Long-term performance of habitual entrepreneurs – which direction to go?

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INTRODUCTION

Since the appeal from Ian MacMillan (1986) within his article “To really learn about entrepreneurship, let’s study habitual entrepreneurs”, many scholars started to work on the performance differences between novice and habitual entrepreneurs (Starr et al. 1993, Westhead and Wright 1998, Hsu 2003). But up to today all attempts to prove a higher performance rate of habitual entrepreneurs over novice entrepreneurs failed (Starr and Bygrave 1991, Birley and Westhead 1994, Westhead et al. 2004). Researchers explained this missing effect of a higher performance rate by the existence of factors, which have a negative influence on the performance of habitual entrepreneurs. Within the concepts, these negative effects outbalance the positive ones (Starr and Bygrave 1991, Ucbasaran et al. 2003a, Westhead et al. 2004).

Within our work, we shifted the view from the comparison of the performance rate of novice and habitual entrepreneurs to the influence of several factors on the performance of habitual entrepreneurs, or, with other words, which factors separate better performing habitual entrepreneurs from underperforming habitual entrepreneurs (Lechner and Kirschenhofer 2005, Kirschenhofer and Lechner 2005, Lechner et al. 2005).

A current problem of the research situation on habitual entrepreneurs is that very general hypotheses are test on a quantitative base, without having built a sufficient theoretical construct. Within our research we tried to contribute to the extension of the theory of habitual entrepreneurs by concentrating on several factors which could influence the performance of habitual entrepreneurs in the long run.

This paper provides a synthesis of three different research projects. The first paper – a qualitative research – investigated in depth and over time (from venture to venture) the influence of the achievement level and social networks on the performance of habitual entrepreneurs (Lechner and Kirschenhofer 2005). According to former research, entrepreneurs with higher achievement level delivered a higher growth rate than a control group of entrepreneurs with lower low-growth entrepreneurs and non-entrepreneurs (Smith and Miner 1985). So does achievement level also influence habitual entrepreneurs in a positive way? Social net-
works were chosen as a factor, because positive effects are abundant in literature about the development of entrepreneurial firms (Lechner 2001): entrepreneurs can overcome the lack of resources by using social networks (Stuart et al. 1999). They are also mentioned frequently in the existing habitual entrepreneurship research (Starr and Bygrave 1991, Hellmann und Puri 2002, Hsu 2003, Ucbasaran et al. 2003a). Social networks are mentioned both as advantages and disadvantages: they can lower the risk and cost of a project, but also act as disadvantages, by installing “strong ties” which avoid information flow from outside the network (Starr and Bygrave 1991).

Our second paper used the proposition that had derived from the qualitative research: they were transferred into hypotheses and tested with a sample of habitual entrepreneurs in the multimedia industry (Kirschenhofer and Lechner 2005). In addition we included experience as a third factor, which could influence the performance of habitual entrepreneurs. Experience effects were claimed as important by (among others) influential work by of Lamont (1972) and MacMillan (1986). MacMillan (1986) even mentioned the existence of than “experience curve of entrepreneuring”.

The third paper concentrated on the mentioned factors and expanded them by including ideas as variable of influence (Lechner et al. 2005). The hypotheses were tested on a sample of the 84 most performanceful Hollywood directors during 1980 and 2003. Ideas were included into the framework because they are the starting point of all entrepreneurial activities (McGrath and MacMillan 2000).

THEORY AND HYPOTHESES

Habitual entrepreneurs

There is no generally accepted definition of habitual entrepreneurs (Alsos and Kolvereid 1998, Wright et al. 1998, McKelvie and Cedere 2001). According to our understanding habitual entrepreneurs are individuals, who work within a company and take responsibility within the management team, which they founded, purchased, inherited, or acquired. In addition they own an important part of the equity and the current venture is not the first one in which they work and which they own (Lechner und Kirschenhofer 2005).

