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DOES ENTREPRENEURIAL EXPERIENCE REALLY MATTER FOR BUSINESS PERFORMANCE? (SUMMARY)

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SUMMARY

DOES ENTREPRENEURIAL EXPERIENCE REALLY MATTER FOR BUSINESS PERFORMANCE?

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Principal Topic

Making a distinction between entrepreneurs with prior entrepreneurial experience – habitual, portfolio, and serial entrepreneurs – and novice entrepreneurs has permeated the research literature. Based on theories of human capital and cognition, we can hypothesize that habitual entrepreneurs should exhibit superior performance when compared to novice entrepreneurs. However, apart from one exception, previous studies fail to find significant differences. Several explanations exist. They include the view that experience in entrepreneurship provides both assets and liabilities, and the suggestion that entrepreneurs have a limited learning capacity. Another view highlights that an objective evaluation requires longitudinal data to assess the performance of all the business owned by habitual entrepreneurs. Hence, is there really a need to discriminate amongst entrepreneurs when experienced and inexperienced entrepreneurs seem to perform at the same level?

Method

We employ panel data for firms from the Portuguese economy for the period 1983-2003. The data source is the “Quadros de Pessoal”. It contains more than 100,000 observations. The longitudinal matched employed-employee data include extensive information on the mobility of firms and business owners. We use ordinary least square regressions.

Results and Implications

We find that previous entrepreneurial experience does matter for business performance. We find weak evidence that habitual entrepreneurs own firms of a larger size and exhibit larger growth rates. Further discrimination reveals the higher and more dynamic performance of portfolio entrepreneurs. In contrast, no differences were found between the size and rate of growth of firms owned by serial and novice entrepreneurs. The main implications are: (1) Detailed and longitudinal data is needed in order to document habitual entrepreneurship and test associated theories and hypotheses. (2) It is not advisable to think of all entrepreneurs with previous experience as belonging to a homogeneous group, as significant differences might exist between serial and portfolio entrepreneurs. (3) In depth qualitative studies to understand behavior and motivation of portfolio entrepreneurs are needed to identify good business practices and explore how these may be transferred to novice and serials entrepreneurs. (4) Policy makers should consider ways of increasing the pool of potential portfolio entrepreneurs.

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