

# The Creation of a New Company as “Process”

Maria Fedele<sup>1</sup>

<sup>1</sup> Dept. of Economics and Law, University of Cassino and Southern Lazio, Cassino, Italy

Correspondence: Maria Fedele, Dept. of Economics and Law, University of Cassino and Southern Lazio, Cassino, Italy. E-mail: m.fedelecam@libero.it

Received: January 28, 2015

Accepted: March 4, 2015

Online Published: April 20, 2015

doi:10.5539/ijbm.v10n5p70

URL: <http://dx.doi.org/10.5539/ijbm.v10n5p70>

## Abstract

This paper aims to investigate both the process that, from incubation of the entrepreneurial idea arrives to economic and technical start-up of the new combination and subsequent entry into the market, and the trend of registrations of new businesses at the Companies Registry of Italian Chamber of Commerce.

The article is structured as follows: after the introduction, in the first section we analyze the stages through which the process relating to the creation of a company is gradually developing. In the second section it will be discussed the well-known problem of the conversion of the business dynamic, firstly in numbers, and then the interpretation of those numbers. It will then be analyzed the role of the financial resources that are known to constitute a critical factor in any new venture. The work will be completed with the analysis of data about the performance of new companies registered at Companies Registry of Italian Chamber of Commerce in a time span of ten years. The originality of the work lies in comparing the number of firms registered in the period before the crisis with the following one. The limitations of the research are influenced by lacking of information on the reasons why deciding to start up a new company. Regarding future research it is suggested to perform an empirical analysis aimed at overcoming the limit shown and to identify the characteristics of the government body, both in the start and in the moments following the birth of the company, including the value creation generated over time.

**Keywords:** business idea, start-ups, financial need

## 1. Introduction

Motivations, values and skills on the one hand, resources, opportunities and environmental constraints on the other, are the “ingredients” which underpin the complex process of creating new businesses, in which a decisive role is played by the entrepreneur (Say, 1821; Schumpeter, 1934, 1993; Von Mises, 1949; Sombart, 1967; Kirzner, 1973, 1982a, 1982b; Barba-Sánchez & Atienza-Sahuquillo, 2012), which aims to “challenge the kind of uncertainty that surrounds the outcome of all human experiences” (Say, 1855). On such person, in fact, it depends the final decision-after having developed and refined the business idea-about the opportunity to actually take the adventure of creating a new productive combination.

In this context, it reveals crucial the value, socio-cultural and business system, that animating the promoters of the new combination, affects the philosophy with which the project looks at the market and the product.

Just in the phase of the project elaboration, company finds its culmination in the translation of the entrepreneurial formula in quantitative-monetary data, first, and in the interpretation of that data, then, that make up the time to verify expression of the feasibility of the business idea as conceived.

From the methodological point of view, after analyzing critically the literature on the assumptions and purposes that underlie the emergence of new businesses, the research, exploratory in nature, has been implemented using the qualitative approach that is aimed at a comprehensive study of the topic object of survey implemented by the analysis of the case files published by Infocamere in that period.

This paper, after outlining the stages of the process of creating a new company, shows that it is not possible to ignore the economic dimension, of the enterprise finality, or the existence of those conditions of economic but also financial equilibrium without which no initiative can hope to create value over time.

## 2. The Process Phases

Motivations, values and skills on the one hand, resources, opportunities and environmental constraints on the

other, are the “ingredients” at the basis for the creation of a new business.

The observation essentially static in terms of individual and contextual variables, of which the above ingredients are an expression, does not exhaust, however, the analysis of the complex phenomenon of creating a new business.

In fact, it is not the immediate result and random meeting of these variables. It is the result, rather, of a complex decision-making process in which the different variables interact with each other, gradually shaping the market to which the new company intends to address its product and, finally, the business structure finds suitable to achieve and deliver the product (Shepherd & Williams, 2014).

In this perspective, the birth of the company must be analyzed, as well as looking at the variables that determine the conditions, even in dynamic key. This means looking at timing and intensity with which the different variables are combined concretely giving life to an entrepreneurial idea.

The main stages through which the process is gradually developing can be identified in four main phases:

- Incubation of the business idea;
- Development and refinement of the business idea;
- Creation of new product combination;
- Economic-technical goodwill of new production combination and subsequent market entry.

Internally, each of the macro-phases collects some important moments which are configured as passages through which the macro-step is realized.

The articulation, the naming but, above all, the phase sequence is not, of course, unique and mandatory.

The process of creating a new corporate structure finds its beginning with the desire to carry out an economic activity and there is the existence of the business idea.

Within this time, that could be called "incubation", it is possible to identify three sub-phases interrelated:

- Phase of desirability;
- Phase of conception of the business idea;
- Phase of the first verification of the idea or pre-feasibility.

To gain high desirability, they combine multiple signals for the development of new business ideas that can create interest of the future entrepreneur. They are several, in fact, the positive signals (Lorenzoni, 1988; MacMillan, 1986; George, 2011) (business idea, entrepreneurship, have previous experience of start-up and cumulated resources related to the activity undertaken, risk, ambition, expectation of achieving a profit to create and deliver value, desire for independence, unmet market needs, and cultural system of values, environmental and context factors) or negative (lack of job prospects, organizational changes, job dissatisfaction, unwanted transfers, layoffs) (Buttà, 2003).