The group of habitual entrepreneurs can be divided into two subgroups, the serial and the parallel (also called portfolio) entrepreneurs (Hall 1995, Wright et al. 1997, Rosa und Scott 1999, Lechner und Leyronas 2003). Serial entrepreneurs always participate at just one
entrepreneurial project at one moment in time. After stopping one project for any reason they get involved into the next one (Westhead and Wright 1998). Parallel entrepreneurs are involved in more than one entrepreneurial project at one point in time (Westhead et al. 2004).

Habitual entrepreneurs should have advantages over their novice counterparts (MacMillan 1986). According to former research they had the chance to build up effective networks during their former projects (McKelvie and Cedere 2001), which can be helpful to find and realize opportunities (Mc Grath and MacMillan 2000), to get easier access to financial resources (Hsu 2003) and to hire skilled labor (Hellmann und Puri 2002). But habitual entrepreneurs also achieve advantages because of the reputation, which they were able to build up during the former entrepreneurial projects (Starr and Bygrave 1991) and experience effects, which gives them the chance to execute the opportunity better (MacMillan 1986).

Until today the statistical evidence of a higher performance of habitual entrepreneurs over their novice counterparts failed. Starr and Bygrave (1991) introduced the first concept which included disadvantages, like ‘biases and blinders’, ‘strong ties’ and ‘performance syndrome’, of habitual entrepreneurs. According to the authors these disadvantages outbalance the advantages (Starr and Bygrave 1991, Ucbasaran et al. 2003a, Westhead et al. 2004). All the concepts were developed from selected case studies and were not tested on a quantitative base.

Within our research we shifted the view from the comparison of novice and habitual entrepreneurs to the question, which factors influence positively the long-term performance of habitual entrepreneurs. Over time we developed a framework with factors assumed to have positive influence on the performance.

**Social Networks**

Entrepreneurs usual suffer from the “liabilities of newness” (Stinchcombe 1965, Hart et al. 1965), the lack of internal resources, handicap of size and problems of growth (Stinchcombe 1965, Hart et al. 1965, Lechner 2003). Networks are helpful by identifying new opportunities (Witt 2004) and to overcome these disadvantages by providing external resources (Wisnieski und Dowling 1997, Baum et al. 2003). The use of social assets like friendship, trust, gratitude and obligation reduces cost and the risks of start ups (Starr and MacMillan 1990).
But different types of relationships define different networks (Knoke and Kulinsky 1983). People and firms use different networks for different issues and during different phases of the venture development (Lechner and Dowling 2003). So, measuring the total network of an entrepreneur could hide important information about the contribution of each single network for the long-term performance of a firm, but also for the long-term performance of a habitual entrepreneur over time and different entrepreneurial projects (Lechner et al. 2005). A firm’s network usually starts with the personal network of the entrepreneur and develops over time to different relations and networks which can be used to solve different problems (Lipparini and Sobrero 1997, Baum et al. 2000).

The structure of a network shows the position of each single member (central or not) and the strength of ties (weak vs. strong ties) between them. Each position can be seen as advantages or disadvantages (Aldrich and Zimmer 1986). Strong ties are trustful relationships between actors like family and friends and provide deep information, but weak ties deliver broader and new information (Granovetter 1974, Lechner und Dowling 2003). Central positions are usually seen positively (Granovetter 1974, Gulati 1999), but over-embeddedness and too many strong ties can lead to a decrease of the flow of new information and the installation of “clubs” of strong ties, which do not share information with outside contacts anymore (Starr und Bygrave 1991). The accumulation of strong ties can so lead to the inability to act (Uzzi 1997). But also the question of the diversity of resources which can be provided by a network could influence the long-term performance of their members. Just networks with diversified members can deliver diversified resources (Burt 1992). If relations are strong, the depth of the accessed resources should help building effective businesses.

Habitual entrepreneurs had the chance to develop networks during their former projects and can carry them to the actual one (Starr and Bygrave 1991, Hellmann und Puri 2002, Hsu 2003, Ucbasaran et al. 2003a). They can participate from the above mentioned advantages of getting access to resources which can solve vertical and horizontal related development problems of the firm (Lechner und Kirschenhofer 2005). Research showed that long-standing members of networks do not gain as many advantages from the network as younger counterparts, because of the high number of strong ties, they do not have the access to broader and latest information anymore (Starr and Bygrave 1991).

