

6-9-2012

COMMUNITY EFFECTS ON TRANSITIONS IN THE ENTREPRENEURIAL PROCESS (SUMMARY)

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Recommended Citation

Levie, Jonathan; Hart, Mark; Costa, Sergio; and Murzacheva, Ekaterina (2012) "COMMUNITY EFFECTS ON TRANSITIONS IN THE ENTREPRENEURIAL PROCESS (SUMMARY)," *Frontiers of Entrepreneurship Research*: Vol. 32: Iss. 15, Article 9. Available at: <http://digitalknowledge.babson.edu/fer/vol32/iss15/9>

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≈ SUMMARY ≈

**COMMUNITY EFFECTS ON TRANSITIONS IN
THE ENTREPRENEURIAL PROCESS**

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Principal Topics

The UK government encourages communities to become sustainable contributors to society rather than dependent on social welfare. However, life chances of individuals in the UK remain strongly predicted by their household circumstances at age 5 (Field, 2010). We explore how community deprivation level influences transitions in the entrepreneurial process.

Method

Community deprivation was measured using the English Index of Multiple Deprivation (2007 release) and its component indicators for around 32,000 lower layer super output areas, which are communities of around 1,500 individuals. We employ the Global Entrepreneurship Monitor England database, whose sample size varied from 13,000 to 18,000 during 2006 to 2009 and 2,600 in 2010. We used this data to generate the proxies of transitions: 1) ratio of individuals who are actively trying to start a business to those who intend to start within the next three years, 2) ratio of new entrepreneurs to nascent entrepreneurs, 3) ratio of those who have recently closed a business to owner-managers of existing businesses. This static analysis is supported by a multivariate analysis of 160 GEM survey respondents who were nascent entrepreneurs in 2009 and re-surveyed in 2010.

Results and Implications

The ratio of new to nascent entrepreneurs declined linearly with increasing deprivation, from 1.3 for the least deprived quintile to 0.6 for the most deprived quintile. In contrast, the ratio of nascent entrepreneurs to people who intended to start a business in the next three years did not vary with community deprivation. Further, the ratio of individuals closing businesses to remaining in business was almost twice as high in the most deprived quintile of individuals by community deprivation than in the least deprived (0.26 versus 0.14). In the panel study, the level of deprivation of their community was a significant (and influential) predictor of transition, both to new entrepreneur status and in the reverse direction to abandonment, after controlling for individual characteristics. This suggests that while deprivation does not affect levels of interest in entrepreneurship, it does affect transitions to actual start-up and out of it, making entrepreneurship in more deprived communities less sustainable.

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