The conception of the business idea (Normann, 1979; Head, 1992) can be done in different ways. In relation to the degree of consistency with which the signals are manifested and their level of accessibility, it is possible to identify four classes:

- Signals to be studied;
- Signals to understand;
- Signals to spy;
- Signals to grasp.

The signals to be studied typically relate to changes in the industrial structure and market and / or demographic changes.

The signals are attributable to understand phenomena that may occasionally occur in the context of reference and which are perceived by everyone (Caspar et al., 1973, p. 56). Business experiences gained by other, new technological breakthroughs are possible examples of this class of signals.

The signals to spy refer to phenomena that in themselves contain a significant business potentiality, but are the heritage of a few. This category includes those that Drucker (1985) defines new scientific and technological needs of the existing processes, changes in perception, attitude, meaning.

Finally, the signals to be grasped. This category includes the symptoms of changes in key variables of economic

sectors, the differences between the behavior of supply and market expectations. Even the accidental discoveries that pave the way for radical innovations (Schilling, 2009, pp. 45-46) can be part of this category of signals characterized by low systematic and limited accessibility.

Among the different signals listed, those with the least occasionality appear more suitable to be used to systematically generate new business ideas.

To this end, of considerable utility, may be the use of specific methods of analysis and interpretation of the systematic signals.

In particular, a methodology well known and tested consists in the so-called matrix of discovery. It is a double entry table that crosses two types of data relating, for example, to the needs to be fulfilled and the technologies used. This kind of approach, if the data is read in a creative way, discovers new needs in the market to which respond by offering certain processes / products.

The systematic analysis of the environment, in fact, may also lead to grasp the existence of new areas of intervention related to latent needs, ie, need of adequate stimulation to occur in the major and to form an area of new and profitable business.

It should be stressed that the systematic characterizes particularly the initiatives that develop within productive groups already established but highly dynamic, the so-called internal entrepreneurship (Lorenzoni & Zanoni, 1988; Invernizzi et al., 1988; Sorrentino, 1996; Maggioni & Del Giudice, 2004, 2006).

If the pre-feasibility study has offered positive feedback, the process of creating the new company continues and enters its second phase. The business idea that is, after the incubation time, must be translated into a real project, which lays down, in a sufficiently comprehensive and coherent, relevant aspects.

With the development and refinement of the business idea we are, in essence, between the strictly pre-corporate and institutional phase, between the stage, that is, in which life itself of the company does not exist and the moment in which the assumptions made are reflected in reality.

The development of entrepreneurial vision matured earlier presupposes careful analysis and a thoughtful processing general information gathered by the sensors and strain in the study of pre-feasibility.

The development and refinement of the business idea, in fact, have to offer, to the entrepreneurs, but also to other entities directly or indirectly involved in the process, the knowledge base for a conscious and definitive decision on whether to actually start the adventure to create a new productive combination.

The development and refinement of the idea is essentially a phase of real design and is the time to study "at the table" the process. It requires a careful review of the conditions of existence and the possibility of future development of the new firm. The highlight of unfavorable conditions can lead entrepreneurs to the abandonment of the project and/or to restart the whole process starting with an idea modified or even radically different.

In the same logic, it should be read also the phase of market entry. We have here, the extent of the changes that need to be made to the objectives, structures and resources, as originally defined in the time of the project study, in order to make the operations truly efficient and effective.

Within the development and refinement of the business idea, we can identify and distinguish schematically:

- The time of preparation of business project;
- The time of preparation of the business plan.

The first one corresponds to the conceptual formulation and technique of "corporate vision" conceived in the previous phase. The second one is the formalization of the project according to the canons of an appropriate document commonly defined business plan.

The preparation of the business plan requires an explicit and systematic reflection on all the factors, external and internal environment of business, on which it depends the possibility of the new combination to survive and develop. The business idea, so far only sketched, must therefore be translated into a business formula internally consistent.

The crucial steps that should mark the elaboration of the project are, basically, the following:

- Definition of the activity to start, in terms of strategic business area;
- Analysis of competition in relation to the scope of activities chosen;
- Identification of "critical success factors" to operate in this area and choice of positioning of the new firm;

- Design of the “corporate structure”, should help to achieve the previous choices;
- Verification of the presence of conditions of economic and financial balance underlying the proposed new company that has developed.

The starting point for the development of the project is the definition of the precise borders of the business in which to operate.

The business may be conveniently configured in accordance with two dimensions expressible in as many questions:

- Whom to sell to;
- What to sell.

To answer the first question means identifying customers, namely the market, to serve. Would you like the engine of the business idea is a product, for which glimpsed great chance of success, you want to be a perception of an unmet need for which you want to propose a suitable product, in any case, the pivot of the project consists on the market. It is, in essence, to focus on the consumer of the project and its needs.

A market-oriented behavior will build, first of all, a clear identification of the kind of product / need on which to bet. Industrial goods / consumer goods, consumer goods immediate / durable goods, so on represent possible classificatory categories that help make such an identification and guide subsequent reflection.

It will be necessary, therefore, to realistically assess whether there is demand for the kind of product that the new company intends to achieve and what is the size. Much of the future decisions assume a quantification of the level of sales that will be achieved.

The size of the request must first be appreciated globally. The evaluation of the potential global market is particularly important if you intend to launch a product or a completely new service. If the offer has innovative features, the primary problem will be to determine how much of the existing demand, the size of which is already largely known, can be reasonably be acquired by the new company (question for the company).

