

Is there life after death?

Is there entrepreneurial life
after firm death?

Exit is not the End

Firm exit and entrepreneurial re-entry

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Today's presentation

- I. Theory
- II. Data
- III. Results
- IV. Conclusion

I. Theory

Common *newspaper wisdom*

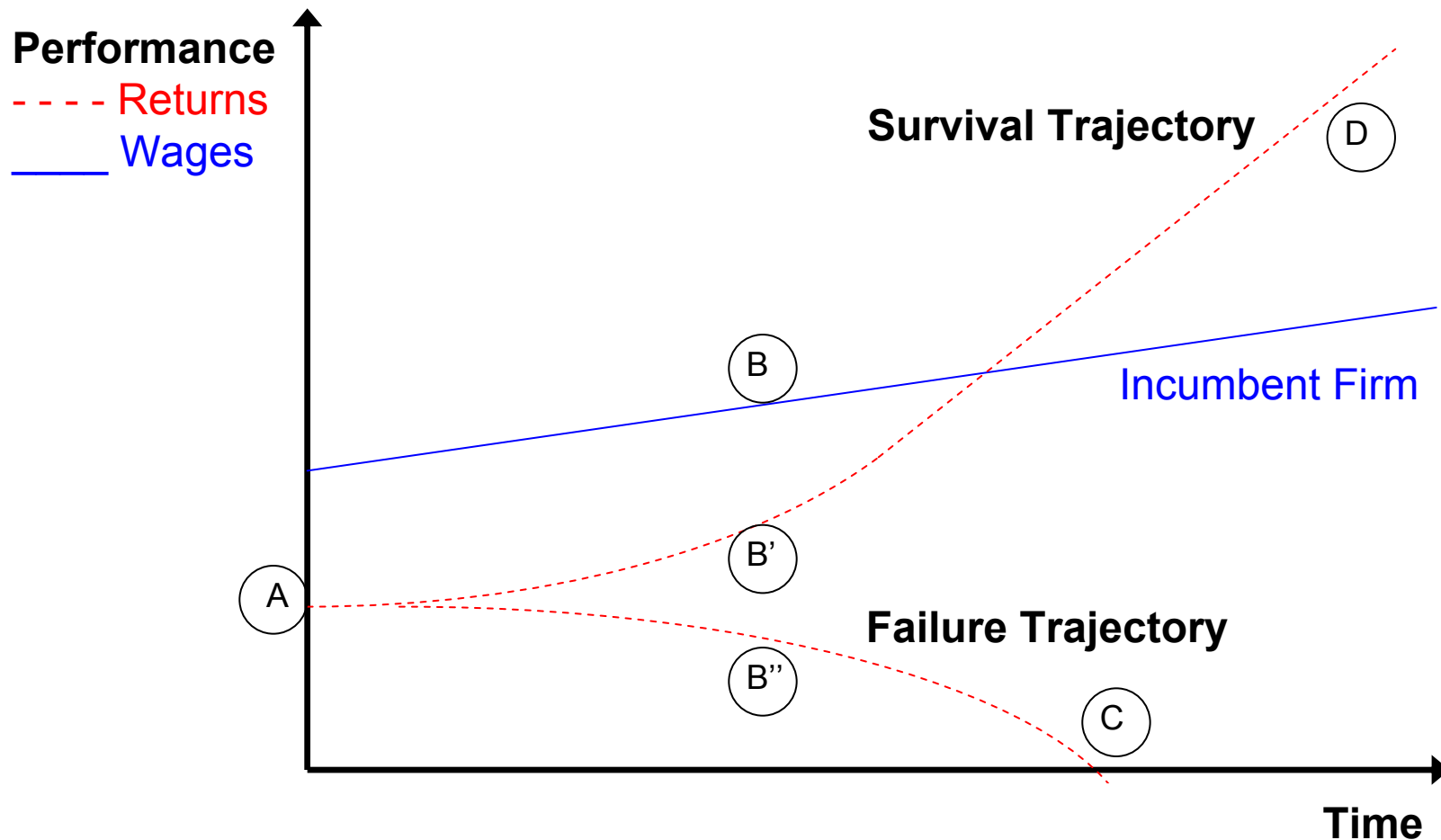
- Most new firms go bankrupt,
...because they are started by persons
that lack sufficient entrepreneurial skills

Passive learning - I

- In the logic of Jovanovic (1982) and Lippman & Rumelt (1982) potential entrepreneurs:
 - ... are uncertain about their actual entrepreneurial abilities.
 - ... can only learn about their actual entrepreneurial abilities through the process of starting a new firm.
 - By observing the subsequent performance (selection), information is provided about the individual's entrepreneurial abilities.

