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• [Inc.com](#)

• [Google](#)

• [HOME](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[E](#)

• [MAGAZINE](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[E](#)

• [Articles by Topic](#)

• [Current Issue](#)

• [Past Issues](#)

• [Subscriptions](#)

• [RESOURCE CENTERS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[EVENTS](#)

[E](#)

• [All Resource Centers](#)

• [Law & Taxation](#)

• [Start-Up](#)

• [Retail](#)

• [Technology](#)

• [Business Travel](#)

• [Inc. 500](#)

• [Personal Finance](#)

• [Women in Business](#)

• [Office & Operations](#)

• [Finance & Capital](#)

• [Global Business](#)

• [Marketing](#)

- [Franchise](#)
- [Sales](#)
- [One-Person Business](#)
- [E-Commerce](#)
- [Buy & Sell a Business](#)
- [Human Resources](#)
- [Inc. Life](#)
- [Leadership](#)

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EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

E

- [Inc. 500 Home](#)
- [The List](#)
- [Apply](#)
- [The Inc. 500 Conference](#)
- [Hall of Fame](#)
- [Columns](#)

COLUMNS

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

E

- [All Columnists](#)
- [Norm Brodsky - Street Smarts](#)
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- [Rebecca Morgan - Office & Operations Resource Center](#)
- [Warren Struhl - Start-Up Resource Center](#)

[Evan Goldberg - Technology Resource Center](#)

[Staff Weblog](#)

TECH

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

E

[Technology Resource Center](#)

[Hardware](#)

[Internet & E-Business](#)

[Managing Technology](#)

[Networking](#)

[Software](#)

[Security](#)

[Telecom and Wireless](#)

[Columns](#)

[IncTechnology.com](#)

START-UP

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

E

[Start-Up Resource Center](#)

[How-To](#)

[Columns](#)

[Ask the Expert](#)

[Start-Up Articles](#)

[Recommended Resources](#)

INC TV

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

EVENTS

E

[Videos](#)

[Podcasts](#)

[Slideshows](#)

| | | | | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------|
| EVENTS | EVENTS | EVENTS | EVENTS | EVENTS | EVENTS | EVENTS | E |
| EVENTS | EVENTS | EVENTS | EVENTS | EVENTS | EVENTS | EVENTS | E |
| All Events | | | | | | | |
| Inc. 500 Conference | | | | | | | |
| SUBSCRIPTIONS | EVENTS | EVENTS | EVENTS | EVENTS | EVENTS | EVENTS | E |
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- [Technology](#)
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- [Women in Business](#)
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- [Marketing](#)
- [Sales](#)
- [E-Commerce](#)
- [Human Resources](#)
- [Leadership](#)
- [Law & Taxation](#)
- [Retail](#)
- [Business Travel](#)
- [Personal Finance](#)
- [Office & Operations](#)
- [Global Business](#)
- [Franchise](#)
- [One-Person Business](#)
- [Buy & Sell a Business](#)

- [Inc. Life](#)

Departments

- [Current Issue](#)
- [Past Issues](#)
- [Entrepreneurial News](#)
- [Articles by Topic](#)
- [How-To Guides](#)
- [Tools](#)
- [Columns](#)
- [Videos](#)
- [Slideshows](#)
- [Podcasts](#)
- [Newsletters](#)
- [Subscriptions](#)
- [Services](#)
- [Events](#)

[Businesses for Sale](#)

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By: **Leslie Taylor**

A new report highlights the importance of making new businesses appear credible to employees and customers.

The success of an emerging business depends largely on the owner's ability to convince potential employees or customers that the nascent company is operational, according to new research.

In an attempt to explain why some organizations succeed and others flounder, Erno Tornikoski from the Seinajoki University of Applied Sciences and Scott Newbert from the College of Commerce and Finance at Villanova University, analyzed data collected in the panel study of entrepreneurial dynamics, or PSED. The PSED was a three-year study that identified and repeatedly surveyed 830 Americans who were actively involved in starting a small business. Their report appears in the current Journal of Business Venturing.

About half of the survey participants ultimately created successful businesses -- defined by researchers as ventures that had made a sale, hired employees, or received [external funding](#). The

researchers found that an entrepreneur's personal characteristics, such as level of education, had little to do with the success of his or her venture. Rather, the quality shared by successful entrepreneurs was the ability to make their emerging organization seem legitimate.

"People are likely to buy products, work for, and give money to entities that are credible, that they perceive as operational," said Newberg. "Organizations that make their fledgling operation appear more legitimate than it might actually be are better able to access customers and recruit employees."

While the [education](#) and previous experience of each entrepreneur had little bearing on the ultimate success of his or her venture, the collective experience of people on the start-up team such as employees, mentors, and financiers, did influence the venture's chances for success.

"It is an advantage to have some amalgam of [start-up](#) experiences within the team," Newberg said. "Even people who have started a successful business in the past, can fall victim to the 'sample size of one' because they are limited to that singular experience. A more diverse set of information about what seems to work and what doesn't, seems to be helpful."

The researchers also found that whether or not an entrepreneur had created a business plan for their start-up venture had no bearing on the success of that venture. Newberg speculates that perhaps investing a lot of time creating the perfect business plan document takes time away from executing the ideas described in the document. He also suggests that entrepreneurs may become too attached to their initial conceptions or misconceptions once they are formalized by inclusion a business plan. Because things change so rapidly for an emerging venture, it is important to be flexible, Newberg explained.

"Of course you need to have a reasonably crystallized idea of what you are going to do -- whether you write it down or have it in your head," Newberg said. "But it's important to remember that as soon as you write it down it's going to be wrong."

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