

6-10-2006

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Recommended Citation

Stam, Erik; Audretsch, David; and Meijaard, Joris (2006) "RENASCENT ENTREPRENEURSHIP – ENTREPRENEURIAL PREFERENCES SUBSEQUENT TO FIRM EXIT," *Frontiers of Entrepreneurship Research*: Vol. 26: Iss. 7, Article 2.

Available at: <http://digitalknowledge.babson.edu/fer/vol26/iss7/2>

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RENASCENT ENTREPRENEURSHIP – ENTREPRENEURIAL PREFERENCES SUBSEQUENT TO FIRM EXIT

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ABSTRACT

Why should individuals that have exited their firm consider re-entering into entrepreneurship, i.e. become *renascent entrepreneurs*? According to the logic of economic models of firm dynamics there is no reason to re-enter into entrepreneurship following termination of a previous firm. In contrast, research on nascent entrepreneurship has shown the positive effect of entrepreneurial experience on planning a new firm start. Based on the empirical evidence from a database consisting of ex-entrepreneurs, this study shows that renascent entrepreneurship is a pervasive phenomenon in current society. Especially entrepreneurial human and social capital induce renascent entrepreneurship. In addition, the nature of the firm exit also affects the probability of renascent entrepreneurship.

INTRODUCTION

Promoting entrepreneurship has become a key instrument of policies for economic growth and employment creation. A focal point of such entrepreneurship policies is to increase the share of the labor force that would be potentially interested in entering into entrepreneurship. This preference for entrepreneurship is said to be hampered, especially in Europe, by the stigma on failure (European Commission 2002). Many people may be uncertain about their entrepreneurial skills, and this uncertainty becomes more constraining when a failed start-up is highly stigmatized.

Many scholars have focused on the uncertainty involved in entrepreneurial activity that deters entrepreneurship. In the logic of the Jovanovic (1982) and Lippman and Rumelt (1982) models of firm dynamics, individuals are uncertain about their actual entrepreneurial abilities. They can only learn about their actual entrepreneurial abilities through the process of starting a new firm. Only by starting a new firm and observing the subsequent performance is a nascent entrepreneur able to learn about her endowment of entrepreneurial talent. The firms of entrepreneurs with inferior skills ultimately exit. Thus, an important implication of these models of entrepreneurship is that a positive entrepreneurial performance subsequent to startup will lead the entrepreneur to infer that she has a strong endowment of entrepreneurial skills, which will lead her to persist as an entrepreneur. By contrast, those startups with a poor performance will lead entrepreneurs to infer that they have only an impoverished endowment of entrepreneurial skills and will tend to exit out of entrepreneurship. Thus, the nascent entrepreneur can only learn about her true but unobservable underlying endowment of entrepreneurial skills by inferences gleaned from the actual entrepreneurial performance. Those entrepreneurs learning from actual entrepreneurial experience that they have only impoverished endowments of entrepreneurial skills select themselves out of entrepreneurship, while those learning that they have rich endowments of entrepreneurial skills remain in entrepreneurship.

A second important implication of these models of firm dynamics is that once an individual has learned that she has a paucity of entrepreneurial skills, there is no reason to subsequently (again) become a nascent entrepreneur. According to these models, the (lack of) underlying entrepreneurial skills would already have been revealed through the entrepreneurial experience. Thus, there would be little incentive to (re-)enter into entrepreneurship, or what we term here as *renascent entrepreneurship*.

However, a number of empirical studies have consistently found a positive effect of entrepreneurial experience on the preference to start again as a business owner. If such ex-entrepreneurs had already learned that they did not possess a strong endowment of entrepreneurial skills, why would they re-enter into entrepreneurship? The purpose of this paper is to resolve this empirical paradox and to challenge both the passive view of entrepreneurial learning along with the high propensity for renascent entrepreneurship.

In the second section of this paper we present a model of entrepreneurship. The third section presents a review of empirical studies on nascent entrepreneurship. Next, the research method and data are described. In the fifth section a logistic regression models are estimated to explain why some ex-entrepreneurs become renascent entrepreneurs, while others abstain from renascent entrepreneurship. In the final section a summary and conclusions are presented. In particular, we find that the propensity for ex-entrepreneurs to become renascent entrepreneurs is not homogenous, but rather systematically related to the capacity to absorb knowledge and learn from previous entrepreneurial experience.

