

**Title:**

Entrepreneurial Perceptions and Transition from Mere Planning to New Business Startup

**SUMMARY****Background**

The Global Entrepreneurship Monitor (GEM) has popularized four questions on entrepreneurial perceptions that ask about the respondent's perceptions of (1) the level of opportunity in the community for starting a business, (2) the level of skill the respondent has for starting a business, (3) the degree to which fear of failure would deter the respondent from starting a business, and (4) the level of financing the respondent has for starting the business. Perceptions of higher opportunity, higher skill, lower fear, and higher financial level have been shown to be highly and significantly associated with greater likelihood of someone actively trying to start a business (i.e., a nascent entrepreneur) relative to someone not trying to start a business. Because existing studies used almost exclusively cross-sectional data, it is unclear whether these perceptions could predict actual starting of the business, beyond planning.

**Methods**

We collected three-waves of longitudinal data from urban African townships in South Africa among an initial cohort of N=3,819 respondents that included existing business owners, people who did not own businesses but actively planned to open a business within 12 months of the interview, and people who neither owned nor planned to open a business. The survey also included the four GEM perceptual questions, using a scale of 1 to 5. We used pooled and conditional logistic regressions to examine the relationship between the four GEM questions and the probability of being a nascent entrepreneur. Using the subsample cohort of nascent entrepreneurs, we next examined who actually transitioned to new business startup and whether prior answers to the four GEM questions were predictive of this transition.

**Results**

The four GEM questions were highly predictive of whether a respondent was a nascent entrepreneur or not. Among the subsample cohort of nascent entrepreneurs, 40% eventually started a business within the next 24 months. Believing that one has the skill needed to start a business was the only perception that was significant in determining actual transition to a new business startup. Nascent entrepreneurs who had a skill perception score above the median had 1.6 times higher odds ( $z = 2.66$ ;  $p < .001$ ) of actually starting a business in the next 24 months when compared with nascent entrepreneurs with perception score at or below the median.

**Conclusions**

This study provides new evidence using longitudinal data that transitioning from merely planning a business to actually opening and owning a business is significantly predicted by whether the nascent entrepreneur perceives whether he or she has the skill to start a business. Teaching entrepreneurs the skills for starting a business may increase new business formation.

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