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ENTREPRENEURIAL ENTRY AND REGULATORY COSTS: THE MODERATING ROLE OF FEAR OF FAILURE (SUMMARY)

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≈ SUMMARY ≈

**ENTREPRENEURIAL ENTRY AND REGULATORY COSTS:
THE MODERATING ROLE OF FEAR OF FAILURE**

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Principal Topic

This study investigates how fear of failure moderates the effects of the cost of business entry and the cost of insolvency on individuals' probabilities to engage in entrepreneurship in general and in entrepreneurship with high growth ambitions. The latter subgroup of entrepreneurs is of particular interest because of the high impact it has in terms of job creation and it is not clear whether policies, which stimulate small scale entrepreneurship necessarily have the same effect on high growth entrepreneurship.

Building on an occupational choice model, I assume individuals to decide between wage employment and entrepreneurial entry based on the expected utility associated with these two options. Any reduction in regulatory costs increases the number of entrepreneurial projects which are feasible in terms of expected utility for the potential entrepreneur. Assuming that fear of failure can be used as a proxy for individual risk aversion I argue that this increase in the number of feasible projects is larger for individuals without fear of failure (i.e., individuals with lower levels of risk aversion). The increase in entry probability is thus larger for individuals who indicate no fear of failure.

Method

The empirical analysis is based on the GEM individual data from 45 countries in the 2004–2010 period. Data on regulatory costs are drawn from the World Bank Doing Business Project. I model the interplay of regulatory costs and fear of failure on entrepreneurial entry and on entry with growth ambition as cross-level interactions in multi-level logit models.

Results and Implications

I find negative effects of both types of costs on entrepreneurial entry probabilities. For entry with high growth aspirations, the results show a negative effect of entry costs, but not of insolvency costs. Supporting the hypotheses, all effects are stronger for individuals with no fear of failure. Cost reducing policies thus appear to lead to higher rates of entrepreneurship in general and of entrepreneurship with high growth aspirations. These effects, however, come with the potentially undesired side-effect of an increasing fraction of entrepreneurs with low levels of risk aversion.

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