A MODEL OF ENTREPRENEURSHIP

The links between nascent entrepreneurship and entrepreneurial performance are depicted in Figure 1. As the literature has documented (Parker, 2004, 2005), the average return accruing from starting a new firm, at point A, lies below the wage that could be earned working in an incumbent firm. However, the performance differential between the returns to entrepreneurship and wages earned working in an incumbent firm do not remain constant over time, but may increase or decrease. While the entrepreneurial decision occurs within a relatively narrow lapse of time, the entrepreneurial process involves the evolution of the new firm from birth towards maturity and firm exit. The entrepreneurial process may result in a return far exceeding that expected from wages earned in an incumbent firm, as depicted by point D, or alternatively, in a return far below the benchmark wages, at point C. Thus, as Knight (1921) pointed out, the entrepreneurial process is shrouded in uncertainty and risk.

Figure 1 suggests that the entrepreneurial performance outcomes are inherently uncertain in that they result in alternative outcomes, as depicted by C or D. Once an individual has attained point C, she is confronted with the decision of re-entering into entrepreneurship, again at point A (i.e. renascent entrepreneurship).¹ We expect that the entrepreneurial experience is of little value for the wage earned at an incumbent², and thus does not affect the wage level (curve) after firm exit.

Within the economics literature, the prevalent theoretical framework has been the general model of income choice, which has been at times referred to as the model of entrepreneurial choice (Evans and Jovanovic, 1989; Parker, 1996). The model of income or entrepreneurial choice dates back at least to Knight (1921), but was more recently extended and updated by Holmes and Schmitz (1990) and Jovanovic (1994). In its most basic rendition, individuals are confronted with a choice of earning their income either from wages earned through employment in an incumbent firm or else from profits accrued by starting a new firm. The essence of the model of entrepreneurial choice is made by comparing the wage an individual expects to earn through employment, W , with the profits that are expected to accrue from a new-firm startup, P^* . Thus, the probability of starting a new firm, $P(s)$, can be represented as:

$$(1) P(s) = f(P^*-W)$$

According to the Jovanovic (1982) and Ericson and Pakes (1995) theories of firm dynamics and selection, entrepreneurs may start a new firm at a small, even suboptimal, scale of output, and then, if merited by subsequent performance, expand as depicted by the evolution from point A to D. The firms of entrepreneurs that observe a positive performance, as reflected by P^* , will grow, whereas those that are not successful will remain small and may ultimately be forced to exit out of entrepreneurship.

An important implication is that if an entrepreneur infers from a positive performance that she has an underlying high endowment of entrepreneurial skills, she will continue with entrepreneurship. By contrast, if she infers from a poor performance that she has an impoverished endowment of entrepreneurial skills, she would revise P^* downward. This would make exit out of entrepreneurship more likely, as working for an incumbent firm, with wage W is becoming more attractive. In the Jovanovic (1982) theory of passive learning, P^* is likely to be revised downward just before firm exit, and there is no reason that P^* would increase anymore.

By contrast, we suggest that P^* can actually increase as a result of entrepreneurial experience. If the entrepreneur learns not just about the original endowment of entrepreneurial skills, but also how to augment these original entrepreneurial skills, then P^* will not remain invariant to the entrepreneurial experience, but will actually be higher as a result of the entrepreneurial experience. In contrast to the original Jovanovic (1982) theory, this second type of learning would suggest that ex-entrepreneurs would indeed contemplate re-entering into entrepreneurship, becoming nascent entrepreneurs. Evidence of the latter suggestion would reject the null-hypothesis that ex-entrepreneurs do not have entrepreneurial preferences anymore.

