EXIT BEFORE ENTRY: WHY DO NASCENT ENTREPRENEURS QUIT? (INTERACTIVE PAPER)

Casey Frid
Pace University, USA, cfrid@pace.edu

William B. Gartner
Copenhagen Business School, Denmark & California Lutheran University, USA

Melissa S. Cardon
Pace University, USA

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EXIT BEFORE ENTRY: WHY DO NASCENT ENTREPRENEURS QUIT?

Casey J. Frid, Pace University, USA
William B. Gartner, Copenhagen Business School, Denmark
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Melissa S. Cardon, Pace University, USA

Principal Topic

This study integrates theories on entrepreneurial process, entrepreneurial exit, and effectuation. It elucidates the phenomenon of exit during the nascent stage of venture creation and extends prior work examining nascent entrepreneurs’ attribution of exit to being either strategic (due to market or demand forces), or behavioral (for personal reasons). Prior research suggests three reasons for why entrepreneurs quit nascent venture efforts: the existence of alternative opportunities, calculative evaluations of the possible achievement of personal goals, and normative perceptions of friends and family. We also consider beliefs that ventures are “doable,” and whether entrepreneurs are “all in” or use affordable loss logic.

Method

Using the PSED I dataset, we code and categorize reasons for exit using verbatim responses to the question “What is the most important reason for why you gave up on starting the business?” We base our initial coding on the categories of “alternative, calculative, and normative” found in the literature. We use multinomial logistic regression to examine whether the reported reasons for exit vary by the entrepreneur’s belief in resource availability, whether customers will come, and the venture’s viability.

Findings & Implications

There were no differences in “time to quit” for all three types of reasons based in prior research: alternative, calculative, and normative. However, nascent entrepreneurs using an affordable loss approach exit later in the startup process and these entrepreneurs are more likely to exit for illness, family issues, and major life events than for business reasons. For every year increase in work experience, a 20.5-day increase in time to quit was found. For every unit increase in self-efficacy a 500-day decrease in time to quit was found. And, for every unit increase in personal financial contributions as a proportion of overall net income, a 1,313-day decrease in time in process was found, holding all other variables constant. As self-efficacy increases, the likelihood of being an affordable loss nascent entrepreneur decreases. Finally, our research indicates that a significant reason for quitting involves changes in the health of these entrepreneurs and their families.

CONTACT: Casey Frid; cfrid@pace.edu; (T): 212-618-6584; Pace University, Lubin School of Business, 1 Pace Plaza, New York, NY 10038, USA.