“(s)he that has never tried
has never won”

Model of income and occupational choice



Passive Learning - II

- Entrepreneurs of firms that have exited will not have entrepreneurial preferences anymore because it has been revealed that they do not have sufficient entrepreneurial skills.
- Failure trajectory: A-B''-C



Proposition 1: Firm exit is a reflection of failure of the business in a market environment, and lowers the likelihood of re-entry, because the former business-owner has learnt that he does not possess sufficient entrepreneurial skills.

Why bother about entrepreneurial re-entry?

- Passive learning tells the story...
- Empirical reality:
 - Entrepreneurs of firms that have exited still have entrepreneurial preferences (Wagner 2003; Schutjens & Stam 2006)
 - Entrepreneurs of firms that have exited even have higher probability to become entrepreneur (again) than the labour population in general (Caroll and Mosakowski 1987; Henley 2004)

How can this anomaly be explained?

Solution I: Variations in firm exit

=> Firm exit \neq Entrepreneurial failure

- Forced liquidation (bankruptcy)
- Voluntary liquidation
- **Sell-off:** (Holmes & Schmitz 1990: division of labor entrepreneurs/managers)
 - Accumulation of human capital, social capital, and financial capital

Cambridge Entrepreneurial Heroes

Cambridge examples - IT

- **Andy Hopper:**

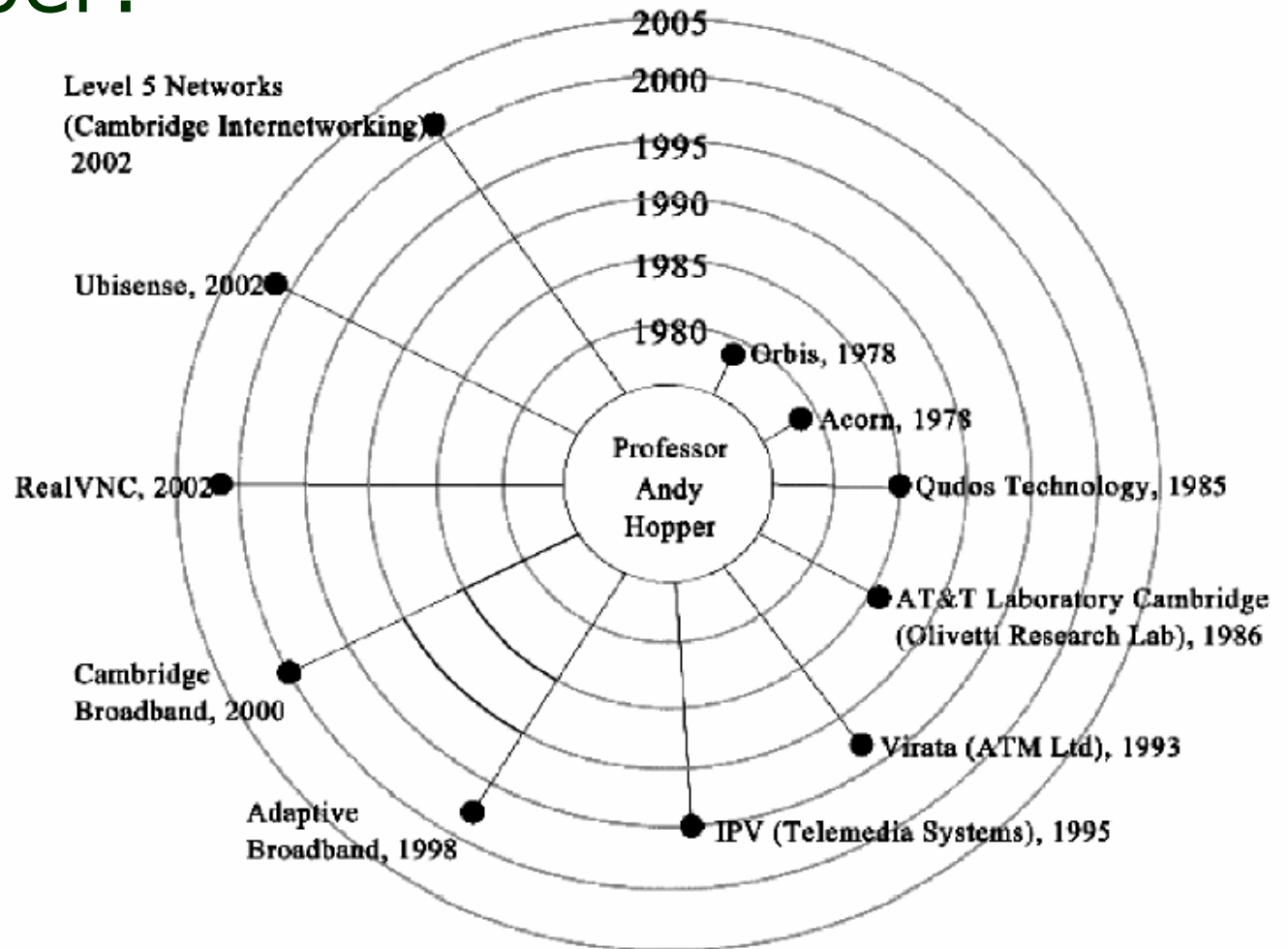


Fig. 9. Serial firm foundation by academic entrepreneurs, e.g. Professor A. Hopper

Source: Garnsey & Heffernan 2005

Cambridge examples - IT

- Herman Hauser:

