A QUALITATIVE ANALYSIS of NASCENT ENTREPRENEURS and STARTUP GROWTH FACTORS in LOS ANGELES

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SUMMARY: In a 2017 Kauffman Index of Startup Activity report, California is ranked as the number one state for startup activity and Los Angeles is ranked as one of the high-performing metropolitan cities in the entrepreneurship ecosystem. However, in 2018, Los Angeles experienced a drop by three spots in its ranking on Startup Genome's global startup ecosystem list. In our research study, we shed light on the main characteristics of nascent entrepreneurs in the Los Angeles area and, more importantly, the individual and environmental factors that help or inhibit the growth of their startups. We conclude the article with practical implications and recommendations for Los Angeles city government agencies and legislators.

Keywords: nascent entrepreneurs, startup growth, startup ecosystem.

Introduction

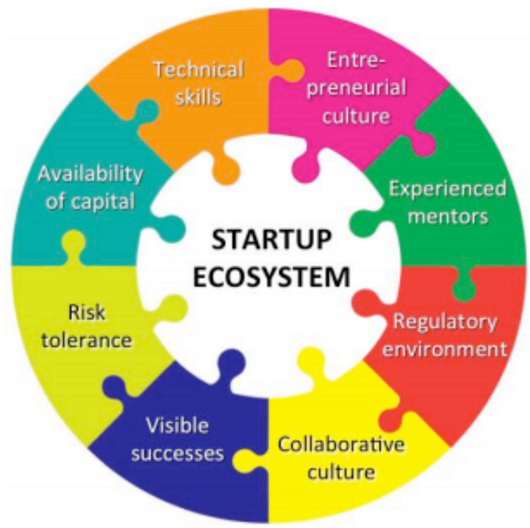
The percentage of new job seekers starting their own businesses is on the rise (Darrow, 2017). According to the 2017 Kauffman Index of Startup Activity: State Trends report, California is ranked as being the #1 state for startup activity (Ewing Marion Kauffman Foundation [EMKF], 2017a). The report measures startup activity based on three dimensions: the rate of new entrepreneurs, the percentage of entrepreneurs driven primarily by opportunity (as opposed to necessity) and the rate at which businesses with employees are created in the economy (startup density) (EMKF, 2017a). Los Angeles is noted as being one of the high-performing metro areas (EMKF, 2017a). The 2017 Kauffman Index of Startup Activity: Metropolitan Area and City Trends report lists Los Angeles as being #3 for startup activity, trailing Miami and Austin (EMKF, 2017b). The report states that in a given month, Los Angeles has 560 new entrepreneurs for every 100,000 adults.

While these statistics highlight the budding startup economy in Los Angeles, it is critical to gain an understanding of the individuals behind the surge in startup growth. Shane and Venkataraman (2000) present a conceptual framework that states that the decision to exploit entrepreneurial opportunities depends on the characteristics of the opportunity and individual differences. In this qualitative study, we examine how individual and environmental factors drive or inhibit the startup growth process of nascent entrepreneurs in Los Angeles. Delmar & Davidsson (2000) describe a nascent entrepreneur as an individual who is trying to start an independent business. Some individual characteristics that can drive or inhibit nascent entrepreneurs include the presence of role models, impressions of self-employment, age, education and founder mindset (Delmar & Davidsson, 2000; Stangler, 2018).

In addition to individual differences, environmental factors also affect nascent entrepreneurs (Shirokova, Osiyevskyy & Bogatyreva, 2016; Stangler, 2018). One such environmental factor is the startup ecosystem of business locations. Oracle proposes (see Figure 1) that the elements of a vibrant startup ecosystem are entrepreneurial culture, experienced mentors, regulatory environment, collaborative culture, visible successes, risk tolerance, availability of capital and technical skills (Oracle, 2018).