**Hypotheses 1:** A limited, but stable network of a habitual entrepreneur is positively correlated with the performance of entrepreneurial ventures.
Hypotheses 2: The size of the strong partner network is not positively correlated with the performance of the firm.

Hypotheses 3: The diversity of the strong partner network is positively correlated with the performance of the firm.

Hypotheses 4: Different types of networks have different influences on the long-term performance of serial entrepreneurs.

Achievement level

People with a higher achievement motivation are attracted by jobs with higher personal responsibility, are willing to take higher, but calculated risks, set high, but achievable goals and have desire for honest feedback about their performance (McClelland 1965). These characteristics are matched by an entrepreneurial environment (Collins et al. 2004). According to former research entrepreneurs have a higher achievement motivation than non-entrepreneurs (Johnson 1990). Within the group of entrepreneurs, those with higher growth rate delivered a higher achievement motivation than a control group of entrepreneurs with lower growth rates or non-entrepreneurs (Smith and Miner 1985). There was a positive relationship between achievement level and entrepreneurial performance (Collins et al. 2004). But achievement motivation is not an asset of the personality of a person; it can change over time and can be influenced by the environment (McClelland 1965).

According to former research founding new ventures is a growth mechanism for habitual entrepreneurs (Iacobucci and Rosa 2003, Lechner and Leyronas 2003). If growth is a key driver for habitual entrepreneurs, the achievement level of the entrepreneur should increase from one venture to the other (McGrath and MacMillan 2000). Also the characteristic of people with high achievement motivation to take calculated risk is matched by habitual entrepreneurs (Sarasvathy and Menon 2004).

Hypotheses 5: An increasing achievement level over time has a positive influence on the long-term performance of habitual entrepreneurs.
Experience

The experience effect was one of the (expected) positive effects of habitual entrepreneurs when researches started to work on this topic (Lamont 1972). MacMillan (1986) assumed an “experience curve of entrepreneuring” over time and from project to project. According to the literature habitual entrepreneurs are better in realizing opportunities (Ucbasaran et al. 2003a) their knowledgebase is stronger (Carter and Ram 2003), and they can fall back on a strong and well balanced network (Ehrenfeld 1993). Industry related experience has a positive influence on the performance of an entrepreneurial venture (Riqueleme and Rickards 1999).

The value of a certain experience depends on the routine of an event (Reuber and Fischer 1999), the time gap between the moment when the stock of experience was built and point in time when it is used and its degree of consequences for the outcome of an event (Miller 1994). But it can just influence the outcome of an event if the person learns something from the former events (Starr and Bygrave 1991). Habitual entrepreneurs had the chance to build such a stock and use it for later events, i.e. in getting access to external resource by using their network (Reuber and Fischer 1999). In addition experience could lead to certain image within the own network, so the two points are connected (Hart et al. 1995). But experience seems to be more helpful within one region and one industry (Iacobucci and Rosa 2004).

But there is not one homogenous stock of experience. It can be divided into broad and deep experience (Westhead et al. 2005). Former research mentioned that deep experience in one discipline is not as helpful as broader experience based on different skills and fields for the task of management an entrepreneurial venture (Alsos and Kaikonen 2004, Politis 2005). This result is confirmed by the effect, that entrepreneurs tend to be rather generalists than (functional) specialists (Flamholtz and Randle 2000). Shane (2000) argued that entrepreneurs discover opportunities related to their prior knowledge. So if an entrepreneur has a broader knowledge base (experience), he is able to identify a larger number of opportunities in different fields.

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<th>Hypotheses 6:</th>
<th>There is a positive relationship between number of prior ventures and the performance of the actual one.</th>
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<td>Hypothesis 7:</td>
<td>Depth of industry experience is positively correlated with long-term performance of serial entrepreneurs.</td>
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Hypothesis 8: Breath of industry experience effects from different fields is positively correlated with the long-term performance of serial entrepreneurs.

