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1. Introduction

The theme of this volume is the life cycle of entrepreneurial ventures. The term "life cycle" refers to the sequence of stages in the evolution of new ventures. These stages commence with the intentions and actions of nascent entrepreneurs, and the creation of the venture as a new organization. They are accompanied by the acquisition of necessary financial and nonfinancial resources. As ventures develop, their owners remain instrumental in shaping their performance; and the venture development process culminates in involuntary exit or purposive harvesting by the entrepreneur. These stages furnish a natural framework for organizing the chapters that comprise this volume.

The venture life cycle offers a useful framework within which to analyse entrepreneurship. While it is, of course, not the only standpoint from which to approach the subject, it helps to organize and clarify the varied decisions that entrepreneurs make, the rationale for various organizations and institutions observed around us, and how the conjunction of entrepreneurs and organizations shapes social and economic outcomes.

This volume shares several features with its predecessors in the *Handbook* series. First, the volume takes an avowedly interdisciplinary approach. It contains chapters written from a variety of disciplinary backgrounds, including economics, strategy, finance, industrial organisation, and sociology. Second, the list of contributors and the evidence base from which the contributors have drawn is truly international. No fewer than a dozen different countries are represented among the list of contributors, and every author cites evidence relating to a range of countries. Third, every chapter provides a self-contained overview of the field to help scholars quickly familiarise themselves with the subject at hand. Fourth, all chapters have been anonymously peer reviewed and carefully revised before finally being accepted for publication.

There are also a few differences with previous volumes. First, the sequential life cycle structure of this volume is novel. Second, many of the chapters contain new theoretical or empirical findings in addition to overviews and syntheses. Indeed, some of the chapters combine theory and evidence to better justify the former and motivate the latter. This was not planned as part of a deliberate editorial strategy, but was an outcome that emerged naturally and organically as the volume developed. Third, some interesting and topical issues that currently lack accessible, up-to-date and concise literature reviews are included, namely on nascent entrepreneurship, entrepreneurship education, informal sources of venture capital, social entrepreneurship and harvesting. It is hoped that these features will enhance the appeal and usefulness of the volume.

Of course, one volume cannot hope to cover every topic relating to entrepreneurship and venture life cycles. It is important to note at the outset that the life cycle of new entrepreneurial ventures is related to, but distinct from, the life cycle of products and industries. Evolutionary perspectives regarding product and industry life cycles are discussed in one or two places below but lack a dedicated chapter of their own—reflecting this editor's preference for a focus on a sequential life cycle structure of ventures specifically rather than industries as a whole. Also, the volume does not dedicate chapters to any of the following topics: the psychology of entrepreneurs, theories of the firm, innovation or entrepreneurship by employees of existing firms ("intrapreneurship"). These issues have been covered in previous volumes of the *Handbook* series; I have tried to avoid duplicating their insights here.

1. BEGINNINGS

The first stage in the life cycle involves the initiation of the venture. This typically requires the commitment of time and resources to found a new firm. The agents who undertake the activities leading to new venture creation are called *nascent* entrepreneurs. Launching a business successfully is a complicated process which has been the focus of a concerted research effort over the last decade. This literature has identified the use of appropriate strategies by the entrepreneur as key to making a successful start.

The two chapters in Stage 1, by Joachim Wagner (Chapter 2) and Shaker Zahra (Chapter 3) provide excellent overviews of these two topics: nascent entrepreneurs and new venture strategies. In his survey, Joachim Wagner follows contemporary empirical practice by defining a nascent entrepreneur as someone who is currently trying to start a new business; who expects to be the owner or part-owner of the new firm; and who has been active in trying to start the new firm in the past 12 months without yet having a positive monthly cash flow. Wagner's chapter is essentially an overview of some empirical facts about nascent entrepreneurship distilled from recent research. Wagner first summarises evidence about the incidence of nascent entrepreneurship before surveying the start-up activities of nascent entrepreneurs. He then goes on to provide a “birds-eye view” of the characteristics of nascent entrepreneurs; the factors associated with becoming a nascent entrepreneur; and the outcomes of nascent entrepreneurs, in terms of whether they start, quit or continue preparing for eventual business entry. Wagner’s chapter provides a wealth of information about nascent entrepreneurship, summarising key findings from a large, fast-growing and diverse literature which looks set to continue growing rapidly in the years ahead.