Figure 1

Elements of a vibrant startup ecosystem



It appears that Los Angeles has a vibrant startup ecosystem because it is experiencing an uptick in startup activity (EMKF, 2017b). However, the U.S. Small Business Administration Office of Advocacy cautions that one in 12 U.S. businesses close every year (Headd, 2018) and an investigation of startup growth factors in Los Angeles is timely as Maack (2018) indicates that the city has dropped (three spots) in its ranking on Startup Genome's global startup ecosystem list. Our study provides a qualitative analysis of startup drivers and inhibitors that nascent entrepreneurs are experiencing in the Los Angeles area.

Where are the New Startups?

Witnessing the rise of nascent entrepreneurs aged as young as eleven years old, Marinova (2016) discusses the importance of investigating new startups' founders and locations. While possible and yet rare at that early age, more successful entrepreneurs emerge during college years where young entrepreneurs are more exposed to useful tools and opportunities to develop entrepreneurial skills and knowledge (Hand, 2018). In this qualitative study, we focus on the nascent entrepreneurs among the students at a large public university in Los Angeles. We interviewed eight upper-level business students in a focus group setting. To protect the confidentiality of the research participants, we assigned each participant an alphabetic name. The demographic data of the participants is presented in Table 1.

Table 1

Demographics of L.A. Entrepreneur Participants

	Age	***Gender***	***Race/Ethnicity***	***Marital Status***	***Type of Startup***
Participant A	32	Male	African-American or Black	Divorced	Services/ Professional
Participant B	29	Male	Hispanic or Latino	Single	Fashion
Participant C	29	Female	Hispanic or Latino	Married or Common Law Partner	Health and Wellness
Participant D	22	Male	Hispanic or Latino	Single	Film and Photography
Participant E	21	Male	Native Hawaiian or other Pacific Islander	Single	Health and Wellness
Participant F	23	Male	Asian	Single	Health and Fitness
Participant G	22	Male	White	Single	Fashion
Participant H	21	Female	African-American or Black	Single	Social Enterprise

The research participants are mostly senior students and on track to graduate within six months at the time of the interview. Two out of eight student participants are women, which shows that our sample is almost representative of the national sample where 39% of all U.S. businesses are owned by women (Stockton, 2018). The majority of the student participants are keeping a good academic standing with a GPA above 2.9 out of 4.0. These nascent entrepreneurs are just starting or at the early stages of their startups. Most of these students are struggling financially while trying to balance work, study, their startup and family. Five students are currently employed part-time or full-time, while three students are not employed and looking for a job. Half of the participants' income is in the mid-level range of $30,000 and above, whereas the other half of the participants earn less than $20,000 annually which is more expected of students. Not only are most of these students self-funding their education and living independently, some of them even support family members financially. It seems that being engaged in a family business is more relevant as motivation for the students to start their own businesses than having professional experience. Two students have more than 10 years of professional experience, while others have less than 14 months. Three students are involved in family-related businesses. We discuss the participants' characteristics as important findings in the next two sections of this study.

What are the Drivers of Startup Growth?

According to our study's nascent L.A. entrepreneurs, the principal elements of a vibrant entrepreneurial ecosystem (as depicted in Figure 1) are (a) an entrepreneurial culture, (b) a collaborative culture, (c) visible successes, (d) availability of capital and (e) availability of technical skills. In our study, we examine these elements as key drivers of startup growth in the Los Angeles area. Similar to Shirokova et al. (2016), our examination is divided into individual and environmental factors. Table 2 displays a summary of both drivers and inhibitors to startup growth for our study's sample.

Table 2

Drivers and Inhibitors of Startup Growth for L.A. Entrepreneur Participants

Drivers		Inhibitors	
Individual Factors	**Environmental Factors**	**Individual Factors**	**Environmental Factors**
• History of family-owned businesses • Receiving social support • Independent and high achiever personality • Small victories	• Access to funding • Access to strong startup ecosystem in L.A. • Undergraduate education plays a role in decision to pursue entrepreneurship • Undergraduate education prepares for a career in entrepreneurship	• Challenges with startup formation • Ongoing startup challenges • Not receiving social support • Self-funding startup	• Lack of visibility of local incubators • Low visibility of resources for minority-owned small businesses