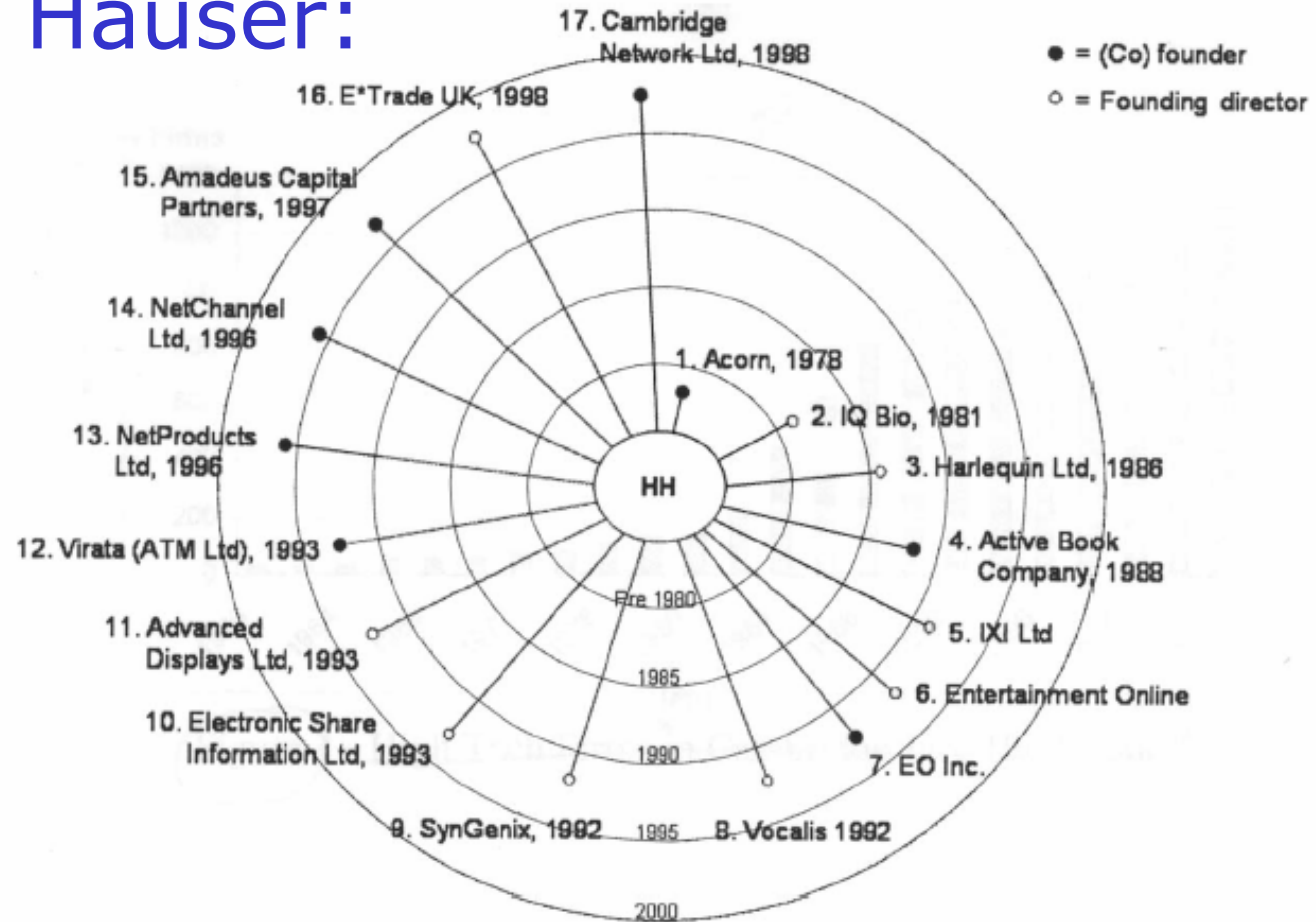
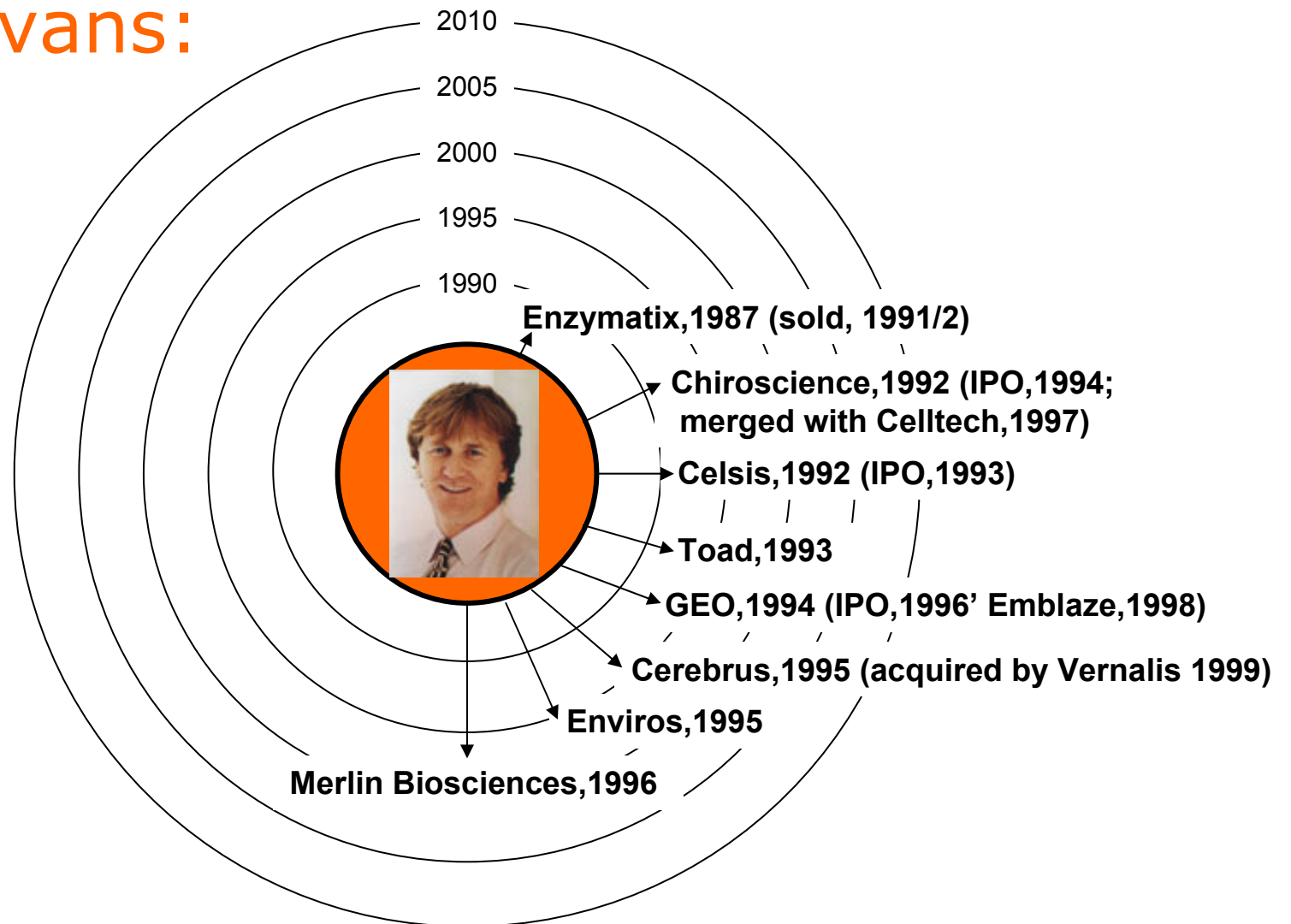


Fig. 13. Companies co-founded by Dr Hermann Hauser

The authors' unpublished case evidence on Acorn-related spin-outs has been usefully extended by MYINT *et al.* (2004), who have investigated the linkages of other serial entrepreneurs in Cambridge using social network analysis

Cambridge examples - Biotech

- Chris Evans:



Solution II: Active Learning

Entrepreneurs learn to:

- Identify opportunities (industry experience)
- Run a (multi-person) business
- Exploit opportunities
- Develop a network of professional relationships

- Learn from failures!