LITERATURE REVIEW ON NASCENT ENTREPRENEURSHIP

In the last decade a number of studies on the characteristics of individuals that aspire or take steps to start a business have been undertaken. In this section we summarize the main findings in the literature linking characteristics specific to individuals to nascent entrepreneurship.³ One of the most relevant findings here is the positive effect of prior entrepreneurial experience on subsequent entrepreneurial preferences. To some extent, the relationship between a personal characteristic and nascent entrepreneurship may also be similar to that with nascent entrepreneurship. We will discuss the general findings in the literature on nascent entrepreneurship in this section.

Human capital

There is a long research tradition linking the role of human capital to entrepreneurship. Studies have typically found a positive relationship between general human capital and nascent entrepreneurship (Van Gelderen, 1999; Diochon et al., 2002; Kim et al., 2003; Reynolds et al., 2004; Wagner, 2005). Individuals with more education may be more willing to start a new firm because they can relatively easily find a job if the venture fails. Wagner (2005) also found evidence for Lazear's (2004) "jack-of-all-trades" theory of entrepreneurship, with a positive effect of the number of fields of experience on nascent entrepreneurship.

Prior industry experience – a factor that has a clear negative effect on firm exit (cf. Klepper, 2002; Phillips 2002; Stam et al., 2006) – is not found to have an effect on nascent entrepreneurship. It is likely that prior industry experience will only have a positive effect when the intended new business will be active in an industry that is related to this experience. This is however hard to uncover in cross-sectional analyses.

Perhaps the most relevant experience of individuals aspiring to start a business is entrepreneurial experience. In this respect, Kolvereid and Isaksen (2006) found a positive effect of entrepreneurial experience (i.e. having had a business before) on entrepreneurial intentions. This is quite in contrast to the logic of economic models of firm dynamics, assuming that these ex-entrepreneurs had to close their unsuccessful business. An escape from this logic would be the 'exit' of a successful business, via a merger or acquisition (at point D in figure 1). A more contrasting explanation may be that these ex-entrepreneurs have not only learned passively whether they had the necessary entrepreneurial skills. These individuals also learned actively to develop or augment their entrepreneurial skills, perhaps not sufficient for running their prior business, but promising enough for future entrepreneurial efforts.⁴

But how would human capital impact renascent entrepreneurship. On the one hand, it elevates W, or the opportunities available to ex-entrepreneurs in working for an incumbent organization. On the other hand, a higher level of human capital may provide the ex-entrepreneur with the absorptive capacity to learn from the entrepreneurial experience and augment the initial endowment of entrepreneurial skills. This would suggest a positive relationship between human capital and the propensity for ex-entrepreneurs to be renascent entrepreneurs.

Financial capital

A series of studies (Evans and Leighton, 1989; Evans and Jovanovic, 1989; Blanchflower and Oswald, 1998) has identified that a lack of financial resources constrains new and small firms. The theory of liquidity constraints assumes that a major concern of nascent entrepreneurs is obtaining finance, which would imply that the receipt of capital (e.g. via an inheritance or gift) increases an individual's likelihood of becoming self-employed, both through the direct supply of capital and through the increased likelihood of bankers providing capital (due to the collateral provided). However, research on nascent entrepreneurship has shown mixed evidence and has generally found no effects of household wealth and income (Kim et al., 2003) but a positive effect of individual income (Van Gelderen, 1999).

Social capital

Recent research also suggests that social capital may impact entrepreneurship in general and nascent entrepreneurship in particular (Davidsson and Honig, 2003; Arenius and De Clercq, 2005). Davidsson and Honig (2003) have argued that individuals who come from families who own businesses (bonding social capital), or from community networks that own or encourage self-employment (bridging social capital), will utilize their individual level social capital resulting in more successful discovery activities (i.e. nascent entrepreneurship) than those who do not.

Davidsson and Honig (2003) as well as Kim et al. (2003) and Wagner (2005) found a positive effect of having entrepreneurial family and friends, i.e. entrepreneurial role models. This factor revealed to be negatively related to young firm exit (Stam et al., 2006).

On the one hand social capital may provide a mechanism for absorbing entrepreneurial experience and transforming it into learning and the augmentation of entrepreneurial skills, which would suggest a positive relationship between social capital and the likelihood of ex-entrepreneurs to become renascent men. On the other hand might the entrepreneurial experience gained during the career of the ex-entrepreneur become a substitute for the need of entrepreneurial social capital. Entrepreneurial social capital might also have normative effects, as ex-entrepreneurs that are active in a social environment with many entrepreneurs might feel peer-pressure for starting again.

