KEY BUSINESS RESTART DRIVERS IN SLOVAKIA

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Abstract

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The phenomenon of business restart, also referred to as second chance, proved to be an integral part of entrepreneurial dynamics. Considering the high level of individual entrepreneurial activity (14.2% in 2011, 10.2% in 2012) accompanied with high discontinuance rate in Slovakia (7.0% in 2011, 4.7% in 2012), it is important to further investigate key factors which influence business restart in our country. These findings could unveil what helps to preserve the current entrepreneurial activity, which is besides producing more new entrepreneurs another option to secure self-employment and job creation through individual business activities, with positive impact on economic growth in the country.

The main aim of our paper is to analyze the issue of business restart in Slovakia through dynamics measured on individual level and to identify the key drivers of restart activity. These findings represent a good information basis for policy makers helping them better understand the characteristics of business restart phenomenon and develop relevant entrepreneurship policies, as well as for further entrepreneurship research.

Our research is primarily based on Slovak Global entrepreneurship Monitor (GEM) 2011 and 2012 individual level data. We applied binominal logistic regression to analyze relationships between business restart and its potential drivers.

business restart, drivers, Global Entrepreneurship Monitor (GEM)

Nowadays it is widely accepted that entrepreneurship is one of the key factors that has positive impact both on economic growth and employment of the country. Due to that academia, policy makers and entrepreneurs focus on studying of this phenomenon from different perspectives. One of these is the entrepreneurship process and its components. According to GEM (Xavier et al., 2013) one of the entrepreneurship process components is “discontinuance”. Discontinuance is defined as an interruption of business within the past twelve months. Reasons for business discontinuance are studied, too. These reasons can be negative (among them the most frequent ones are unprofitable business or shortage of finance), positive (like the planned selling of business or resulted from pursuing another job or business opportunity) or neutral (retirement, illness etc.). Nevertheless, discontinuance is considered as a component of dynamism in an economy. Importance of business discontinuance increases together with level of its dynamism. This dynamism on micro level can be measured both from company and individual perspectives. One of the proxies for company measure perspective is number of bankruptcies and restructured companies. In Slovakia seriousness of this situation during the period of the last crisis and afterwards is declared by 80% increase of bankruptcy proposals in 2011 in comparison to 2007. Even more severe situation was in number of companies which applied for legal restructuring procedure. While in 2007 there were only

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1 GEM 2011 results (Pilkova et al., 2012), GEM 2012 results (publication forthcoming).
2 This figure and figure for restructuring companies are calculated based on statistical data of the Ministry of Justice of the Slovak Republic.
9 companies, in 2011, 135 companies applied for legal restructuring. This indicates increasing but still not satisfactory use of formal legal restructuring, with questionable efficiency (Subertova, 2013). No doubt that this dynamism has serious impact on Slovak economy. Subsequent serious issue is whether and under which conditions society is ready to provide the second chance for entrepreneurs of bankrupted businesses. According to European Commission SBA Fact Sheet on Slovakia (EC, 2011) Slovakia offers comparatively unfavourable conditions to honest entrepreneurs who have failed and want to start again either as far as time to close the business, costs to close a business or degree of support for a second chance are concerned. It is a real challenge for the Slovak policy makers to change this unfavourable environment. One of assumptions to do it is to better know and understand restarted entrepreneurs and to identify key factors which are the drivers which should be reflected in relevant policies.

The main objective of our paper is to analyze the issue of business restart in Slovakia through its dynamics measured on individual level and to identify the key drivers of restart activity. These findings may represent a good information basis for policy makers helping them better understand the characteristics of business restart phenomenon to develop both relevant entrepreneurship policy as well as further entrepreneurship research.

As far as entrepreneurship research is concerned, despite great attention devoted to micro-level determinants of individual level entrepreneurial activity in various types and phases (Bergmann, Mueller, Schrettle, 2013; Bosma, 2013), there is still a lack of coverage of business restart issue. From 44 GEM-based articles focused on determinants of entrepreneurship at micro-level summarized by Bosma (2013), only one study (Hessels et al., 2011) is dealing with starting a new entrepreneurial activity after discontinuing another one. However, the importance of this issue among GEM community has been underlined by mentioning the referred work of Hessels et al. as an example of recent GEM-based research in GEM 2012 Global Report together with four other selected papers. Our literature review came across two additional works dealing with this topic at national level, originated in Netherlands and Germany (Stam et al., 2008; Wagner, 2002). As far as we know, this issue has not been a subject of interest in previous research in Slovakia, except of our prior overview study (Pilková, Holienka, Rehák, 2012). National GEM data samples, that are bases for variety of research studies focused on determinants of entrepreneurship in general comprise also individuals who discontinued entrepreneurial activity3, however this fact is usually not either investigated or considered in analysis. In our opinion this topic deserves closer attention.