=> Gaining entrepreneurial skills



Proposition 2: Firm exit increases the likelihood of entry, because entrepreneurial learning is likely to improve the entrepreneurial skills of the prior business-owner, and leaving behind the prior firm frees time for efforts into a new firm entry.

Explanations Re-entry

- Passive learning (-)
- Different modes of firm exit (-/+)
- Active learning (+):

II. Data

Empirical research

- Research question:
What determines entrepreneurial re-entry?

(Stam, Audretsch & Meijaard 2006 @ CBR: renascent entrepreneurship;
see also Schutjens & Stam 2006; Stam 2006)

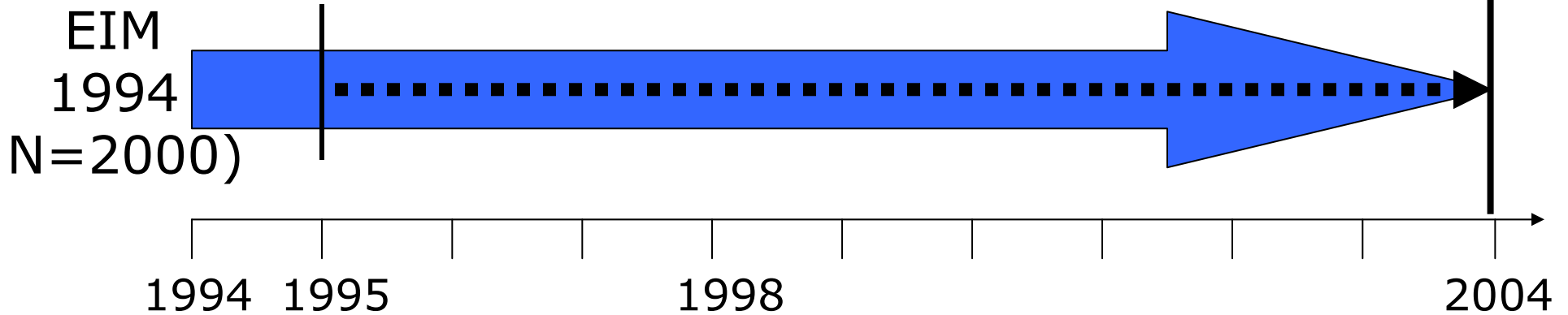


Variable to be explained

- Have you started a new firm after closure of the prior one?

Longitudinal data

- Exit surveys (annually)
- Surveys on (ex-)entrepreneurs (EIM2004)



Survey EIM: N=240 (N=500)

Hypotheses

Active learning

Hypothesis 1: Accumulation of entrepreneurship specific human capital improves the probability of re-entry

Hypothesis 2: Accumulation of entrepreneurship specific social capital improves the probability of re-entry

Passive learning

Hypothesis 3: Prior firm success improves the probability of re-entry

Explanatory variables

- Specific human capital
 - Industry experience
 - Habitual entrepreneur (>1 firm)
 - Business skills
- Specific social capital
 - Developed professional networks as entrepreneur
 - Family/friends as entrepreneur
- Prior firm success
 - Employee(s) in prior firm
 - Entrepreneurial team in prior firm
 - Prior firm (partly) sold
- Controls:
 - General human capital (education level, age)
 - High tech industry
 - Urban location

