

≈ SUMMARY ≈

**ENTREPRENEURS AND THEIR INVESTORS: WHY AREN'T THEY GETTING
A BIGGER BANG FOR THEIR BUCK?**

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Principal Topic

New Zealand has one of the highest rates of entrepreneurial activity in the OECD, yet there are alarming signs that entrepreneurs do not sustain their activity. Research has indicated that the lure of work-life balance has drawn entrepreneurs away from continuing to build wealth (Frederick, 2004). However, evidence from the Global Entrepreneurship Monitor (GEM) 2004 Report and data from the Ministry of Economic Development (MED) suggest that other important factors have also contributed to the poor record of sustainability. The first causal factor is the self confidence and skill of the entrepreneurs themselves to start up their venture. Without the skill to develop a business and to guide it through ongoing challenges, entrepreneurial activity is prone to falter and fail.

A second factor which is crucial in contributing to the successful growth of entrepreneurial activity is investor support and backing. Entrepreneurs need mentoring and encouragement during the start up stage of their fledgling ventures, and without this essential nurturing the likelihood of a successful outcome is significantly reduced. A third factor is the preference of investors to invest in ventures where their skills, knowledge and experiences are relevant to the new venture. A high degree of preference and investor confidence would suggest that investors were willing to use their skills to mentor and support the entrepreneur in whom they have invested. It would also suggest a more positive outcome in comparison with investors who lacked confidence or invested in areas that were outside of their area of expertise. This study examines entrepreneurs' perceptions of their ability and skill to manage a new venture successfully, the relationship between investor preferences of choice and their ventures, and the correlation between investor preferences and their return on investment (ROI), to ascertain whether the desire of investors to support and mentor in their own skills area has an impact on ROI.

Methodology/Key Propositions

The data was taken from two data sets. The first was supplied by the GEM New Zealand in 2004 which consists of a survey of 2002 randomly selected adults. The other was supplied by the MED also in 2004 which consists of 611 pre-identified informal investors using the snowball technique. The two studies had different foci. The GEM report was designed to measure "total entrepreneurial activity" whereas the Infometrics Report was designed to evaluate "angel investment" in New Zealand.

The researchers used a Pearsons Product Moment Correlation Coefficient as well as descriptors to draw their conclusions.

The researchers propose the following hypothesis;

- H1: Entrepreneurs in NZ lack the confidence and skills necessary to successfully manage and mentor new ventures.
- H2: Informal investors in New Zealand agree that entrepreneurs lack the skills necessary to manage and mentor new ventures.
- H3: Informal investors in New Zealand either believe they have the skills necessary to successfully manage and mentor new ventures or are ambivalent toward the need for specific skills regarding new venture creation in industries and areas where their skills, experiences and knowledge are directly related.

Results and Implications

The findings of this study indicate that a high percentage of entrepreneurs believed that, in spite of starting a new venture, they did not have sufficient skill to manage that venture. It also suggests that only half the investors surveyed believed they had the ability to mentor new ventures. Only a third of these investors expressed a preference to invest in ventures where their skills, knowledge and experiences were relevant to the new venture. There was no correlation between ROI and an investor's preference for a venture relevant to the investor's skills and experiences. These factors could account for the poor continuance of entrepreneurial activity. Implications of these findings include the need for greater awareness of entrepreneurial shortcomings and investors' preferences, and the need for support for investors to gain entrepreneurial skills in formal education and training programmes.

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