In undertaking this sensitive assessment, specific attention should be paid to the analysis and interpretation of the many factors that can influence demand. Above all, we need to reflect on the dynamics of the purchasing process to understand consumer behavior and how he chooses between the various alternatives that the market can offer. Only being able to perceive what the customer really wants, what its emerging needs and its expectations are, the new company will hope to penetrate the market.

Outlined the general question (that is, the kind of product), we can identify, within it, the segment or segments to which extend its range (Grant, 2011, p. 296). To this end, geographic, demographic, psychological, etc. criteria may be usefully employed to narrow portions of generic question strongly homogeneous but, at the same time, different from each other (Wyner, 1992; Holbrook & Schindler, 1996).

Once identified, the segments will be the subject of a careful reflection aimed at determining their level of attractiveness (Porter, 1998, pp. 77-90), measured in terms of size, potential growth, profitability.

We can now define, in a conscious and rational way, the characteristics of the product which best suit to achieve the chosen segments.

The second important dimension of the business project, intimately connected with the question "who sells", is, in fact, “what to sell”, ie from the product / service we want to offer and the functions fulfilled by it.

Addressing this aspect of the design it is not enough an effort in the identification of the physical product, the object that we want to produce and sell. We need to go further, embracing new product concepts. First of all, the concept of total product (Guatri et al., 1999). In this sense, the focus of the government must apply not only to the quality of the material object (intrinsic quality, technological level, reliability, etc.) but to other aspects as well, such as, for example, the pre and post-sales, the price and terms of payment, packaging, delivery times, transport conditions, guarantees and insurance, the range of products or services offered.

All of these contribute significantly to give value to the product, making it responsive to the expectations of the consumer. Hence, the concept of product-utility, understood as identification of essential benefit that the consumer expects the product offered.

This broad view of the offer, outlines the concept of “system product”, that is composed of many elements, tangible and intangible, to be consistent with each other as well as tailored to the needs of the market and the technical possibilities of future corporate structure.

And it is precisely because of this broader vision that success does not necessarily require the introduction of a new product. They are, in fact, many cases of successful new businesses that have revitalized existing products, presenting them in a different dimension.

The focus of the product, therefore, must in any case make explicit its phase of the life cycle. The indication will be decisive for the choice of the most appropriate combination of services.

In spite of what has been said, many empirical investigations reveal that only a small minority of new businesses started its activity with a sufficient degree of knowledge of the market.

In new businesses it reveals, often, a management approach that emphasizes the technical aspects of the product usually at the expense of those of the market, as well as reduced availability of trade skills.

The uncertainty and the approximation of the approaches is also evident in respect of the product which is hard to grasp the systemic dimension.

The reference to the central role that a correct recognition of product / market combinations plays in preparing the business plan then becomes, at the same time, a reminder of the fundamental influence that, at this stage, exercise the individual variables of the core business.

In particular, it reveals crucial value, socio-cultural and business system, which animate the promoters of the new combination (Shapiro & Sokol, 1982). It is this system of values, in fact, that eventually affects the philosophy with which the project looks to the market and the product.

In this regard it is possible to observe that three are, in broad terms, the outlook according to which the new business may arise in connection with the client or group of clients, identifying company target market.

The first perspective sees the client as a synonym for short-term deal. The customer is, in essence, a provider of turnover and to cover the costs. The objectives that the new entrepreneur aims, tend, therefore, to make the greatest possible potential sales to maximize profit margins.

The second perspective sees the client as a synonym for buyer satisfied. The company, in this case, is aimed at developing the necessary tools to measure customer satisfaction and to gain ideas for improving their performance, always in the logic to achieve higher profit margins.

The third perspective, finally, interprets the customer as a synonym for long-term partners. The customer is here seen as a crucial interlocutor with whom to establish a long lasting business relationship through which to promote the full development of the various resources involved in each company. In pursuit of a high degree of customer satisfaction, the company shall engage in cooperation with him, with intensive problems still unresolved or its new requirements.

The three different perspectives are characterized by a different focus of attention entrepreneurial.

Focused exclusively on the income position, in the first case, the focus shifts, in the second, to the initial market position, to focus finally on the market position reached in the medium and long term. Apparently less profitable, the latter interpretation of the company / market relationship is revealed, however, essential for a full and lasting success of the new productive combination implemented.

Undoubtedly, the ability of a new business to understand and meet the needs that emerge from the market is affected by the type of competition it will face. By choosing to a certain market, in fact, it will inevitably choose to compare with the competitive forces are or may be present.

The identification of the market segment and the development of the product system must, therefore, develop in continuous interaction with the analysis of competitive conditions, in order to define the most appropriate solutions to address them.

A differential position against competitors emerges through strategies oriented to the definition of critical success factors (Leidecker & Bruno, 1984; Jenster, 1987; De Vasconcellos & Hambrick, 1989; Barney, 1991; Vicari, 1992; Brown & Campedelli, 1993; Buttignon, 1993; Pozzoli, 1996; Cuomo & Metallo, 2007; Fontana & Caroli, 2009; Valdani & Ancarani, 2009; Grant, 2011) and highly specific keys that are identified in a small number of areas of performance required and appreciated by the market. It is, therefore, from these factors that the project must try to build the conditions for a lasting and fruitful existence of the new firm.

