improve the growth potentials of his business. A higher education correlates with a higher turnover growth. 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 turnover development of his business. Swiss data shows a positive correlation, however it is statistically weak and not significant. This conclusion is in contrast with the empirical result of a foreign study according to which founders with longer general professional experience less frequently aim at an expansion of their businesses.

The number of years of a founder’s professional experience in his current field of activity also has a positive influence on his business’ turnover development.

The hypothesis that a founder’s experience of self-employment has a positive influence on a business’ success is confirmed. This relationship is statistically significant.

However a founder’s experience of leadership has no positive influence on business success. According to the estimated results of our model, the relationship is both negative and statistically significant. Having belonged to middle or senior management before self-employment is no guarantee of successful later self-employment, at least not if measured in turnover development.

Business-related success factors

In contrast to empirical studies so far, original new business start-ups seem to be more successful than business takeovers (of any kind). This relationship is statistically relevant.

The age of the newly formed business seems to have a positive influence on the business’ success. The longer a newly formed business survives, the higher is its average annual turnover 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 turnover development. When measuring business size against this factor the hypothesis is confirmed that the smaller a new company is the higher are their future annual turnover growth rates. This relationship which has also been confirmed in numerous other studies is statistically significant in Switzerland.

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9 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 distribution 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.
The most important results

The size of turnover in the first year, however, has a decisive positive influence on the later turnover development of a newly formed business. This relationship is quantitatively strong and statistically significant.

Finally there is no statistically significant relationship between the legal form and the turnover development of a newly formed business. Public and private limited companies do not necessarily achieve higher annual turnover growth rates than sole traders.

Environmental and sector-specific factors

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

In the industrial sectors “manufacturing /industry”, “construction”, “hospitality”, “commerce”, and “data processing/Informatics”, environmental conditions for new businesses are worse than in the reference sector “other services”. Businesses in the first four mentioned sectors have a lower turnover development than those in the last mentioned sector.

In the industrial sectors “transport”, “training/education” and “health and social services” environmental conditions are better than in the reference sector. Average turnover development in these three sectors is better than in the “other services” sector.

3.5 Future prospects

The new businesses interviewed look towards the future with positive expectations. Almost 80% expect an increase in turnover and profit over the next 2 years which means that they would make a greater contribution to economic growth. Businesses 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 business (process innovations). When comparing these future plans with the situation at the time of formation (see above), a considerable increase in new businesses’ 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 increasing. This is a clear indication that in time, newly formed businesses will fulfil the contribution to the innovation process and the technological change of the Swiss economy that was mentioned at the beginning.
4 Conclusions

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

4.1 Business founders

In a liberal society such as Switzerland, formation and continuation of a business 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 as reluctant as possible to interfere.

This basis shaped the present study. It has been conceived primarily from the viewpoint of business founders with the aim of producing a profile of strengths and weaknesses for the various phases of formation from that perspective. Every currently active or potential business founder can use these findings as a benchmark. If active new business entrepreneurs attempt to explain the success (or failure) of their business formations hitherto or if potential business 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 business start-up characteristics and/or the respective background factors that illustrate the close and wider economic and social environment of the majority of the businesses surveyed here. They must consider that the three success criteria do not affect a business’ chance of success independently but that their effects are to a degree linked together.

Two central problems which appear in more than half of all new businesses 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 the new business 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 business 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).
Conclusions

The competition, which has a significant influence on a new business’ success on the market, should be given the attention it deserves. It is difficult to understand that almost 30% of business founders had not dealt with an analysis of the competition at all (a further 42% only sketchily). In general it can be said that new businesses 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 the competition are neglected.

It is therefore not surprising if banks and other financial backers 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 business has not considered expected finance requirements and liquidity development. The majority of new businesses have done this. However, it can be noted that new businesses are often too optimistic in their planning. Apart from best-case scenarios, less favourable scenarios must also be anticipated and their financial consequences calculated. 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

Banks are important to business founders for two reasons: firstly, as a source of finance and secondly, advising and looking after new businesses. 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 young entrepreneurs in particular, objectively through a more intensive information policy. The mutual information transfer about the possibilities and limitations of project financing should be intensified within a framework of formal and informal networks (Erfa-Groups). 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 business formations.

Furthermore, financial coaching of young entrepreneurs by the Swiss bankers federation and their supporting banks should be intensified. This coaching must support the young entrepreneurs, often inexperienced in questions of banking economics, 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 organisations – such as Novartis, Sulzer, ABB, Calida or Swisscom – should increasingly make corporate venture capital available.

Finally, not only cantonal and regional but also national banks should participate in the commercial guarantees system (“Bürgschaft 2000”). This would help them improve their reputation with young entrepreneurs and the public.
4.1 Business organisations (eg Chamber of Commerce and Trade Association)

The main tasks of these organisations are the provision of information, training and development, and advice as well as political representation of young entrepreneurs.

A central success factor for young entrepreneurs is previous experience of sector 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 young entrepreneurs.

Young entrepreneurs’ chances of success differ between the various sectors. They often underestimate the market situation (eg competition, growth, etc) in their respective sectors. 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 business.

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 trade association and the chamber of commerce) adequately represent the (economic and) political interests of these new businesses. An opening-up to the concerns of new businesses and improved co-operation are to be recommended.

4.2 Public Authorities

As the formation of new businesses can make a contribution to the general growth of employment and the economy, to structural change, to maintaining competition in the markets and finally to innovation processes and technological change in Switzerland, they are also an important topic for economic policies. A well-founded knowledge of this business group by the sponsors could lead to an efficient economic policy at a national, cantonal and communal level. We hope that this study will make a contribution to this.

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 businesses. State support measures for education, training and further education should also take this into consideration. To this end additional “founder” chairs should be created at universities and technical colleges. Within the framework of the federal initiative “Virtual Campus Switzerland” or alongside it, a virtual college for entrepreneurship and innovation should be created for the whole of Switzerland.

10 National social policy is also very important for business 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 businesses which are therefore not affected by such social problems.
Conclusions

Research and technology policy. The present study indicates that only a small proportion of new businesses 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 businesses. In view of the previously described problems numerous new businesses have regarding funding, the existing state measures (such as the commitment of citizen commercial co-operatives and the hotel credit company, interest charge contributions, financial investment in advisory services etc) should be continued and new financing instruments (such as direct or indirect financial support of new businesses particularly in the critical seed and start-up phases) should be explored. Tax relief on option profits or tax deduction on financial investment in new businesses by the so-called "business angels" belong to the latter category.

Competition policy. The chance of success of a new business varies from one sector to another. The entrepreneurs interviewed regard an effective and ‘fair’ competition in the individual sectors as important. To help with this, the current opening-up (liberalisation) 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 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 (eg completion of forms via the internet) is possible.

Coordination of existing initiatives for forming new businesses. In Switzerland numerous initiatives in favour of the formation of businesses exist. The state could take on a coordinating role by creating new 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 regulations of the state are of great importance for the formation of new businesses. However they are in part either not considered at all or only negatively perceived by new businesses. Some examples:

A proportion of young entrepreneurs interviewed (20%) state that state and cantonal authorities (eg employment offices) explicitly hinder the decision to go self-employed.

Start-up centres 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 site 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 selection. 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 businesses 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 business 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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