Three individual factors that are discovered as being common characteristics among the nascent entrepreneurs include: (1) having family members who own their own businesses, (2) receiving social support from family, friends and community and (3) having independent and high achiever personality traits. A common theme that emerges during our focus group interview with the nascent L.A. entrepreneurs is that they have family members who own family businesses. Half of the entrepreneurs have a family member who has owned or currently owns a business. Stewart (2003) describes how the anthropology aspect of kinship theory influences family business. In our study, we assert that having family members who manage their own businesses is a driver of startup growth for nascent entrepreneurs. A second factor of startup growth for these entrepreneurs is having social support from their family, friends and communities. Social support can be tangible or intangible. All of the entrepreneurs in our study note that they receive encouragement from either their spouses, family members, roommates, friends, social media or monthly startup webinars. A third factor of success for these nascent L.A. entrepreneurs is having an independent, competitive and high achiever personality trait (Edelman, Brush, Manolova & Greene, 2010). A similar pattern of personality type is evident among all of the participants as they state how strongly they feel about working for themselves, not intending to make someone else rich, creating value by being innovative and helping other people by creating jobs. This individual characteristic is compatible with the risk tolerance factor in Figure 1.

As illustrated in Figure 1, visible successes are an element of a vibrant startup ecosystem. A fourth individual factor relates to small victories that the nascent L.A. entrepreneurs encounter during their current startup stages. We ask the entrepreneurs to describe the victories they have had with their startups. Some of their victories are obtaining a website domain, trademarking logos, building relationships with social media influencers, securing people to help with prototype creation and selling out a first design.

Two environmental growth factors consist of the nascent entrepreneurs having access to funding and L.A.'s strong startup ecosystem. Availability of capital is an important environmental driver of startup growth. A majority of the entrepreneurs in our sample (75%) state that they will fund their startups on their own (via savings, residual income from investments, pre-orders or loans). Other sources of capital include family and friends, while 50% of the entrepreneurs say that they will use crowdfunding later during the more mature stage of their startup. A second startup environmental growth factor is entrepreneurial culture, which in our study is assessed by asking the entrepreneurs if they think that Los Angeles has a strong startup ecosystem. A majority (88%) of the nascent entrepreneurs believe that L.A. has a strong startup ecosystem in the form of supportive community, social connections and networking opportunities.

The last two environmental factors relate to the nascent L.A. entrepreneurs' undergraduate education. We ask the entrepreneurs two questions about their undergraduate education: (1) Do you think that your undergraduate education played a role in your decision to be an entrepreneur? and (2) Do you think that your undergraduate education prepared you for becoming an entrepreneur? In playing a role in their decision to become entrepreneurs, the students describe obtaining useful influences from studying finance, taking business classes, sharing free flowing ideas and having professors as mentors. In terms of preparation for entrepreneurial pursuits, the students state that their undergraduate education equips them with the technical skills to look at a business as an entity, write business plans, coordinate marketing campaigns, understand the accounting side, manage deadlines and build social capital.

What are the Inhibitors of Startup Growth?

For our qualitative study, we ask the nascent L.A. entrepreneurs questions regarding startup challenges, social support, funding sources, knowledge of incubators and awareness of resources available for minority-owned small businesses. The entrepreneurs' responses to these questions reveal startup growth inhibitors. Adapting Shirokova et al. (2016), we classify these inhibitors into individual and environmental factors as shown in Table 2.

The individual inhibitors include: (1) experiencing challenges in forming their startups, (2) facing ongoing startup challenges, (3) not receiving social support from close circles and (4) raising funding on their own. Some of the challenges that nascent L.A. entrepreneurs face in forming their startups involve raising capital from outside investors, forming the legal structure of their businesses, accessing resources on how to start their businesses, finding low-cost manufacturers, overcoming the growth obstacle of their business market share and increasing their social media influence. Furthermore, examples of nascent entrepreneurs' ongoing startup challenges include solidifying value propositions, obtaining tax advice, finding mentors, compiling research, creating content and managing time.