Hardly, however, the new company will be able to embrace all critical factors, so it is crucial to select few but basic ones to be leveraged and determine accordingly, positioning the new company in its area of business. This position must be chosen so as to be the most advantageous compared to current competitors, suppliers and customers and less vulnerable to be attacked by "new entrants" and substitute products.

The competitive positioning within the field of activity depends, in essence, the competitive advantage of the new corporate structure and, therefore, the degree of its initial success and future.

Proceeding along the path summarily recalled, we come to define the strategic plan on which to base the design of new business.

Although there are numerous choices on which a company can build its strengths relative to competitors, essentially two types of competitive advantage that it can search for:

- Cost advantages;
- Advantages of differentiation.

All other advantages can be interpreted as elements that allow the company to contain its costs or increase the degree of differentiation of its products, distinguishing them from offering competition.

They are drawn, therefore, two fundamental orders strategies (Porter, 1982, pp. 46-47 & p. 120) that standardize the design of the new production:

- Strategies to gain a cost leadership;
- Strategies to present their product / service in a different way than the competition.

In the first case, the idea of the project becomes to focus on those factors that reduce, as much as possible, the level of costs than other manufacturers. The ability to achieve a cost advantage depends, for example, by a high degree of efficiency of the production process, from the privileged access to raw materials and inputs, from the location of activities, from proximity to markets, by achieving economies of scale and / or learning, exploitation of production capacity, etc.

Typically, businesses cost leader offer a standardized product at a low price compared to competitors, even if, however, the output quality does not deviate too much from that of the competition. Conversely, the cost advantage could not translate into higher and sustainable levels of economic efficiency because the product might be overlooked by customers.

It is in the design, in fact, going to take shape the risks of operational area, proportionality and functionality in varying degrees permeate all subsequent institutional phase of the new firm.

The first order of risk, in fact, is to reconnect to the dramatic shifts that happen in the corporate system if it is necessary, in the short term, change the set of resources and activities on which has been sized, at project level, the combination of production.

The second order of risk is, however, due to the proportions in which the various resources are required to combine with one another connoting the “nature” of the future production unit.

The third order of risk, finally, comes from the fact that combinations business, in addition to being formed according to a certain proportion, must have a functional character; must in fact take place in order to maximize both the economic balance of the company.

### **3. Economic Profile of the Project of Creating a New Business**

The design phase of the company project finds its culmination in the translation of the entrepreneurial formula to data-monetary quantitative data. The choices of product, market and structure must in fact be read in terms of costs, revenues, earnings, expenditures, investments and loans (Munari, 1979). The determination and interpretation of such data, in fact, is the time to verify expression of the feasibility of the business idea. It is therefore facing the well-known problem of conversion of dynamic corporate numbers, first, and the interpretation of those numbers, then. If, in fact, the attention to the customer, the exploitation of resources, primarily human ones, are the key references to which to direct the development of the entrepreneurial formula, it is equally true that it is not possible regardless of the economic dimension of finality enterprise, its existence, that is, of those conditions of economic but also financial equilibrium, without which no company can hope to create value over time. The projection system of decisions and operations, under the project, in monetary-quantitative data does not conclude but pervades the entire design phase. Each step design, in fact, should be accomplished by evaluating its consequences in economic and financial terms, so as to change the choices made in so far as they do not find positive response in the value system of the quantitative-monetary productive combination.

Although distinct, the two profiles of the identified management, financial and economic factors, are closely related to each other.

Simultaneously, in fact, the management operations produce consequences both on the lucrative and on that money level.

However, the two profiles are not on the same level. The economic one, in fact, is permanent. If costs and revenues do not present equilibrium conditions, not only the company's viability is compromised, but also the financial conditions of the same are inexorably destined to deteriorate.

It is, therefore, the economic profile of the project of new business to be under the attention, since it is in the prospects of the future income that government may find confirmation of the convenience of its constitution and its chances of survival.

The economic profile of a new business venture can be traced, in general terms, assuming the probable behavior assumed, from the stage of market entry, the variables that determine the global economic management of a company.

To this end, it is useful to refer to the known ratio:

$$ROE = ROI * C_i/C_n * R_n/R_o$$

where:

$C_i$ =total invested capital;

$C_n$ =equity;

$R_n$ =net income;

$R_o$ =operating income.

In economic terms, the most significant result of this ratio is the affirmation of the ROI, ie the conditions of operating profitability management, which pivot on which hinges the cost of the enterprise.

Still following analysis models well known, the ROI is in turn the result of two factors, corresponding to many aspects of management: the ROS (ie the profitability of sales) and the turnover of the capital invested.

If, therefore, we want to focus on the economic dynamics of a typical project of new business, it is the behavior of these variables, in the early years of the combination, we have to look at.

Especially where the new company is characterized by very innovative offer, there is usually that the level of sales is initially reduced compared to production capacity; so are the price levels, in order to have a better chance of market penetration. Moreover, even the costs, are not yet able to exploit the experience and learning curves, will be maintained at high levels.

The consequences of all this will be a reduction in the turnover of capital invested and a small profit margin on sales, if not often, even negative. The ROI cannot, therefore, that be crushed down.

In a second step, the increase in sales is accompanied by improvements of ROS.

If the new top government has been able to assert its entrepreneurial formula, in fact, the relationship between operating costs and revenues will only improve, on the one hand being able to raise prices, on the other revealing the aforementioned compression effects of the costs due to the growth of experience.