III. Results

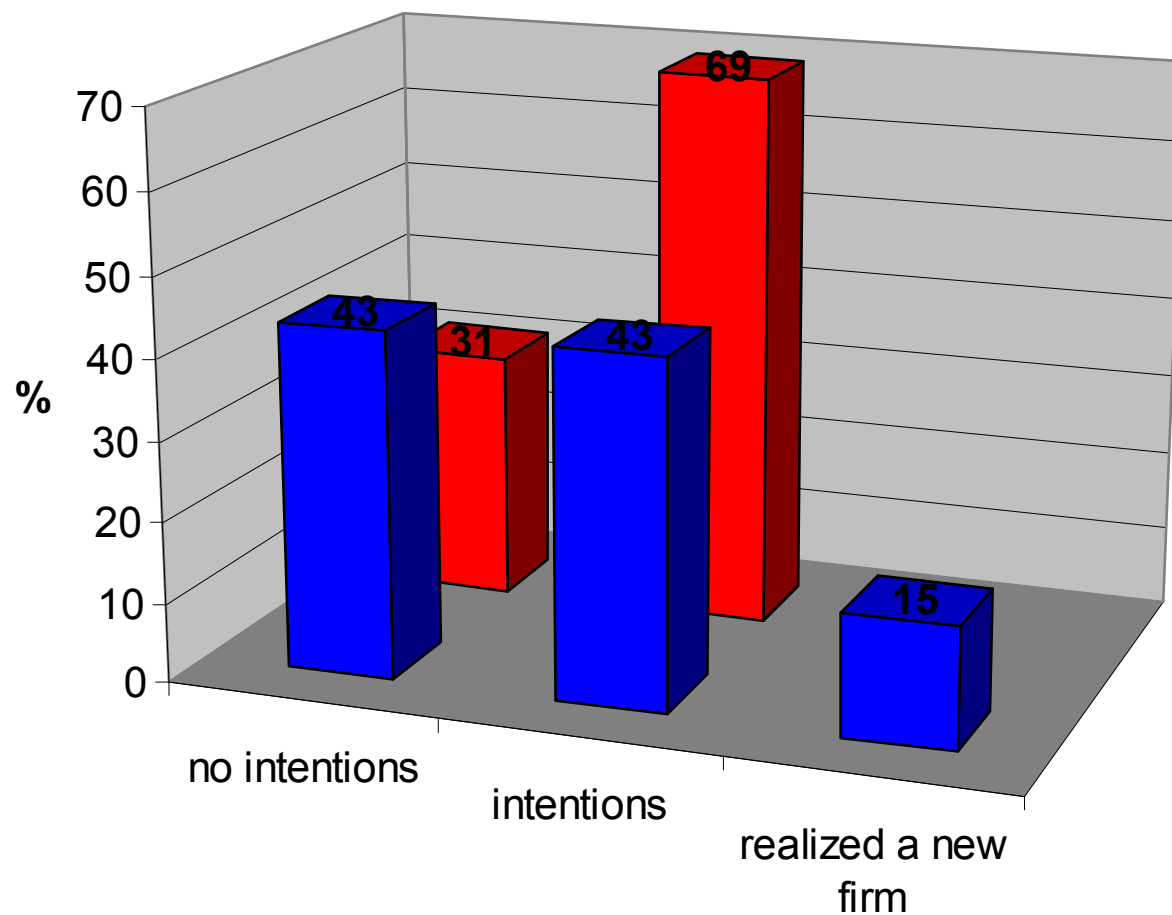
Proposition 1: Firm exit is a reflection of failure of the business in a market environment, and lowers the likelihood of re-entry, because the former business-owner has learnt that he does not possess sufficient entrepreneurial skills

Votes, please



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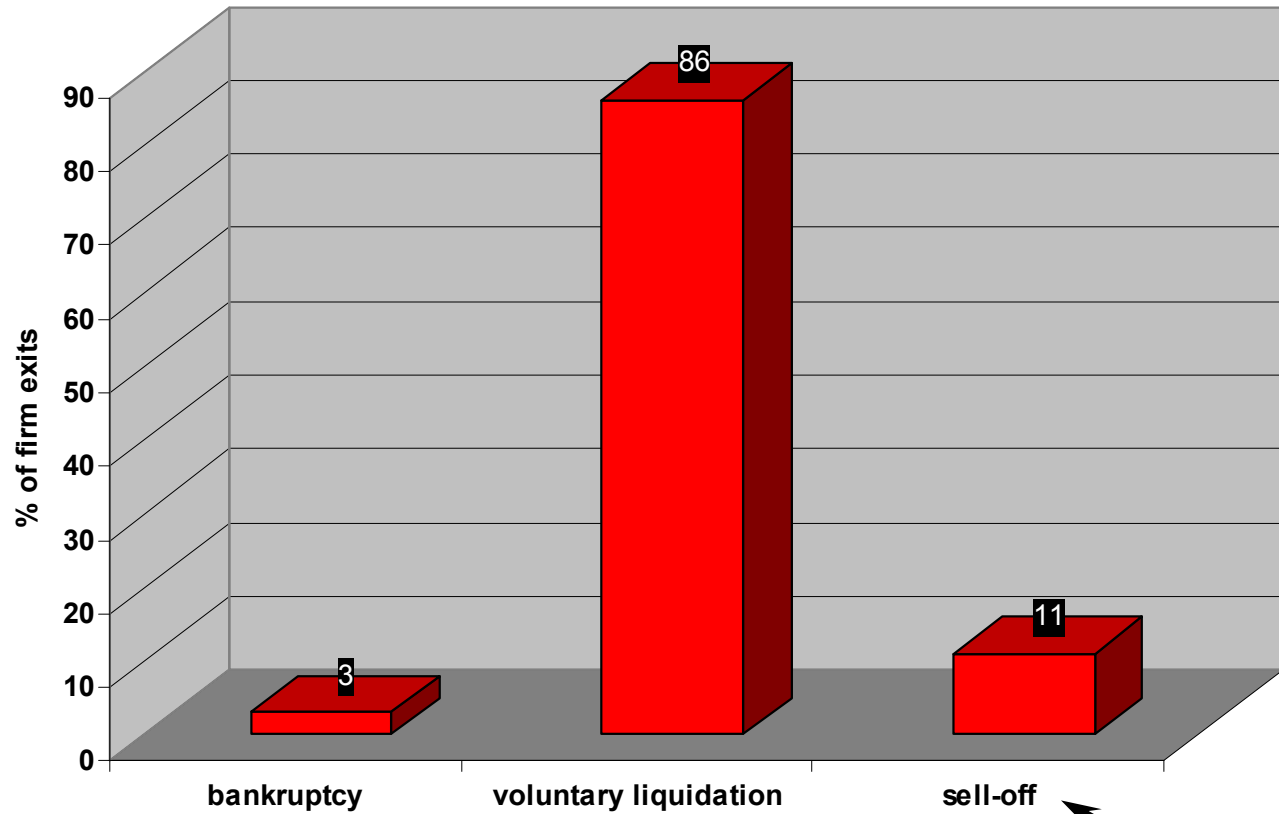
Stated and revealed entrepreneurial preferences



