ENTREPRENEURIAL EXIT AND ENTREPRENEURIAL ENGAGEMENT (SUMMARY)

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SUMMARY

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Principal Topic

This paper focuses on whether and how a recent entrepreneurial exit relates to subsequent entrepreneurial engagement. Entrepreneurial exit can be an indicator of entrepreneurial learning and its effect on subsequent engagement can be a major source of the evolution of industries and economies. Entrepreneurial exit is defined as shutting down, discontinuing or quitting a business. The levels of engagement include none, potential, intentional, nascent, young and established entrepreneurship.

We explore whether persons that have recently experienced an exit are more likely to engage in subsequent entrepreneurial activities than those who have not recently experienced such an exit. And, we investigate the specific conditions that influence those who recently exited to engage in entrepreneurial activities.

Inspired by human capital theory, an entrepreneurial exit can be seen as an indicator of accumulated entrepreneurial human capital (for example, knowledge, skills and experience). One would expect a recent entrepreneurial exit to have a positive effect on the likelihood of engaging in entrepreneurial activities.

Method

We use individual-level data for 24 countries that participated in the adult population survey held as part of the Global Entrepreneurship Monitor (GEM) in 2004, 2005 and 2006 (350,000 observations). A recursive probit model and multinomial logit models are applied.

Results and Implications

As expected, an entrepreneurial exit experience increases the probability of being involved in any entrepreneurial activity by 0.18 percentage points, relative to a baseline of 0.28. It mainly increases the probabilities of being a potential or intentional entrepreneur.

Furthermore, being a male, knowing an entrepreneur, having informal investor experience and fear of failure are important factors that influence entrepreneurial (re)engagement after exit. Educational attainment is not relevant. Also, interesting country differences are found.

We contribute to earlier findings by suggesting that exit may not only stimulate new entry, but may also positively affect entrepreneurial potential, intentions and even engagement in existing entrepreneurial activities. Individuals with a recent exit experience thus present an important source of entrepreneurial energy within societies.

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