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EXPERIENTIAL LEARNING, COGNITIVE BIAS, AND ENTREPRENEURIAL EXIT: AN EMPIRICAL EXAMINATION OF THE ANTECEDENTS OF DISENGAGEMENT DECISIONS (INTERACTIVE PAPER)

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≈ INTERACTIVE PAPER ≈

**EXPERIENTIAL LEARNING, COGNITIVE BIAS, AND
ENTREPRENEURIAL EXIT: AN EMPIRICAL EXAMINATION
OF THE ANTECEDENTS OF DISENGAGEMENT DECISIONS***Sung Min Kim, Loyola University Chicago, USA**Ugur Uygur, Loyola University Chicago, USA***Principal Topic and Theory**

Entrepreneurial exit has emerged as a central topic in entrepreneurship research (DeTienne, McKelvie, and Chandler, 2015). Unlike recent exit studies of operating ventures (e.g., exits by IPO, M&A, bankruptcy, or liquidation) this study explores entrepreneurial exit by disengagement from the start-up process (Yusuf, 2012).

As nascent entrepreneurs gain more venture-specific experience, they could learn and refine their knowledge about the feasibility of new venture, and thus act on the feedback properly (McMullen and Shepherd, 2006). Such refinement of venture-specific knowledge can justify the disengagement decision and lead to timely strategic exit (Corbett and Hmieleski, 2007). However, prior research also suggests that an entrepreneur's strong belief and escalating commitment may lead the entrepreneur to increase investments of time and money regardless of negative feedback from the marketplace (Guler, 2007). Prior sunk cost investments can strengthen a psychological barrier to exit (Khavul et al., 2011).

Our central prediction in this study is that an entrepreneur's refinement of venture-specific knowledge would, somewhat counterintuitively, justify and increase the entrepreneur's strategic exit whereas strong cognitive conviction would deter the decision to exit in a timely manner.

Methods and Implications

For empirical analysis, this study uses the Panel Study of Entrepreneurial Dynamics in the United States. Along with observable measures of venture-specific experience and sunk cost investment, we adopt two cognitive measures of the founders' refinement of venture-specific knowledge and subjective feeling of knowing based on their assessment of key factors of competition that are important for the success of new venture (Uygur and Kim, 2015). Accounting for data censoring and potential endogeneity in exit decisions, our estimation approach involves nested logit models and utilizes multi-wave surveys of the panel data set.

Initial test results are consistent with our theory and hypotheses as we find that the founders' experiential learning (i.e., refinement of venture-specific knowledge) is positively related with and precedes their strategic exit decisions. We also find that cognitive commitment (i.e., strong conviction in the new venture) is negatively related with venture disbanding. By doing so, this study contributes to entrepreneurship research on the entrepreneurs' decision on opportunity exploration/exploitation and venture development both theoretically and empirically.

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