Demographics

Studies have typically found that nascent entrepreneurship tends to decline with age. For example, in an international study Blanchflower et al. (2001) found that for individuals the probability of preferring to be self-employed is strongly decreasing with age. A negative effect of age on nascent entrepreneurship has also been found in many other country studies (Van Gelderen, 1999; Diochon et al., 2002; Reynolds et al., 2004). A common interpretation of this consistent finding is that younger individuals may be more adventurous (i.e. overconfident: Forbes, 2005) and, hence, may be more likely to have entrepreneurial preferences. The incentives of an individual to starting new firms decreases over her life span, as her expectation of collecting future payments out of entrepreneurship declines (Lévesque and Minniti, 2006).

A consistent empirical result emerging in the literature on nascent entrepreneurship is that gender matters. In particular, women exhibit a consistently lower likelihood of becoming a nascent entrepreneur

than are their male counterparts (Van Gelderen, 1999; Diochon et al., 2002; Reynolds et al., 2004; Wagner, 2005).

Only a few studies focusing on nascent entrepreneurship have taken into account the geographic location of individuals. The meager evidence accumulated to date indicates that people in urban locations are more likely than their rural counterparts to become a nascent entrepreneur (Van Gelderen, 1999; Wagner and Sternberg, 2004; Arenius and De Clercq, 2005; Kolvereid and Isaksen, 2006). Due to the density of people and organizations, urban and especially metropolitan locations provide more entrepreneurial opportunities than their rural counterparts (Jacobs, 1961).

Firm exit type

Research has identified the existence of a diversity in types of exits: for example voluntary exits to acquire a better job (Van Praag, 2003; Bates, 2005), exits due to personal circumstances, successfully selling the firm (Headd, 2003), and bankruptcy (Thornhill and Amit, 2003). It is likely that the type of exit and perhaps also the timing of the exit – either in the first crucial three years (“valley of death”) or later on – affect the entrepreneurial preferences after firm exit.

For example, successfully selling the prior firm is likely to deliver financial resources that can be used as starting capital for a restart, while bankruptcy is likely to lead to (short term) financial constraints lowering the feasibility of a restart. To a certain extent, the effects of these types of exit on entrepreneurial preferences can be interpreted with the theory of liquidity constraints. We assume that the receipt of capital due to the sale of (parts of) the prior firm also has a positive effect on the preferences to start a new firm again. In line with this argument, we expect that entrepreneurs whose firm was closed due to bankruptcy are relatively resource constrained (they are likely to have debts, and have problems with getting bank loans in the near future) and thus less likely to intent to start again. However, research by Van der Klaauw (1998) revealed the opposite effect: entrepreneurs that went bankrupt were more likely to have entrepreneurial preferences! The study by Van der Klaauw (1998) also revealed that entrepreneurs that stopped because of personal reasons were less likely to have entrepreneurial preferences.

Concerning the timing of the exit, it may be inferred that entrepreneurs whose prior firm has survived the so-called valley of death (the first three years after start-up), have a strong belief that they possess a relatively strong endowment of entrepreneurial skills. This would suggest that they might have a higher propensity for becoming renascent men.

MEASUREMENT ISSUES

We have started with a representative panel of firms that were registered as independent start-ups in 1994, 1998, 1999 and 2000 (on these panels see e.g. Bosma et al., 2004; Stam and Schutjens, 2005). The firms that did not survive were traced within one year subsequent to the closure of the business, and a number of characteristics were recorded in a survey. At the end of 2004 we had placed telephone calls to all 510 ex-entrepreneurs that had closed their business in the previous decade. We contacted 240 respondents, and collected information on several variables reflecting entrepreneurial experience, current occupations, and entrepreneurial preferences.