In Chapter 3, Shaker Zahra reviews the literature on new venture strategy and its implications for organizational survival, financial performance and growth. Zahra discusses competitive, cooperative and political strategies, and highlights the importance of synchronizing these strategies. A particular strength of this chapter is its ability to uncover similarities and unifying themes in apparently divergent views. In this way, the chapter succeeds in resolving some apparent contradictions by putting the different perspectives into a complementary context and identifying areas where convergence appears to be within reach. Zahra goes on to highlight the contributions of the different strategic approaches, as well as their shortcomings. He concludes by identifying several implications for future research.

The empirical and theoretical perspectives of these two chapters weave a rich and complementary tapestry of issues facing entrepreneurs early on in the venture life cycle. Particular attributes and circumstances appear to set nascent entrepreneurs apart from other people; and what happens to them after they are launched—the topic Wagner ends up discussing—is shaped (as Zahra shows) by the strategic choices that entrepreneurs make at the outset, and which they modify as their business develops. Perhaps this is the most crucial stage of the life cycle in the sense that if entrepreneurs do not make the right choices at the start, they may never survive long enough to contend with the challenges that emerge at later stages.

2. ASPECTS OF ENTRY AND NEW VENTURE CREATION

Information about opportunities, strategies and resources is crucial to the entry process. It appears that the entrepreneurship literature has sometimes discussed opportunities, information and venture performance in a rather passive way, asserting, for example, that some people are just innately more alert or responsive than others. Echoing the increasing policy interest in successful entrepreneurship, however, another strand of the literature is beginning to take a more proactive approach by asking whether entrepreneurship education can purposefully augment and enhance the skills that are needed to succeed in entrepreneurship. As Lena Lee and Poh-Kam Wong remark in Chapter 4, the literature on entrepreneurship education has to date been "largely scattered and sporadic." Lee and Wong's chapter usefully consolidates and synthesises this literature by reviewing what we know about the extent to which entrepreneurship can be taught, and by evaluating the structure, efficacy and growth of entrepreneurship education courses. An interesting insight from this chapter is that entrepreneurship education should be tailored to the development of the venture. This recognizes that the learning needs of entrepreneurs generally change as their ventures evolve.

The findings of Herbert J. Schuetze and Heather Antecol (Chapter 5) also point to the importance of temporal changes in the propensity to venture, here with regard to immigrants. This is the first of three successive chapters that explore different economic and demographic aspects of new venture creation. Schuetze and Antecol observe that despite very different rates of self-employment in Australia, Canada and the United States, propensities to be self-employed among immigrant men in these countries tend to catch up with and then overtake those of otherwise similar indigenous citizens within 10 to 20 years after arrival. The "quality" of these immigrant enterprises, on the other hand (as measured in terms of earnings outcomes) is uneven, varying between these three countries. Schuetze and Antecol discuss the likely impact of immigration policies in these countries on the quality and quantity of immigrant start-ups—in the context of other institutional and market factors that affect venturing. Australia's relatively rigorous "points" requirements for entry appear to have had the expected effects both in terms of promoting business start-up and facilitating favourable earnings outcomes among those who have created new ventures.

Even if entrepreneurs possess the requisite training and quality to enter the market, environmental factors have an important impact on their emergence and early performance prospects. One environmental factor that is attracting growing interest is geographical location. In Chapter 6, David Audretsch and Erik Lehmann explain how and why geography matters for new venture creation and the performance of new firms. A key element in the new geography of entrepreneurship is the existence of knowledge spillovers, which new ventures are often uniquely well placed to exploit. Audretsch and Lehmann review the extensive literature on spillovers, location and start-ups, and then go on to present some novel results derived from a new database comprising 281 publicly listed new ventures in German high-technology and knowledge-intensive industries. The chapter contains a lively blend of theoretical and empirical insights that illuminate this topical and interesting research area.

Geography is one of the factors affecting entry and exit decisions covered in Martin Carree's review. Carree first connects the entry decision to the multi-disciplinary entrepreneurship literature, and then reviews the last four decades of empirical research on entry and exit of firms in terms of incentives and barriers to entry and exit. To complement earlier chapters that focused on individual- or micro-level approaches to new venture creation, Carree's chapter takes a more aggregate look at these processes, including variations in entry and exit rates over time, across space and between industries.

Together, these four chapters provide comprehensive overviews of the individual, spatial and industry-specific factors that bear on the entry decision. Each of them is stamped with a strong policy emphasis. This emphasis is projected at the individual level (Lee-Wong and Schuetze), at the regional level (Audretsch and Lehmann) and at the industrial and national level (Carree). Although these policy implications are not always discussed in detail, the reader should usually be able to surmise the relevance of the material covered here to the policy community.

