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THE ENTREPRENEUR’S MODE OF ENTRY: BUSINESS TAKEOVER OR NEW VENTURE START? (SUMMARY)

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SUMMARY

THE ENTREPRENEUR’S MODE OF ENTRY: BUSINESS TAKEOVER OR NEW VENTURE START?

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Principal Topic

The occupational choice literature usually frames entrepreneurship in terms of venture creation. However, besides starting a firm, individuals can become entrepreneurs by taking over existing firms, including family businesses if they come from a business-owning family. One can therefore separate the mode of entry from the entry decision itself.

Policy-makers may be concerned with the mode of entry for at least two reasons. First, there is a growing shortage of suitable successors of the entrepreneurs of incumbent firms in many developed countries. Therefore, insight in characteristics that distinguish entrepreneurs who are likely to enter through takeover instead of start-ups is valuable. Second, there is a growing trend in public policy towards promoting entrepreneurship. However, policies to promote start-ups may not be suitable for promoting takeover. If targeted policies are to provide the correct incentives, one should take into account the mode of entry into entrepreneurship. However, entry modes have yet been little studied.

This paper presents a theoretical and empirical analysis of the entrepreneurial entry mode decision. Our theory renders several propositions with respect to the effects of individual- and firm-specific characteristics on the entrepreneur’s entry mode. Compared with entrepreneurs who start new firms, entrepreneurs who take over ventures are more likely to be born into business-owning families and will have lower levels of schooling. Moreover, entrepreneurs facing higher start-up capital requirements and risk are more likely to take over an existing firm than to start up a new one. In addition, entrepreneurs with greater managerial experience will be more inclined to take over an existing firm.

Method

These propositions are tested empirically by applying regression analyses to a rich and representative sample of 700 entrepreneurs from the Netherlands.

Results and Implications

The data provide broad support for the propositions. To the extent that one can generalize from one set of results, we argue that practitioners and policy-makers should recognize that entrepreneurs choose between multiple modes of entry. Programs often focus on new start-ups, neglecting takeovers. As we have seen, takeovers attract individuals with different skills to new starts. Given the current scarcity of takeover candidates in developed countries, we advise to extend these programs to individuals aspiring takeovers.

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