Ideas

The idea is the starting point of all entrepreneurial activities. From this starting point opportunities are identified and executed (Mc Grath and MacMillan 1990). Most entrepreneurial ideas are born at the intersection of existing fields and with the combination of existing resources (Schumpeter 1934, McKelvie and Cedere 2001, Johansson 2004).

Creativity research argues that mainly the quantity of ideas is driving the quality (Johansson 2004). So the quality of ideas is randomly distributed among all ideas. Habitual entrepreneurs are better in identifying ideas (Ucbasaran et al. 2003b, Talpin 2004) and the likelihood of executing them is higher than with novice or non entrepreneurs (Wright 2001). They do not “analyze them to death”, they act (Ucbasaran et al. 2003a).

Hypotheses 9: The number of ideas influences positively the long-term performance of habitual entrepreneurs

METHOD

Within this paper we summarize the results of three different articles and try to extract common results to the above mentioned topics.

1. Article – the case studies

The first article was built on two extreme case studies about one serial and one parallel entrepreneur (Lechner and Kirschenhofer 2005). According to the theory qualitative, exploratory research is suitable to answer “how” and “why” questions (Eisenhardt 1989, Yin 2003). While there was no theoretical construct about what factors influence the long-term performance of habitual entrepreneurs, we could not developed testable hypotheses from existing theories. Therefore, we developed a framework of 12 propositions which can contribute to answer the “how” and “why” questions of this issue.
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Data were collected by a series of interviews and mails with both habitual entrepreneurs during September 2004 and January 2005. To increase validity, we used additional data sources, like secondary information and company released information (Eisenhardt 2001).

2. Article – hypotheses test on a quantitative base by using a survey

From the starting point of these propositions and additional literature research we developed five hypotheses, which were tested at a single industry sample of the Multimedia industry (Kirschenhofer and Lechner 2005). We were using a pre-tested questionnaire, which was designed for this survey. A questionnaire was the most appropriate way to collect data, because secondary data about the achievement level, the influence of the network and experience of habitual entrepreneurs were not available.

350 surveys were sent to the CEOs of firms from the multimedia industry. They were randomly chosen from 800 companies, delivered by the database “Kompass Monde”. Actually the database delivered 1,400 firms, after a consistency check 800 firms remained. 72 questionnaires were sent back, of which 53 could be used for analyses leading to a response rate of 15%. OLS regressions were used to test the hypotheses.

3. Article – hypotheses tested on a quantitative base by building a database from secondary data

The third paper concentrated mainly on serial entrepreneurs (Lechner et al. 2005). Hollywood directors which made more than one movie were defined as serial entrepreneurs, according to their film projects, also if there might be parallel entrepreneurs, who work at different film projects in different stages, at one point in time. Within the movie project they take the risk and are responsible for the access to resources and their allocation, so the definition as serial entrepreneurs were possible. We used the data of the 87 most performanceful Hollywood directors with 400 film projects during 1980 and 2003; provided by the internet based database IMDb (Internet Movie Database). Each director had at least one movie with a US gross income of more than 100 Mil. US Dollar. Missing data were completed by company information, production information and additional industry sources. The data contained information about the director’s industry experience, the social network (with whom they work before according to the major Academy Award categories), budget and gross income (US numbers only) of the single films. OLS regression was used to test the hypotheses.
RESULTS, CONCLUSION AND DISCUSSION

The objectives all three articles was to make a contribution to the question which factors influence the performance of habitual entrepreneurs. The first article delivered the base propositions and assumptions for the later research. At this point in time concentrated on achievement level and social networks. With the following two papers we tested the findings and with each article we included one more factor to the framework (experience and idea).