3. FINANCING VENTURES

Many ventures require finance to help them launch and grow. Finance can enable ventures to attain sufficient size to overcome the scale entry barriers mentioned in Carree's chapter and to compete effectively with incumbent firms. And, of course, external funds are often needed to finance growth later in the venture life cycle. Finance issues are the focus of four chapters in this section of the volume.

Two of the most important forms of external venture finance in developed countries are debt finance and equity finance. Robert Cressy (Chapter 8) and Christian Keuschnigg and Søren Bo Nielsen (Chapter 9) provide overviews of important aspects of formal debt and equity finance. These chapters are complemented by Colin Mason's review of informal sources of venture finance (Chapter 10) and João Pedro Azevedo's discussion of micro-finance schemes (Chapter 11) which are more commonly observed in developing countries.

Each of these chapters extends their purview beyond the traditionally narrow confines of these topics. In his comprehensive chapter, Cressy explains the structure of debt finance in practice; explores the role of collateral and the possibility of credit constraints; and assesses market and government solutions to the problem of limited credit. Considerable attention is devoted to the proposition that a correlation between entry into entrepreneurship and personal wealth signals credit constraints. In a similar fashion, Keuschnigg and Nielsen go beyond a discussion of venture capital investment to consider in depth the interface between public policy, venture capital and entrepreneurship. For his part, Mason supplements his overview of the scale and scope of the informal venture capital market with a discussion of the investment process observed in informal venture capital, and an explanation of the new organizational formats that are emerging for angel investing. And Azevedo moves beyond institutional detail to consider the pressing issue of poverty reduction in developing countries.

The role of public policy evidently plays a prominent role in each of these chapters. In Chapter 8, Cressy discusses the possibility that start-ups face credit constraints that either prevent individuals from launching new ventures or that leave them under-capitalised if they do. Under-capitalisation can leave firms vulnerable to failure later in the life cycle if, for example, they are poorly equipped to fend off competition that intensifies as the venture seeks to grow (see also Chapter 17 of this volume). Cressy's chapter contains a detailed analysis and critique of credit constraint models before considering what markets and governments can do to mitigate them. Cressy concludes that governments are invariably better placed to resolve these problems than markets are.

In Chapter 9, Keuschnigg and Nielsen analyse the effects of public policy for venture capital. This chapter discusses the consequences of various taxes and subsidies for the rate of business creation and the quantity and quality of Venture Capitalist (VC) financed entrepreneurship. These include subsidies to start-up investment, capital gains taxation, income taxation and corporate income taxation. An important insight of this chapter is that these taxes all become relevant at different stages of the firm's life cycle. For example, the taxation of mature firms might be as important for start-ups as the direct taxation of infant companies because, by reducing the value of mature firms, the corporate tax diminishes the gains from setting up a new venture in the first place. This motivates Keuschnigg and Nielsen's use of a fairly technical multi-period model. The implications of their model are striking, suggesting that there is a quality-quantity trade-off in the promotion of new ventures, and that policies should aim more for quality than for quantity. A better quality of start-up goes hand in hand with superior incentives for entrepreneurial effort and VC support and results in lower failure rates among start-up firms.

Informal venture capital typically plays a much greater role in funding start-ups and the initial growth stages of entrepreneurial ventures than formal venture capital does. Despite this, the literature and the number of active researchers in this field remain small. In Chapter 10, Colin Mason offers a definitive overview of the attitudes, behaviors and characteristics of business angels, their economic performance, and government efforts to expand the supply of informal venture capital. The following government interventions receive particular attention: business angel networks and tax incentives. However, the efficiency of these interventions is not yet well understood. Future researchers might fruitfully attempt to apply modelling techniques such as those used in Chapter 9 to the informal venture capital sector to better understand the scope for public policy in this domain.

In Chapter 11, Azevedo explores market rather than government solutions to problems of borrowing constraints in developing countries. These market solutions take the form of microcredit provided by microfinance institutions (MFIs). MFIs are an increasingly important source of funds in developing countries where access to formal credit markets is often limited, for reasons that Azevedo explains. Looking only at credit services, MFIs account for about 33% of overall loans in the countries under study. As Azevedo points out, this is an impressive accomplishment given that MFIs as institutions are relatively young and small. After describing the context of microenterprises, Azevedo explains how and why microentrepreneurs benefit from the provision of these financial services. Azevedo also addresses several other important issues in his chapter, including the funding mechanisms and financial self-sustainability of MFIs, their impact, and policy implications of using microfinance as a microenterprise promotion tool.