■ serial entrepreneurship survey ■ restart intentions at firm exit

Modes of firm exit?

Variations in firm exit



Point D

Proposition 2: Firm exit increases the likelihood of entry, because entrepreneurial learning is likely to improve the entrepreneurial skills of the prior business-owner, and leaving behind the prior firm frees time for efforts into a new firm entry.

Logistic regression models estimating entrepreneurial re-entry

		Model 1		
	Variables	Coef.		SE
General human capital	Highly educated	-.062		.435
	Age	-.747		.456
Specific human capital	Industry experience	-.237		.426
	Habitual entrepreneur	1.843	***	.495
	Business learning	.468		.432
Specific social capital	Family/friends entrepreneur	.325		.434
	Professional networks	1.477	***	.548
Prior firm success	Employee(s)			
	Entrepreneurial team			
	Sell-off			
Controls	High tech	-.563		.589
	Urban location	-.339		.742
	Constant	-1.901	***	.509
	N		230	
	Model X ²		26.683	
	Df		9	
	-2 Log likelihood		167.913	
	R ²		.190	

significant at 5%, *significant at 1%

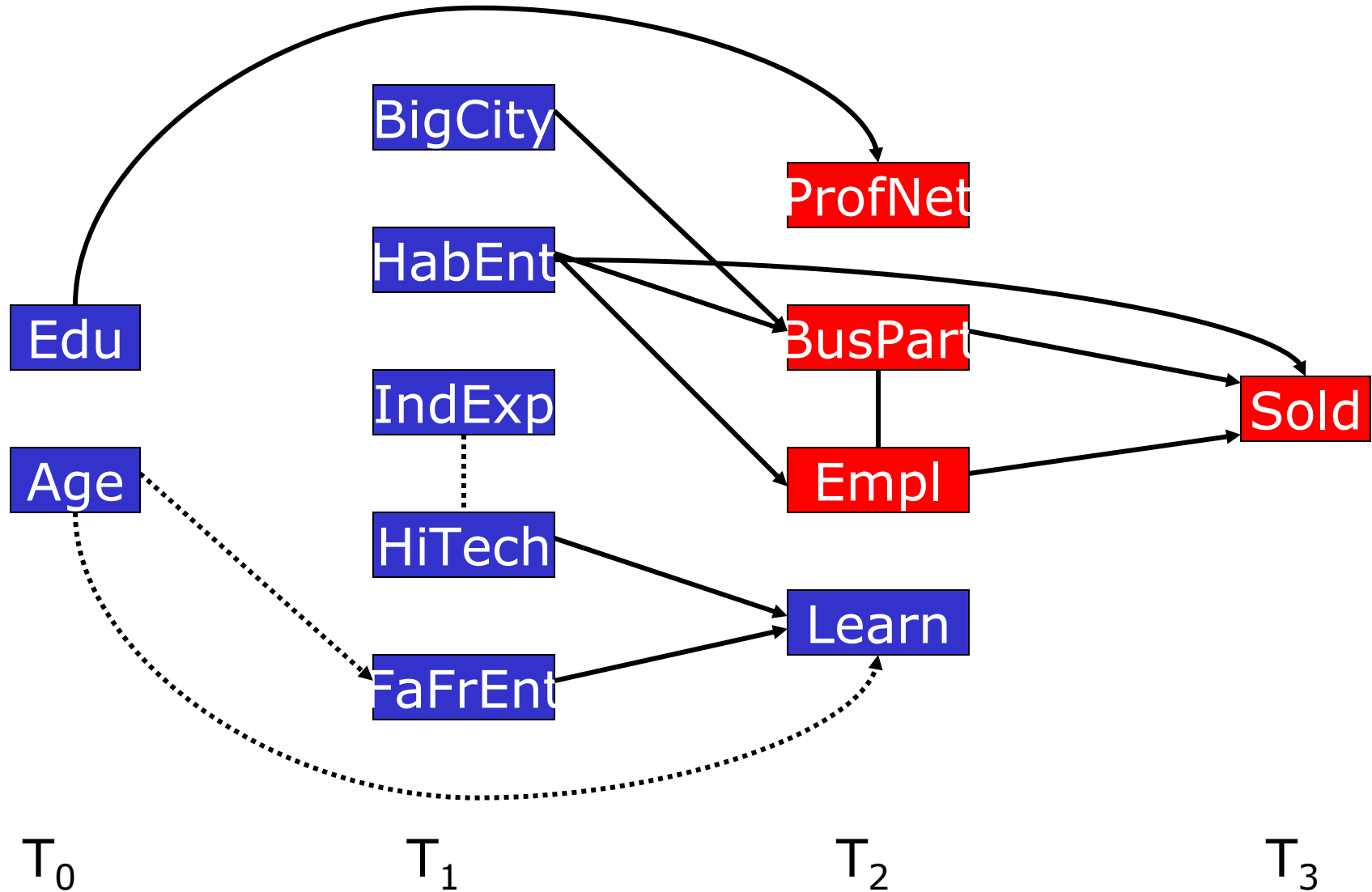
Logistic regression models estimating entrepreneurial re-entry