In terms of turnover, sales growth is unquestionably a more intense use of technical assets that gives greater speed to the capital invested in them.

However, the greatest speed of rotation of the fixed capital is contrasted by a concurrent worsening turnover relative to current assets. This deterioration is due to the increase in inventories and receivables to customers, increase work to assess the development of sales and fight competitors.

Often, the increase in investment in current assets can even compensate for the relative reduction of fixed assets technicians, maintaining substantially unchanged the rotation speed of the capital invested globally.

The overall effects on the profitability of operating capital that will be, therefore, lower than you might expect.

Obviously, as the braking action of the turnover compared to the ROS will be reduced, the rate of operating profitability will tend to grow quickly.

These simple observations allow us to draw an important conclusion.

As with any business, even for the start-up to established the general economic objective means to achieve a satisfactory level of profitability in the medium to long term.

#### 4. Financial Needs of a New Business

Business management, as is known, is characterized by a continuous succession of operations of investment and disinvestment. The money allocated in the form of financial capital, the carrying out of production now goes to convert to specific inputs, reappears following the sale of the production obtained with the combination of those factors. At any time, therefore, manifests a certain “financial requirements” (Brugger, 1980; Rossignoli, 1991) of the management, which corresponds to the sum of the monetary resources necessary to carry out the management. It is in the institutional phase, however, that the financial problem assumes crucial importance. The capital, in fact, is not an element which can be made to look at as a residual.

The capital becomes part of the company, and plays a key role from the beginning.

If it is enough, every measure is possible; if it is too low, the lack affects all areas of business life. It follows that, from the earliest moments of life of the combination of production, the new entrepreneur must constantly ensure the presence of a monetary capital that allows starting and orderly unfolding of management operations in accordance to what was agreed in the project.

In this perspective, it is therefore essential to outline, from the stage of preparation of the project, the financial profile of the initiative. Only then the government will understand the quantitative but also qualitative characteristics, financial needs that it will be called to face and may, therefore, assess the specific ability to make it happens.

Addressing the financial dynamics of a new business in “general terms”, you can find some basic types of financial needs that arise gradually, partly overlapping, along the process of its creation. If we consider, in fact, the stages of this process that are placed downstream of the design phase, a first type of financial requirement is due to the coverage of the investment required by the implantation phase of the combination of production, the start-up of production and before marketing the product. Obviously, financial needs are a crucial aspect of the new company: that of its construction material. As such, they are mainly related to investments in fixed capital.

The observation of reality confirms the centrality of this requirement, but also indicates that, very often, the problem of the financial needs of the new firm remains confined, in the vision of the new entrepreneur, the cost of the first plant. Although very important, this is not the only, nor in some respects the most delicate and needs that characterize the financial profile of a proposed new venture. Looking beyond the implementation phase of the company structure, it appears, in fact, a second type of financial requirement. This occurs after the entry into the market, when it comes to cover the capital needs related to the first phase of expansion of sales, resulting in the fairness of the entrepreneurial formula adopted.

This demand, critical in any new venture, acquires an absolutely central importance if the new enterprise presents a business formula based on highly innovative products or processes.

To better understand the qualitative and quantitative characteristics of this second type of financial requirement, which always accompanies a new business project, we may refer to a well-known model of interpretation of the business financial dynamic.

This model seeks to highlight the main variables that determine the financial balance (Mottura, 1987) dynamic of an enterprise. These, and the close relations, can be expressed as follows:

$$Tsv(t) * Ci/V = Fr(t-1) / V(t-1)$$

where:

Tsv = growth rate of turnover in the period, ie  $(VI-VO) / VO$ ;

Ci = invested capital;

V = sales for the period;

Ci / V = capital intensity of the business;

FR = resource flows reinvested in productive generated from operations in the period in question and not engaged in the reconstruction of factors completely used and obsolete, namely:

- + Undistributed profits for the period
- + Amortization quotas for the year
- Expenses for renewals and / or replacements
- + Provisions for risks and future expenses;



$FR / V =$  cash flow in relation to turnover.

Equality means that, given a certain capital intensity, the resources absorbed by the growth of turnover (member left) correspond exactly to the resources generated by the flow of revenues in the previous period, so that the firm is able to cover from the inside, without recourse to external sources and without generating residual liquidity, their physiological requirements for capital.

In light of what previously noted, it is therefore easy to see that the intensity of capital, in the early stages of life of the new firm, is fairly high, with a tendency to decrease in the later stages.

This is due both to the fact that the production capacity initially installed is often higher than the limited possibility of immediate exploitation, and the fact that fixed investment does not have, of course, an appreciable degree of depreciation. Even intangible investments (expenses, advertising, etc.), then, must be still largely recovered. But it is mainly investments in working capital, which usually become significant, generating a large part of the financial requirements.

As already noted, in fact, at the time of the market is essential to give customers considerable time for payment and ensure a stock availability that allows to process their orders.

Again in terms of intensity of invested capital, we still need to add that the realization of structural investments cannot be confined to the stage of implantation of the combination of production and launch. Even in the later stages, the first expansion and development of sales, in fact, they often make appropriate interventions on the structure that require additional fixed assets. Indeed, especially where the structure is gradually establishing itself according to the logic of the flow building (MacMillan & Low, 1986; Colombo, 1988; Mayer, 1990), such an eventuality is not rare, representing rather a necessary step.