4. VENTURE DEVELOPMENT I: PRIVATE SECTOR ISSUES

Once an entrepreneur has identified their business opportunity, formulated their strategy and obtained the necessary finance, he or she launches his or her venture. The entrepreneur has to decide what to produce and in what quantity, and what factors of production to utilize in order to achieve his or her goal. This is a crucial aspect of venture development, as unwise decisions at this stage can have long-term deleterious consequences for the development and even survival of the venture.

Two pertinent issues are explored in this part of the volume. In Chapter 12 the entrepreneur's production decision is discussed. It is argued in that chapter that a production function framework can link together several salient issues in entrepreneurship, including entrepreneurial psychology, innovation, entrepreneurship education and female entrepreneurship. A variety of aspects of production that are specific to entrepreneurs and entrepreneurship are also discussed, including entrepreneurial ability, the entrepreneur's choice of production function, knowledge spillovers and "entrepreneurship capital." The chapter closes with some suggestions for future research, including ways of consolidating the linkages that are explored here.

While some dynamic aspects of venture development are discussed in Chapter 12 (notably the entrepreneur's decision to change technology), that chapter does not address directly the question of growth. Two chapters in this volume treat this issue, the first being Chapter 13, by Per Davidsson, Leona Achtenhagen and Lucia Naldi (the second, by Marc Cowling, is connected to survival so is treated at a later stage of the volume). These authors discuss a comprehensive range of issues relating to venture development, including how growth is measured, the factors that facilitate and hinder it, stages and transitions in the growth process and several implications of growth. They also discuss different ways that ventures can grow, including growth by acquisition and growth by expansion into international markets. The authors argue that current research on growth has largely ignored the particularities of small firms and has in turn been under-researched by small business scholars.

Clearly, production decisions affect ventures' survival and growth prospects. Hence the issues covered in Chapters 12 and 13 are indirectly linked. Most of the discussion in these chapters centers on private returns that are captured by the entrepreneurs themselves. However, entrepreneurs' decisions and venture development outcomes carry wider socio-economic implications as well. Hence the next part of this handbook addresses social issues arising from venture development.

5. VENTURE DEVELOPMENT II: SOCIAL ISSUES

The two previous chapters discussed the challenges facing entrepreneurs trying to maximize their private returns net of their costs. Attention turns in the present section to some broader social issues arising from venture development. These issues are varied and numerous, and we only have space to treat two, specifically social entrepreneurship and entrepreneurship among disadvantaged groups, namely women, minorities and the less educated. To some extent, these topics tie in with gender and ethnicity issues that were identified in Chapter 13.

Helen Haugh discusses nonprofit social entrepreneurship in Chapter 14. This topic currently occupies a rather peripheral position on the edge of entrepreneurship research; her chapter therefore does a major service by assembling in one place the scattered and occasionally transient literature relating to it. This is all the more important as research into social entrepreneurship is beginning to burgeon, perhaps reflecting the growing social and economic importance of this sector. As Haugh points out, by the late 1990s the nonprofit sector accounted for aggregate expenditure of $1.3 trillion, representing around 5% of Gross Domestic Product in many countries and employing over 4% of the economically active population. Haugh uses a supply and demand framework to understand the nature of social entrepreneurship, and she examines the characteristics and motivations of social entrepreneurs and the process of social entrepreneurship, including social venture creation and performance measurement. She emphasizes the increasing pressure on nonprofit organisations to adopt more enterprising strategies. An impressively wide array of material covering a variety of topics, issues and perspectives is combined in a truly interdisciplinary, information-packed chapter.

Another social issue that engages policy makers is entrepreneurship among disadvantaged groups, including women, ethnic minorities and less-educated workers. The creation and development of sustainable businesses, it is hoped, can help members of these disadvantaged groups escape discrimination and poverty. Robert Fairlie explores this issue in Chapter 15, where he first documents and then seeks to explain variations in business ownership rates by gender, ethnicity and education in Britain, the USA, Canada and other countries of the OECD. Fairlie splits self-employment rates into entry and exit components and so forms a bridge between the first and last stages of the venture life cycle. As he observes, venture development is conditional on both entry and continuation (survival) so it is helpful to analyse entry and exit separately. This distinction also turns out to be useful for understanding why business ownership rates are so low for members of some of these disadvantaged groups. Blacks in particular have both lower entry rates and higher exit rates than whites. The determinants of entry and exit are found to be different, although education (Chapter 17) and access to bank finance (Chapter 8) tend to affect both. That much of the underlying variation in these diverse entry and exit patterns remains unexplained only highlights the urgent need for further research in this area.