		Model 1		Model 2	
	Variables	Coef.	SE	Coef.	SE
General human capital	Highly educated	-.062	.435	.272	.489
	Age	-.747	.456	-.661	.532
Specific human capital	Industry experience	-.237	.426	-.667	.521
	Habitual entrepreneur	1.843	***	.495	.592
	Business learning	.468	.432	.174	.484
Specific social capital	Family/friends entrepreneur	.325	.434	.676	.522
	Professional networks	1.477	***	.548	.643
Prior firm success	Employee(s)			2.061	***
	Entrepreneurial team			1.500	***
	Sell-off			1.269	**
Controls	High tech	-.563	.589	-.904	.689
	Urban location	-.339	.742	-1.016	.923
	Constant	-1.901	***	.509	-2.743
	N		230		211
	Model X ²		26.683		59.722
	Df		9		12
	-2 Log likelihood		167.913		133.300
	R ²		.190		.402

significant at 5%, *significant at 1%

- It does not matter whether you have entrepreneurial **experience**; what matters is that you have acquired **expertise** (i.e. building a successful business)

Path Analysis



Summary

Entrepreneurial re-entry is determined by:

- **Passive learning:** some people have learned that they are not suitable to an entrepreneurial career
 - **Successful firm exit:** active (!?) learning and improved access to financial capital
- **Active learning:** building professional networks and running a (once) successful business

There is entrepreneurial
life after firm death

Conclusions

- Young firm exit is not equal to bankruptcy
- Most young firm exits can be regarded as 'failed experiments', or even successful exits
- Individuals learn passively and actively during a spell of entrepreneurship
- This explains why the majority of the ex-entrepreneurs still has entrepreneurial preferences subsequent to firm exit

Policy implications?

- EU policy to reduce the stigma on failure (cf. Armour & Cumming 2004; 2005)
 - Firm exit does not lower the (average) entrepreneurial preferences
 - + Only 3% of the (novice) bankrupt entrepreneurs re-enter (Metzger 2006)
- Policy to reduce the number of unable / overoptimistic entrants (De Meza 2002); do not make lending cheaper
 - + Bankruptcy is a clear indicator of a lack of entrepreneurial skills
 - Even bankruptcy might trigger entrepreneurial learning

Future research - I

- Performance of 2nd, 3rd, Firm
 - Gazelles?
 - Life-style entrepreneurs?
 - Habitual failures?
- Qualitative research on the life course of serial entrepreneurs
- Effects of bankruptcy (in different institutional environments) on restart

Future research - II

- Role serial entrepreneurship in (regional) economic development (Mason & Harrison 2006)
 - Role models
 - Experience
 - Investors
- Theory building:
 - human capital (skills)
 - organization capabilities (team)
 - networks (Myint et al. 2005)
 - venture capital (Gompers et al. 2006)

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