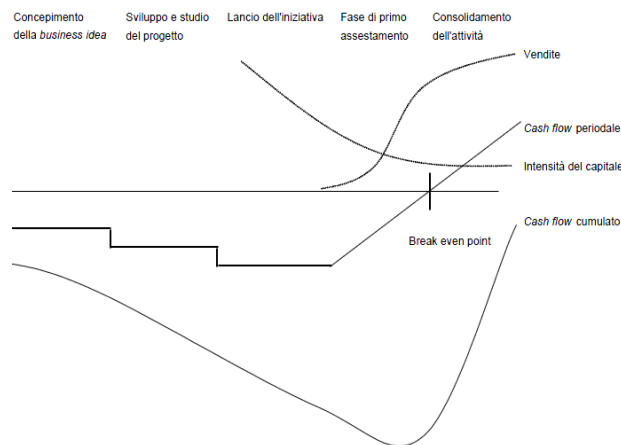


Figure 1. Evolution of the financial profile of a new business

Source: A. Dessy e J. Vender, *Capitale di rischio e sviluppo dell'impresa*, Egea, Milano 2001.

From the Figure 1, it is possible to state that the cash flow period estimates deteriorate until the time when sales start, and then take positive sign.

The cumulative cash flow, as the sum of cash flow periodic basis, has a negative trend until it assumed dimensions also considerable. Even after the company reached break-even point, the total recovery of the investment can take a long time depending on the rate of growth in sales, profitability, and the cycle of working capital.

The intensity of the invested capital, high in the early stages of its life, however, tends to decrease and stabilize with the passage of time due to a more efficient use of production capacity and the effects of the experience curve.

Given this evolution of invested capital, are found, in general, margins of self-financing initially small.

On the consistency of the margins of self-financing it weighs significantly, first of all, the cost of production.

In this phase, because of the production volumes still substantially limited and the lack of experience, they assume levels far from those of maximum efficiency. The consistency of the margins of self-financing will also

be much more limited as the company is forced to charge prices lower than the average of its competitors in order to penetrate the market.

It follows that, in the early stages of development, after implantation of the production structure and market entry, there is a predominance of the left-hand side of equality mentioned, namely:  $* Tsv Ci / V > FR / V$ .

This inequality indicates a strong presence of external financing needs (FFE).

From there it emerges a situation of high dependence on borrowed capital, the higher it is the more rapid the rate of growth in sales.

Inequality is still destined to fade in the later stages of development of the company, up to become a balanced situation. Assuming of course the market success of the competitive formula designed, is, in fact, reasonable to assume that, on the one hand, capital intensity tends gradually to decrease and, second, the cash flow should be gradually increasing.

It may be noted that the second type of financial requirement identified is not really typical and exclusive of the newly established companies, affecting, more generally, all the companies that wish to develop new products, markets, sectors.

In this regard, however, we must not forget a fundamental difference that distinguishes the new company settled by the firm that engages in the development process. The new company is not given, in fact, to gain a "portfolio" of products which are part of both, as products already in the process of maturity, from which we can draw resources to reinvest in the early.

With the same equity, therefore, the financial requirements that a new business has to face, starting from the moment it makes his entrance on the market, are certainly more substantial and pressing of those that occur within companies already started.

In an effort to fully delineate the different types of financial needs that characterize the process of creating a new business, we must, finally, note that the same design phase and, before that, the reconnaissance of pre-feasibility originate themselves and their own peculiar capital needs.

It is the accumulation of finance resources to develop and refine the project.

The extent of this requirement is not generally high, while high is the risk associated with its coverage, being primarily investments in intangible factors, the value of which is entirely dependent on the outcome of the subsequent phases of the process of creation.

However, sometimes, even the size of the quantitative requirement are significant.

It is, in fact, as pointed out, especially in the most highly innovative initiatives, the feasibility assessments conducted during the design phase and pre-planning are accompanied already in operational activities designed to build and test prototypes of the product from a technical and / or production process. In these cases, of course, the financial commitment becomes relevant.

To the two basic types of financial needs previously identified need, therefore, to add a third. While the first two draws in their entirety a requirement that could be called institutional phase, the last one on the incubation phase and the design of the idea, expressed more properly a need for pre-business.

Ultimately, trying to figure out in a unified framework the financial evolution of the process of creating a new business, it can be said that it is dominated by the following aspects:

- Annual negative cash flow even after the first developments of sales;
- Cumulative cash flow negative until the consolidation phase of the activity;
- Progressive growth of dependence on third-party media for quite a long time, even a few years;
- Attainment of the ability to repay a phase even more delayed, identifiable by the different rates of increase in annual cash flow positive, the growth rate of capital invested, the consistency of equity provided by the neo-entrepreneur.

The failure to consider, in all its aspects, the financial profile of the project may create many difficulties to those entrepreneurs who venture without the proper precautions, on the road to creating a new productive combination.

The future entrepreneur, therefore, in order to adequately meet the financial requirements raised by the project, will have to try to relate to his specific initiative what has been observed in general terms, building a sort of financial estimate.

First, he will have to translate into figures the first financial needs identified. The attention to this end, comes naturally to concentrate on the structural component of the business formula.