We thus have collected information from (at least) three points in time: the start-up of the firm (T_0), the closure of the business (T_1 ; 1 to 10 years after start-up) and a survey subsequent to firm exit (T_2 ; 1 to 9 years after closure). If the firm survived more than one year, we have also gathered information each year between the start-up and the closure of the firm (the years between T_0 and T_1).

The non-response analysis revealed that there are no significant differences between the non-respondents and respondents, with the exception of age: respondents tend to be older than non-respondents, which suggests that renascent entrepreneurs (as these tend to be relatively young) were

undersampled. This response bias can be attributed to the higher mobility of younger people, which makes it harder to trace them at a known address via telephone surveys.

To measure whether an ex-entrepreneur has the (stated or revealed) preference for starting a new firm again a dependent variable has been constructed. The dependent variable to be estimated reflects whether the respondents had no subsequent preference to (re-)enter into entrepreneurship (value 1: “one-night stands”: 103 cases, 42.9%) or to (re)enter into entrepreneurship again as a control group (value 0: “renascent entrepreneurs”: 137 cases, 57.1%).

The independent variables influencing the decision to be a renascent entrepreneur can be categorized into four main groups, which reflect human capital, social capital, firm exit type, and demographic (control) variables.

The human capital of the ex-entrepreneurs is reflected by several different measures. Respondents were asked to indicate the highest level of education they had completed. This variable was coded as a nominal variable with low or medium level of education as 0 and high educational attainment as 1. Two dummy variables are included which indicate whether the individual had industry experience prior to starting her firm and whether the ex-entrepreneur had started more than one firm as an indicator of prior entrepreneurial experience.

The measure of social capital reflects bonding social capital (Davidsson and Honig, 2003). The indicator of bonding ties consists of a dummy taking on the value of one if the respondent knew family or friends running their own business. This variable could also be interpreted as entrepreneurial role models, or even as “pre-market” entrepreneurial experience, and may thus also reflect an aspect of human capital (Kim et al., 2003).

Three variables are used to characterise the type of firm exit. The first variable indicates whether or not the prior firm was successfully sold (in total or parts). Firms which exit due to acquisition may be inferred to have been a success in that they exhibited (statistically significant) above average sales revenues and employment prior to exit. This variable also reflects the availability of financial capital, as it can be assumed that the sale of the firm frees financial resources for the ex-entrepreneur. In this sample 26 firm exits involved the sale of (parts of) the firm. Due to the low number of bankruptcies (only seven)⁵ we were, in fact, not able to use this measure of “firm failure”. However, since six of the seven entrepreneurs with bankruptcy as the cause of firm exit responded that they still had entrepreneurial preferences, this variable seems to be highly relevant. A second indicator of firm exit reflects a low commitment to entrepreneurship, i.e. closure for non-business reasons. The dummy variable “exit due to personal circumstances” (like personal health or family situations) was used. The timing of the exit is reflected by the dummy variable which indicates a prior firm age of less than or equal to three years, indicating a relatively early firm exit.

The final category of variables reflects demographic characteristics of the ex-entrepreneur, and consists of gender (a dummy for male), age (a dummy for being 40 years or younger), and urban location (a dummy for being located in one of the four largest cities in the Netherlands: Amsterdam, Rotterdam, Utrecht or The Hague). These variables are included to control for demographic influences.

The SPSS statistical package was used for all statistical analyses.

EMPIRICAL RESULTS

The entrepreneurial preferences in the post-exit period range from 64% directly subsequent to firm exit to 57% during the survey a few years after firm exit.⁶ These preferences are still considerably higher than the entrepreneurial intentions in the overall adult population in the Netherlands, which is only 37% (see Blanchflower et al., 2001).

Two binary logistic regressions are used to analyse the likelihood that an ex-entrepreneur has no subsequent entrepreneurial preferences: one with the ‘usual suspects’ from the nascent entrepreneurship literature, and one that also includes variables related to the nature of the firm exit. The logistic regression tests the probability of having entrepreneurial preferences or not.⁷ The results are shown in Table 1.

Human capital

Human capital seems to be positively related to renascent entrepreneurship. All three variables have the expected negative coefficient on being a one-night stand entrepreneur. Prior entrepreneurial experience has the strongest effect, followed by the general human capital indicator. The effect of prior industry experience has the expected direction, but is not statistically significant.