Social networks

According to the literature social networks are a performance factor of habitual entrepreneurs (Hsu 2003, Ucbasaran 2003a). They had the chance to built them during their former projects and carry them to the actual ones (Starr and Bygrave 1991). Research on habitual entrepreneurs divided the networks according to the strength of the ties (Starr and Bygrave 1991). Weak ties networks should have a positive effect for habitual entrepreneurs; strong ties could also turn into disadvantage, because of the weak flow of new information within the strong ties networks (Starr and Bygrave 1991). According to our research strong ties network did not have any effect on the performance. Within the qualitative research the direct (string tie) project network did have any importance for the performance of the subsequent ventures (Lechner and Kirschenhofer 2005). This result was confirmed by the first quantitative based article (Kirschenhofer and Lechner 2005) and was not tested during the last one (Lechner et al. 2005). Weak ties seemed to have a significant influence on the identification and exploiting of new opportunities (Lechner and Kirschenhofer 2005). So, hypotheses 1 need to be rejected. Hypotheses 2 could be confirmed.

To evaluate the influence of networks we splitted them into different sub-networks. The global measurement of the total network like stability and size did not explain entrepreneurial performance (Fombrun 1982, Lechner and Dowling 2003, 2005). But different sub networks had different influences on the venture performance and were able to contribute to the explanation of (Lechner et al. 2005). So, not all networks have the same effect on the venture: I.e. a stable technical support network for movies did have a significant negative effect on the venture performance, the stability of the creative network a positive (Lechner et al. 2005). Hypotheses 3 and 4 could be supported.
Achievement Level:

Due to analysis of the literature it was assumed that the achievement level has a positive influence on the long-term performance of habitual entrepreneurs (Hypotheses 5). With other words, the need for more wealth and to grow is one of the main factors of the long-term performance of habitual entrepreneurs. Opportunists with the main motivation of financial gain (Westhead and Wright 1998) and increasing expectation from one project to the other (McGrath and MacMillan 2000) should be better performing in terms of revenue than craftsmen, which have other motivation, like the need for independence.

The results of all three research projects suggest the opposite (Lechner und Kirschenhofer 2005, Kirschenhofer und Lechner 2005, Lechner et al. 2005). Both entrepreneurs within the case studies were motivated by personal drivers like the need for independence and personal interests in certain topics. An increasing achievement level could not be found for both of them, but an interest (fun!) for the new opportunity with different expectations (Lechner and Kirschenhofer 2005). It looks like better performing entrepreneurs are obsessed by opportunities they like and less by pure need for financial gain (Timmons 1994). Habitual entrepreneurs are opportunity driven. These results were confirmed by both samples tested on a quantitative base (Kirschenhofer und Lechner 2005, Lechner et al. 2005).

Experience

From the beginning research concentrated on the influence of experience on the performance of habitual entrepreneurs (Lamont 1972, MacMillan 1986, Westhead and Wright 1999). Positive effects were expected, but could not be confirmed by qualitative samples (Birley and Westhead 1994, Carter and Ram 2003, Iacobucci and Rosa 2004). Within our first quantitative research we found surprisingly a slightly positive effect of experience on the venture performance (Kirschenhofer and Lechner 2005). We considered entrepreneurial experience as a continue ranging for novice entrepreneurs with no experience to very experienced entrepreneurs that might have started ten or more ventures. Former research treated habitual entrepreneurs as a homogenous group, so an entrepreneur who started two ventures was treated like an entrepreneur who started 10 ventures. But it might be that the experience effect does not started by the second venture, it might be that it started later (Kirschenhofer and Lechner 2005). Hypotheses 6 was slightly confirmed.
Most scholars define experience by the number of ventures, the years of experience within an industry, … (Lamont 1972, MacMillan 1986). We tried to include another view into the picture, the breadth and depth of experience (Lechner et al. 2005). As a result, it seems that over-specialization in one limited function within the industry does not prepare for a performanceful entrepreneurial career. Broad, high variety of experience prepare better for the life of a habitual entrepreneur (Lechner et al. 2005). So, hypotheses 7 could not be supported, hypotheses 8 could be confirmed.