As should be clear from the preceding chapters, venture creation and development carry economic and social implications which extend beyond private benefits that can be appropriated by entrepreneurs. Successful venture development may therefore advance the interests of society as a whole, not just a small enclave of business owners.

6. VENTURE PERFORMANCE AND HARVESTING

The final stage of the venture development process brings together several phenomena, including survival, profitability and harvesting. The remaining chapters of the volume deal with each of these topics.

Pressures to survive and grow are often intense for small entrepreneurial firms. As Marc Cowling points out in Chapter 16, it is helpful to take account of survival when analyzing venture performance—not least in order to avoid problems of survival bias entailed by studying only surviving ventures. In his chapter, Cowling accordingly explores the two issues together. He draws on the available evidence to identify the determinants of survival and growth. His overview emphasizes a range of factors, including human capital, personal characteristics, business characteristics and macroeconomic conditions. Cowling also spends some time discussing the impact of public unemployment assistance programs on survival rates, and the effects of entrepreneurs' competencies and strategic decisions on venture growth. These findings are likely to be of particular interest to policy makers and entrepreneurs. Cowling's treatment of growth complements that given by Davidsson and co-authors in Chapter 13. His chapter is positioned at a more aggregate level and provides more of a policy discussion than Davidsson et al's; it also treats different material and is "narrower but deeper" in its treatment than Davidsson et al. Cowling also provides helpful summary tables comparing previous studies which facilitates an in-depth treatment of the determinants of these phenomena.

Of course, survival and growth are two widely used measures of venture performance; but other measures exist too, the most common being profitability. In Chapter 17, Mirjam van Praag reviews the impact of human and financial capital on profitability with an emphasis on the role of formal education. She urges entrepreneurship scholars to use state-of-the art econometric techniques to measure the returns from schooling in entrepreneurship. She goes on to summarize some of the recent empirical findings from studies which point to higher returns for entrepreneurs than for employees. Van Praag also extends Robert Cressy's review of the empirical credit constraint entrepreneurship literature by asking how credit constraints affect profitability and survival (rather than participation in entrepreneurship, which was the focus of Cressy's chapter in this regard). She claims that recent research shows that financial constraints at start-up hinder entrepreneurial performance later on in the life cycle. These findings carry obvious policy implications which are briefly discussed at the end of her chapter.

The life cycle of entrepreneurial ventures inevitably terminates with closure. Closure can be involuntary when it is often referred to as "failure"; or it can be voluntary, when it is known as "harvesting." Involuntary closure is discussed in several places in the volume, chiefly in Chapters 8, 15, 16 and 17. To complete the picture, the final chapter of this volume, Chapter 18 by Maks Tajnikar, Petra Došenovič Bonča and Lidija Zajec, treat harvesting. As these authors point out, although harvesting is often associated with an orderly withdrawal from a venture, the process is not always related to exit. They consider five forms of harvesting: free cash flow and dividend payouts; public offerings (IPOs); trade sales, buybacks, management and employee buyouts and buy-ins; acquisitions, mergers and takeovers; and liquidations, bankruptcies, sale of assets and write-offs. The last of these forms is closely related to involuntary exit and so the term "harvesting" as used by these authors is very broad. The chapter classifies into four groups the factors that determine the entrepreneur's and investor's choice of these harvesting forms. In the process, Tajnikar and co-authors span a wide range of literature that admirably draws the volume, as well as the venture's life cycle, to a close.

7. CONCLUSION

This volume has two goals. These are to assemble several chapters on important issues in entrepreneurship which are of independent interest, and to do so within an over-arching framework of the venture life cycle that is illuminating and thought provoking. A framework as expansive as this necessarily draws on a range of different disciplines and cross-national perspectives. Of course, plenty more research needs to be done at each stage of the venture life cycle, and the chapters that comprise this collection have invariably tried to prioritize particular questions on which future research effort should concentrate. It is with a renewed plea for further research grounded in the existing literature that the reader is welcomed to this volume.

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