Social capital

The social capital variable – having entrepreneurial role models – has the expected negative relationship with abstaining from renascent entrepreneurship. Ex-entrepreneurs with entrepreneurial families and/or friends seem to be persistent in their preference for entrepreneurship and are not deterred by a negative entrepreneurial episode.

Firm exit type

Two of the three variables related to the type of firm exit have rather strong effects in the expected direction. The success of the prior firm is negatively related to abstaining from renascent entrepreneurship, while personal circumstances – as a reason of firm exit – are positively related to abstaining from renascent entrepreneurship. In contrast to the expectations, entrepreneurs whose prior firm has survived the valley of death are *not* more likely to be renascent entrepreneurs. The effect is even (although not statistically significant) the other way around – those entrepreneurs who terminated their business within three years subsequent to start-up are somewhat more likely to become renascent entrepreneurs. One possible interpretation is provided by McGrath (1999), who suggested that entrepreneurs view their startups as a real option and thus are not deterred from entering into subsequent entrepreneurship by terminating previous businesses early on.

Demographics

The strongest variable explaining abstinence from nascent entrepreneurship is provided by the age variable – younger ex-entrepreneurs are much more likely to be renascent entrepreneurs than are older ex-entrepreneurs. However, since age is a proxy for other – yet unknown – underlying variables, this does not provide much insight by itself. If age makes such a large difference, how does the explanation differ for older ex-entrepreneurs in comparison with younger ex-entrepreneurs? A regression was estimated on the subpopulation of older ex-entrepreneurs, which yielded largely the same result as the regression for the entire population, with one remarkable exception. Entrepreneurial preferences of older ex-entrepreneurs are not affected by entrepreneurial role models, but rather by prior industry experience. They seem to be less affected by entrepreneurial role models and more shaped by their industry experience (which of course is at best meager for younger ex-entrepreneurs). Perhaps industry veterans are more likely to maintain entrepreneurial preferences, due to a lack of other career opportunities.

The other demographic variable, gender, has no significant effect on abstaining from renascent entrepreneurship (when the nature of the firm exit is included in the regression). An urban location (with relatively high levels of nascent entrepreneurship in general) has an unexpected effect: ex-entrepreneurs living in large cities are less likely to have entrepreneurial preferences.

ARE RENASCENT ENTREPRENEURS DIFFERENT FROM NASCENT ENTREPRENEURS?

While focusing on renascent entrepreneurship is new and relatively unexplored, a large literature has compiled a series of consistent, systematic findings concerning nascent entrepreneurship. Do the factors conducive to nascent entrepreneurship affect renascent entrepreneurship in the same way?

Based on the empirical evidence presented in the previous section, the answer appears to be similar but not completely identical. To a large extent those factors conducive to nascent entrepreneurship have a similar impact on renascent entrepreneurship. There seems to be some type of sorting mechanism – those individuals with the ‘wrong’ entrepreneurial profile, or endowed with those characteristics that typically are not associated with becoming a nascent entrepreneur, but in fact did start a firm, are less likely to have the preference to start again subsequent to terminating the initial business. This selection mechanism essentially provides the learning referred to by the Jovanovic model – those entrepreneurs selected out of entrepreneurship have apparently learned that they are not favorably endowed with characteristics reflecting entrepreneurial talent. Indeed, almost 43% of the ex-entrepreneurs confirm the null-hypothesis of abstinence from entrepreneurship. As a result of learning about their underlying, but invisible (meager) endowment of entrepreneurial talent, these ex-entrepreneurs abstain from making the same mistake twice. In that sense, compared to novice entrepreneurs, experienced ex-entrepreneurs have gone through the filtering process that novice entrepreneurs have not yet been subjected to.

But perhaps this is a bit too deterministic. Individuals that have once entered into entrepreneurship might have two important advantages in contrast to de novo nascent entrepreneurs – first, they have accumulated entrepreneurial experience which increases the probability of having acquired entrepreneurial skills (and as a consequence a higher P^*), and second, when they have successfully sold their prior firm the access to financial resources increases. These two advantages make them more likely to intend to start again.