Ideas

Ideas are the starting point of the entrepreneurial activity (Mc Grath and MacMillan 1990). We could not show a significant influence of the number of ideas quality of the ideas and the venture performance (Lechner et al. 2005). The number of good ideas seems to be randomly distributed between all ideas. So the likelihood of an experienced entrepreneur, which worked on several projects before, to have a better for the subsequent project, is not higher than the likelihood of an inexperienced entrepreneur. These results confirm the finding from former habitual entrepreneur research (Schollhammer 1991, Westhead and Wright 1999; Carter and Ram 2003).

In conclusion it can be stated, that in most fields it seems to be important to look on the detail. A view on the total network was not as performanceful like a view on the sub networks, the total view on experience less performanceful than the look on the different experiences. All three research projects showed similar results, also if the sample were from totally different industries (Quantitative research on Multimedia and Hollywood film industry, Qualitative research on a diversified parallel entrepreneur and a serial entrepreneur from the vacation business). We did not find any inconsistence between the results of the different studies.

Conclusions

Literature on performance factors of habitual entrepreneurs is full of assumptions and anecdotal evidence. Our research tries to unbundled the arguments brought forward, to investigate in depth the how’s and why’s of these assumptions.

The study of habitual entrepreneurs has been suggested as a promising route. Two perspectives are possible. First, it has been argued that a lot can be learned from the study of habitual
entrepreneurs for entrepreneurship in general (Low and McMillan 1988). This perspective implies that the experience accumulated by habitual entrepreneurs acts as a sort of filter which allows to identify better the essential, i.e. the factors that influence success or failure of new ventures. This knowledge should also help novice entrepreneurs to increase their chances in launching a new venture. Second, it is not unreasonable to assume that most entrepreneurs do not only found one firm during their life-time. This means that habitual entrepreneurship is an important part of entrepreneurship in general. Therefore it is interesting to understand what explains the performance variance of habitual entrepreneurs.

First, habitual entrepreneurs are opportunity driven. Essentially, it is not the drive to gain more money with the next venture that drives the performance of entrepreneurs. Entrepreneurs seem to be interested in the opportunity. They seem to start want they like independently whether the next opportunity is potentially more profitable than the previous one. Second, not all forms of experience are positive for being an entrepreneur. We found that the depth of industry experience had a negative influence on performance while breath of experience had a positive influence. It seems therefore that a variety of experiences, which make the entrepreneur a generalist, prepares an entrepreneur better for her/his endeavors than a deep but specialized experience. This means that it is important for research to distinguish between different types of experience and their role on entrepreneurial performance. Our results confirm the assumption that entrepreneurs have an atypical career path and suggest that aspiring entrepreneurs should try to make very different experiences before launching a venture (Poltis 2005).

Third, habitual entrepreneurship is a process. There is therefore no significant linear relationship between the number of ventures started or number of business ideas created and the entrepreneur’s performance. We did find confirmation for the assumption that the quality of ideas and the success of habitual entrepreneurs are randomly distributed. There is no magic number: the third venture created by entrepreneurs has in general not a higher success rate than the second, the first or the fourth. Habitual entrepreneurs go through a process of successful and unsuccessful ventures with no predictable pattern.

Fourth, networks can be important for entrepreneurs but not all networks have the same effect. Global network measures such as total network size or stability of all contacts of an entrepreneur in time have limited value in explaining entrepreneurial performance (Fombrun 1982, Lechner & Dowling 2003). The success in a given industry is influenced more by particular networks than others.
Fifth, easier access of financing comes not from stable finance networks. It had been argued that entrepreneurs use partners from previous ventures for the subsequent ventures; in this sense, stability of financing networks should have two effects: it should facilitate access to financing and increase the chances for performance. The increase in the probability of the new ventures could be explained by the following factors: information asymmetry between finance partners and the entrepreneur is reduced; the partners know each other better, know each others’ strength and weaknesses and are therefore able to better choose new projects. We could however not find a significant influence of stability of the finance networks on performance.

In conclusion, it can be said that we need to develop a more fine-grained picture about the factors influencing positively or negatively the performance of habitual entrepreneurs. General assumptions about experience, networks and achievement motivation give an erroneous picture on habitual entrepreneurs as our study could show.
REFERENCES