It will track, in large part, a reflection that already has been developed to outline the economic implications of the initiative. The decisions contained in the project relating to the production, marketing, procurement, human resources etc. while it will generate cost and revenue, on the other determine the need to carry out a series of investments necessary for the carry the business out. In fact, as repeatedly called, the economic and the financial system operations management under the project are closely related with each other in time and space.

### 5. The Creation of New Businesses in Italy: Findings and Discussion

The methodology used to carry out the study below, is based on the analysis of Movimprese statistical elaboration made by Infocamere on behalf of Unioncamere, through the archives of the Italian Chambers of Commerce. In particular, we have examined the annual report relating to the “Total Data enterprises” for the period 2004-2013 as fully compliant with the goals set by the paper. It is worth pointing out, that data on small businesses that is considered appropriate to analyze in a future research have not been taken into account. The study conducted by Unioncamere, on the basis of periodic surveys of Movimpresa on the birth rate and mortality of Italian companies, registered at the Chamber of Commerce, in 2013 showed a slight increase in the growth rate of new registrations compared to the same period of the previous year. Data on the development in the 2007-2013 period show, however, a prolonged contraction of the flow of new registrations (-11.8%), although with different intensity. The analysis shows a nearly constant and substantial reduction in the flow of new registrations especially from 2008, which coincide with the start of the crisis that hit the entire Italian productive system and has not yet stopped, decreased the propensity of entrepreneurs to start new initiatives. Considering the period under review, the critical situation emerges when analyzing the average value of new registrations of companies, which accounts at 423.413 in the first five years, while in the next five amounted at 391.185 units.

Table 1. Performance of new registrations in the period 2004-2013

Year	Number of enrollment	Growth rate
2004	425.510	-
2005	421.291	1,61%
2006	423.571	1,21%
2007	436.025	0,75%
2008	410.666	0,59%
2009	385.512	0,28%
2010	410.736	1,19%
2011	391.310	0,82%
2012	383.883	0,31%
2013	384.483	0,21%

Source: our elaboration on Movimprese data.

Looking at the trend of the data, also, depending on the legal form adopted by the companies, it is clear the dynamic constantly characterizing corporations, which contribute significantly to ensure the substantial stability of the system. The growth rate recorded in the ten years, has led this category, in 2013, to 71.33% of the total balance; in particular, in the last period it was recorded a growth rate of 0.80% which is about three times higher than the national growth rate (0.27%). Performed less satisfactorily, in time series, regards one owner-enterprise that while constituting 54% of Italian companies, see a reduction of its overall weight (64.32% in 2013, which is the lowest value since 2009) of the total businesses. Partnerships, persist in a situation of sharp decline that continues over time, followed by the “Other forms” (mainly cooperatives and consortiums) that in the last year have led to a very substantial progress. It seems appropriate to point out that the growth rate of one-owner firms, registered in some of the years examined, is due significantly to immigrant entrepreneurs from non-EU countries.

So, we are facing the growth of the company of capital, which characterize the companies in which capital investments represent the determining factor around which it is organized and becomes concrete the firm productive activity or service. This situation contrasts with the gradual reduction of the established enterprises on a personal basis (sole ownerships and partnerships), marked by an economic activity that is centered on the figure of the owner. It should be, however, pointed out that the individual ownership is considered the gym for a

large part of the Italian entrepreneurial system, given that very often those that are able to survive and create value tending to become more complex entities at the organizational level from the economic point of view.

Table 2. New registrations Performance in the 2004-2013 period divided by legal form

Legal forms	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Corporation	80.447	85.664	88.419	92.265	88.781	83.989	88.323	80.744	76.337	83.972
Partnerships	63.109	64.114	63.641	60.598	52.926	48.793	49.267	45.187	40.880	34.212
One owner-enterprises	271.862	260.761	260.635	271.392	256.970	241.293	261.430	253.522	254.194	244.925
Other form	10.092	10.752	10.876	11.770	11.989	11.437	11.716	11.857	12.472	21.374
<b>TOTALE</b>	<b>425.510</b>	<b>421.291</b>	<b>423.571</b>	<b>436.025</b>	<b>410.666</b>	<b>385.512</b>	<b>410.736</b>	<b>391.310</b>	<b>383.883</b>	<b>384.483</b>

Source: our elaboration on Movimprese data.

Moving on to examine the dynamics of new registrations of enterprises splitted by production sector, in the decade it is evident a dissimilar evolution among sectors both before and after the start of the crisis. Agriculture has a steadily declining trend that has increased in the last year and an average value that lies at 26.129 new registrations in the first five years and thereafter is 25.736. This negative trend of agricultural enterprises is beyond the crisis, considered historical and structural. It is mainly due to their low economic marginality and the lack of historical entrepreneurs. This resulted in a growing use of agricultural land for tourism, commercial, industrial or logistics. Instead, it is due to the economic and financial crisis, the clear negative trend that affects mainly manufacturing and building considered the leading sectors of the Italian economy. The first, is supported by some sectors that still have positive data especially in recent years, such as the activities of repair, maintenance and installation of machines, the food sector (which benefits from the results obtained in international markets), and industries of drinks. The average value in the early years examined stood at 29.446 and thereafter it of 19.791 new registrations per year. Regarding the building sector, it accounts for an average value which is in the first five years of 66.681 opposed that of the second period which is 48.264. This sector, clearly affected by the weight of the crisis and the lack of economic recovery, in 2013 sees further reduce in its business. A similar trend has the logistics (Transport and Storage), with an average value in the first five years of 6.907 which is reduced to 4.311 in the second five. This sector, however, shows a significant reduction in the numbers of new businesses, registered at the Companies Register, already before 2008 which is considered as the year between the period before and after disruptive crises that is not yet arrested. The sector of extraction of minerals and quarrying saw a decrease of the large number of new businesses in the two periods going from an average of 34 to 22 units.