In addition, the effects of two explanatory variables are different for renascent entrepreneurs than for nascent entrepreneurs. First, gender does not make a difference for renascent entrepreneurs. Once female entrepreneurs have terminated their business, they are not less likely to become renascent entrepreneurs. This raises the question, “Does the negative female bias melt away once they have done it?” Or is this because the effect of other variables influencing entrepreneurial preferences have been controlled for, which makes the direct gender effect insignificant (as it was significant in the univariate analysis; cf. Verheul, 2005 for a discussion of this phenomenon).

Second, an urban location has a positive effect on nascent entrepreneurship in general, but it turns to a (weakly) negative effect on renascent entrepreneurship. So, once entrepreneurs have terminated a business in a large city, they are less likely than their rural counterparts to prefer renascent entrepreneurship. Urban people may be more likely to do it once, but rural people once they have done it, are more likely to fancy entrepreneurship again. No one-night stand for them.

CONCLUSIONS

Economic models of firm dynamics (Jovanovic, 1982; Lippman and Rumelt, 1982) have provided a compelling framework for understanding and analyzing firm entry and exit. Because of the uncertainty confronting a nascent entrepreneur and her potential resource providers concerning her unobservable underlying endowment of entrepreneurial skills, some nascent entrepreneurs will be constrained from attaining their goal of entering into actual entrepreneurship. Only by being able to directly observe the actual entrepreneurial performance can inferences be made concerning the underlying entrepreneurial skills. But according to these models there would be no reason for becoming a renascent entrepreneur. Once a negative entrepreneurial experience had revealed sufficient information to infer that the entrepreneur is not well suited for entrepreneurship, there would be little to be learned from subsequent episodes of entrepreneurship. The economics of entrepreneurship literature, however provide two

exceptions here: first, a successful exit should not be considered as a failure, and even diminishes the usual liquidity constraints for the start of a subsequent new firm, and; second, older people are likely to have lower expectations of collecting future payments out of entrepreneurship. Both these effects are shown to be relevant for explaining renascent entrepreneurship in this paper. However, there still remains an anomaly of ex-entrepreneurs maintaining entrepreneurial preferences.

This paper has challenged the view of entrepreneurial learning posited in Jovanovic's (1982) model and instead suggested that, in addition to learning about the underlying endowment of entrepreneurial skills (passive learning), episodes of entrepreneurship can also augment that endowment of entrepreneurial talent (active learning). This would explain why a considerable group of ex-entrepreneurs would choose to become renascent entrepreneurs.

The findings of this paper suggest that the ability of ex-entrepreneurs to learn from their entrepreneurial experience in an endowment augmenting matter is not homogenous, but rather is shaped by characteristics that have been found to promote nascent entrepreneurship. In addition the nature of the firm exit also affects the entrepreneurial preferences subsequent to firm exit: next to the positive effect of the sale of a successful firm, exit due to personal reasons has a negative effect.

This study shows the added value of a longitudinal research design, in which not only the experience of the entrepreneur but also the performance of the prior firm is taken into account. Both issues revealed to be important in the explanation of renascent entrepreneurship. As public policy increasingly focuses on promoting entrepreneurship to generate employment, growth and global competitiveness, it is important to recognize that renascent entrepreneurs provide not just an important source of entrepreneurship, but also a source with entrepreneurial skills that may be augmented and enhanced compared to those of novice entrepreneurs. Both failed firms and successful ones entail useful learning effects and path dependencies in the careers of serial entrepreneurs (cf. Sarasvathy and Menon 2006). Future research may reveal what distinguishes renascent entrepreneurs that have improved their entrepreneurial skills, and those that did not, and that are perhaps better characterized as 'habitual failures'.

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NOTES

1. The successful entrepreneur at point D may also choose to sell his firm and to start again at point A. See the case studies on serial entrepreneurship by Wright et al. (1997).

2. Depending on the institutional context one could expect a positive effect of entrepreneurial experience in countries with an entrepreneurial culture, and a negative effect in countries where entrepreneurial 'failure' is stigmatized. Bruce and Schuetze (2004) found evidence for the latter effect: individuals with entrepreneurial experience have difficulty returning to the wage sector.