The third startup inhibitor is receiving discouragement from family and friends. Davidsson and Honig (2003) highlight how having encouragement from family and friends is a good predictor of nascent entrepreneurs' ability to carry their startup processes further. Discouraging social support affects a few of this study's nascent entrepreneurs in the form of their families telling them that business ownership is too risky or not providing them with financial assistance. The fourth startup growth inhibitor of this study is the desire for most of the entrepreneurs (75%) to raise funding on their own. The desire for nascent L.A. entrepreneurs to be independent is not surprising as discussed by Edelman, Brush, Manolova and Greene (2010) but this independence in relation to raising capital can slow down startup growth potential concerning obtaining additional external financing.

The inhibiting environmental factors consist of the lack of visibility of local L.A. incubators and resources that are available for minority-owned small businesses. Davidsson and Honig (2003) provide evidence that bridging social capital, specifically being a member of a business network, has a positive effect on achieving a first sale and profitability for nascent entrepreneurs. An incubator is an example of a business network that caters to startup companies by offering free resources (such as management training and office space) in order to speed up startups' growth and success. There are numerous incubators in the Los Angeles area including GRID110, Hub101, LA CleanTech Incubator and Viterbi Startup Garage (Built in Los Angeles, 2017). However, none of the participants in our study are a part of an incubator and only a few of them know what incubators are. Thus, the low visibility of this startup resource is an environmental growth inhibitor for the startups in our study.

The second inhibitor for the nascent entrepreneurs in our sample is low visibility of the resources available to minority-owned small businesses (minorities comprise 88% of our study's sample). Despite the fact that the Minority Business Development Agency Business Center of Los Angeles and the U.S. Small Business Administration offer services tailored for minority business owners, half of our study's sample do not know about these resources. One of the entrepreneurs even comments about traveling to another city (San Diego) to obtain resources for women startup founders.

Conclusion and Practical Implications

Overall Findings

Building on the model of the entrepreneurial process (Shane & Venkataraman, 2000) and Oracle's vibrant startup ecosystem diagram (Figure 1), our research sheds light on both individual characteristics and environmental factors as the key drivers or inhibitors of the growth of nascent startups in the Los Angeles area (Table 2). The findings of our qualitative research show that individual factors that can help the nascent startups grow include being involved in a family-owned business, receiving strong social support, being risk tolerant and experiencing visible victories. Moreover, environmental factors that can help the new startups' growth include awareness of and access to capital in L.A.'s startup ecosystem and having exposure to a strong educational program that allows them to develop technical skills and provides opportunities for relationships with mentors.

While these individual and environmental factors help the nascent startups grow, other individual and environmental factors may inhibit their growth. As the findings of this study illustrate: experiencing challenges in all startup stages (introduction, growth and maturity), not receiving social support from close circles and struggling with self-funding are among the most important individual inhibiting growth factors. Despite L.A.'s strong startup ecosystem, it appears that the research participants do not have access nor the knowledge of how to gain access to local incubators and resources available for minority-owned small businesses. This lack of awareness and mentorship are environmental factors that inhibit the growth of this study's nascent L.A. entrepreneurs and their startups.

Practical Implications and Recommendations

The Los Angeles entrepreneurship ecosystem is developing strong environmental factors like those depicted in Figure 1 by trying to enrich the entrepreneurial culture, collaborative culture and regulatory environment. However, L.A. legislators and government agencies must consider other important factors that help or inhibit the success of nascent startups like those listed in Table 2. For example, results of this study indicate that the local government needs to find innovative ways to connect the city's entrepreneurship resources with nascent entrepreneurs. One suggestion would be to leverage academic programs and educational institutions as potential connector platforms. Another finding of this study is that there is a lack of knowledge about the resources available to minority-owned businesses. L.A.'s local government and city agencies need to have better targeting plans for minority entrepreneurs to increase awareness and bridge resources. Another suggestion would be to utilize local incubators in minority-serving cities and areas in L.A. County. Furthermore, one pressing dilemma that the nascent entrepreneurs have is how to use venture capital to grow without losing too much control and business ownership. Consequently, our policy recommendations include regulating lower interest rates for startup loans and offering alternative startup financing methods for nascent entrepreneurs to boost the entrepreneurship culture and foster a truly vibrant startup ecosystem in Los Angeles.

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