They show a trend which, although in decline over the period, revealed some signs of recovery in the last year the sectors of Finance and insurance, Real estate and Wholesale and Retail.

A turnaround, in positive terms with respect to the mainly negative framework so far outlined, there is within the sectors of Other service activities (7.941 and 10.235), accommodation and food service activities (15.263 and 19.033), Health and social assistance (675 and 703) and Education (992 and 1090) give rise to a greater dynamism.

Table 3. Performance of new registrations in the period 2004-2013 splitted by economic sector

Sectors	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture, forestry and fishing	36.541	33.017	31.539	29.548	30.789	27.181	28.115	25.186	25.616	22.582
Other activities of services	7.659	7.584	7.743	8.310	8.408	11.190	11.467	9.253	9.519	9.747
Accommodation and restoration	13.870	14.522	15.264	16.528	16.133	22.090	19.900	16.797	17.535	18.842
Financial and insurance activities	8.027	7.028	8.436	9.539	7.915	7.167	6.843	6.105	6.412	9.398
Real estate activities	8.847	10.014	10.186	9.425	7.705	6.276	5.860	5.380	4.846	7.830
Manufacturing activities	29.586	28.943	29.654	30.266	28.783	21.443	21.000	19.570	18.953	17.988
Wholesale and Retail	93.655	90.259	89.784	88.851	82.350	84.286	80.918	71.792	71.286	77.912
Building	61.763	63.027	68.171	75.443	65.003	54.803	53.702	49.059	44.756	38.998
Extraction by mining and quarrying	36	35	38	34	26	26	17	19	26	23
Education	1.046	994	909	973	1.038	1.169	1.106	1.107	1.073	994
Health and social assistance	662	642	663	710	700	788	696	600	663	768
Transport and storing	9.044	8.645	5.518	5.942	5.384	5.458	4.712	3.732	4.272	3.383

Source: our elaboration on Movimprese data.

The distribution of companies within the four macro-territorial Italian areas, highlights a demographic trend that has evolved, in the flow of the enrollment, in line with earlier findings. During the 2004-2008 period the average values account for a higher level than in the past five years examined, although in certain areas the pressure of the crisis was felt more clearly. In particular, the North-West and North-East areas with a strong entrepreneurial spirit, have suffered demographic depression.

Table 4. Trend of new registrations in the 2004-2013 period divided by geographic area

Geographic area	Total enterprises									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
North-Ovest	116.341	115.635	115.983	120.736	113.521	104.597	110.069	103.610	100.240	100.097
North-West	83.764	83.348	82.600	84.690	77.492	71.948	77.281	72.800	70.149	70.660
Centre	88.228	90.559	91.545	95.715	90.857	85.538	90.752	85.719	85.818	86.507
South and Isle	137.177	131.759	133.443	134.884	128.796	123.429	132.634	129.181	127.676	127.219
<b>TOTAL</b>	<b>425.510</b>	<b>421.291</b>	<b>423.571</b>	<b>436.025</b>	<b>410.666</b>	<b>385.512</b>	<b>410.736</b>	<b>391.310</b>	<b>383.883</b>	<b>384.483</b>

Table 5. Average value of new registrations in the 2004-2013 period divided by geographic area

Geographic area	Average value	
	2004-2008	2009-2013
North-Ovest	116.443	103.722
North-West	82.379	72.567
Centre	91.381	86.867
South and Isle	133.212	128.029

## 6. Conclusions and Managerial Implications

The evidence found in the study shows that although the effects of economic and financial crisis on the Italian business world, the desire to “do business” has not decreased. There are clear examples of courageous entrepreneurship that with a clear mind, knowledge, creativity, timing and sense of responsibility are intended to address the difficult context of our time (Paniccia & Formisano, 2014). In fact, there is no doubt that the major problems that businesses face comes from the lack of financial resources and access to credit, by the performance of domestic demand, labor costs and the absence of adequate political and public institutions support, which associated with many other factors threaten investment and jobs. From what has been observed it is possible to conclude that the success of a new business requires the consolidation of an integrated system of winning ideas and their rationalization strategies set and implemented in a positive manner. The high environmental turbulence, the limited capacity for processing information, especially the situation of uncertainty that characterizes the company being set up and start-up, require, however, the neo-entrepreneur to reduce the reference horizon of their choices favoring the logic of “learning by doing”, the logic for which the strategic plan for future action arises from the projection of incremental moves in the short term. Only in this way the neo-entrepreneur will be able to create their own learning process in which intuition and experience constantly interrelate, renewing creatively and feeding each other.

In a future research we propose to further develop the research question identifying suitable hypotheses, each one connected to the appropriate research methodology of quantitative type. The target is concerned with the verification of the following hypotheses: consistency between data and processings already mentioned in this work and characteristics of a sample of companies operating in the land areas in question; the evidence of the emerging issues in Italian territory, characterizing enterprises’ corporate governance, useful to a comparison between countries having the same characteristics of the economic context.

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