3. This summary is based on: Van Gelderen (1999); Blanchflower et al. (2001); Diochon et al. (2002); Kim et al. (2003); Davidsson and Honig (2003); Reynolds et al. (2004); Wagner and Sternberg (2004); Arenius and De Clercq (2005); Arenius and Minnitti (2005); Grilo and Irigoyen (2005); Van Gelderen et al. (2005); Wagner (2005); Kolvereid and Isaksen (2006). See also Davidsson (2006) for a review of empirical studies on nascent entrepreneurship.

4. There might be a self-reinforcing effect, that however does take some time to develop (perhaps extending over the life course of the first business): improved entrepreneurial skills positively affect the recognition of entrepreneurial opportunities (cf. Ronstadt 1988), while the pursuit of new opportunities improve the entrepreneurial skills in a trial-and-error process.

5. This low number (compared to 10 % of exits in the overall business population in the Netherlands; CBS 2005) can probably be attributed to the relatively short life span and small size of the firms in our

sample, which lowers the likelihood of large debts and the subsequent need for a formal bankruptcy procedure.

6. These percentages are comparable with earlier research by Stokes and Blackburn (2002), who found that almost 70% of the business owners that had to close their business claimed that they were encouraged by their experience to continue as a business owner.

7. In order to test for the robustness of our results, we also estimated regressions using a sub-sample of ex-entrepreneurs with no subsequent serial entrepreneurs and a sub-sample without pre-exit serial entrepreneurs, which produced similar outcomes.

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Figure 1. Entrepreneurial performance over time.

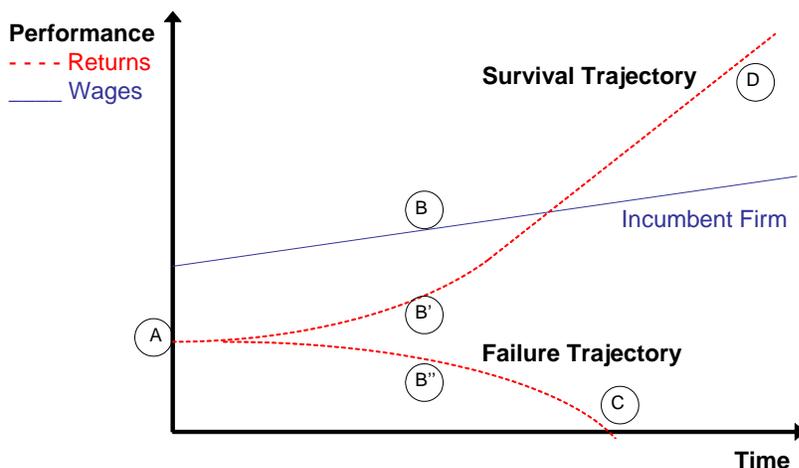


Table 1. Logistic regression models estimating abstinence from renascent entrepreneurship

Independent variable:	B		S.E.	B		S.E.
Constant	-1.497	***	.463	-1.938	***	.523
<i>Human capital</i>						
Educational level (high)	-.702	**	.304	-.769	**	.321
Prior industry experience	-.460		.300	-.389		.319
Prior entrepreneurial experience	-1.049	**	.477	-1.020	**	.509
<i>Social capital</i>						
Entrepreneurial role models	-.441		.316	-.661	*	.343
<i>Nature firm exit</i>						
Sold (parts of) prior firm				-1.220	**	.577
Exit due to personal circumstances				1.121	***	.376
Prior firm age (> 3 yrs)				.554		.359
<i>Demographics</i>						
Gender (female)	.566	*	.317	.324		.344
Age (> 40 yrs)	2.036	***	.437	2.339	***	.487
Urban location	.948	*	.559	1.186	*	.604
N			236			231
Model X ²			45.430			63.005
Df			7			10
-2 Log likelihood			276.820			251.905
Nagelkerke R ²			.235			.321

* p < 0.10; ** p < 0.05; *** p < 0.01