Business restart within entrepreneurship process can be understood not only as its component, but also as a special type of entrepreneurial activity. It concerns with individuals that discontinue entrepreneurial activity and their propensity to further pursue entrepreneurship after this discontinuation. Therefore when investigating the drivers of business restart, the drivers of entrepreneurial activity in general should be considered, along with some nuances with respect to the specific characteristic of restarting entrepreneurial activity after discontinuing another one.

Individual involvement in entrepreneurial activity has been examined by considerable number of authors, using variety of views and background theories. First, gender studies suggest that entrepreneurial activity of men and women is influenced by differences that can be attributed to certain gender-specific characteristics of individuals (Langowitz, Minniti, 2007). Second, theory of planned behavior states that to the extent that a person has the required perceived behavioral control together with intention to perform a behavior, influenced by attitude, subjective norm and perceived opportunities and resources, he or she should succeed in doing so (Ajzen, 1988, 1991, in Nishimura, Tristán, 2011). Its application to entrepreneurship research understands the involvement in entrepreneurship as a result of attitude towards entrepreneurship, subjective norm with respect to entrepreneurship and perceived behavioral control with respect to entrepreneurship. Third, self-efficacy is conceived as one’s judgment of ability to execute an action, and is established as a reliable predictor of a wide variety of goal-directed behaviors, including entrepreneurship, with high levels of self-efficacy having positive relations to individual entrepreneurial activity (Lukeš et al., 2013; Wong, Lee, 2005). Next, human capital theories, here understood in the context of intellectual capital, suggest that knowledge improves individual cognitive skills and allows them to work more productively and efficiently, which can be regarding entrepreneurship considered as recognizing and successfully pursuing opportunities (Ramos-Rodriguez et al., 2010). Finally, social capital theories suggest that entrepreneur’s own knowledge base is further enhanced by external knowledge represented by knowledge of people in entrepreneur’s environment to which the individual is exposed (De Clercq, Arenius, 2006). Combining the five approaches described above with the specifics of business restart, we consider demographic characteristics, perceptions to entrepreneurship,
human capital qualities and social capital qualities together with societal attitudes perception as potential drivers influencing business restart activity of individuals in Slovakia.

Demographic characteristics. The basic demographic characteristics covered by our study are age and gender. These factors have been examined as determinants of individual involvement in entrepreneurship in several GEM-based studies that unambiguously showed differences in entrepreneurial propensity between genders and age categories (Xavier et al., 2013; Kelley et al., 2011; Langowitz, Minniti, 2007). Arguments for these findings vary from stressing different composition of individual attitudes towards entrepreneurship between genders and age groups, to accenting shorter possible payback period on investment into start-up activity for older age groups. Especially regarding the business restart issue in recent studies, age confirmed to significantly determine business restart activity, while gender proved not to be significant (Stam et al., 2008; Wagner, 2002). The entrepreneurial activity profile in Slovakia in years 2011 and 2012 was characterized by unequal inclusion of age groups in favor of younger generations, but also by unequal gender inclusion, showing that entrepreneurship was merely domain of men (Pilková et al., 2012). According to the above mentioned information, we assume that restart activity is significantly merely domain of men rather than women, and that it declines with the increasing age of discontinued entrepreneur.

Perceptions to entrepreneurship. Most common investigated perceptual characteristics regarding entrepreneurial activity are fear of failure, alertness to entrepreneurial opportunities and self-confidence about own skills to start a business. Several GEM-based studies suggest that subjective perceptions play significant and crucial role in determining individual entrepreneurial activity (Lukeš et al., 2013; Koellinger, Minniti, Schade, 2007; Langowitz, Minniti, 2007; Arenius, Minniti, 2005). These characteristics create also one part of entrepreneurial capacity assessment. While perception of opportunities together with self-confidence affect individual entrepreneurial activity in positive manner, fear of failure has the opposite influence. Particularly regarding the business restart issue in recent studies, the probability of taking a second chance proved to be negatively related to the attitude towards risk expressed by the fear of failure (Wagner, 2002). According to the above mentioned information, we assume that self-confidence about own skills to start a business as well as alertness to business opportunities affect individual restart activity positively, while fear of failure affects individual restart activity negatively.

Human capital. Individual human intellectual capital represents the knowledge base determining the individual’s capacity to recognize and pursue entrepreneurial opportunities (Ramos-Rodríguez et al., 2010). Research proved human capital to be positively related to business opportunities recognition (Ramos-Rodríguez et al., 2010), nascent (Kim et al., 2006) as well as renascent entrepreneurship (Stam et al., 2008). In our analysis the human capital construct consists of educational level and character of previous entrepreneurial experience. Despite the fact that failure is indisputably also a valuable source of experience that can contribute to individual human capital, we assume that success, in our case represented by survival of the discontinued business, adds in general more value to individual capital than experience with business that ceased to exist. According to the above mentioned information, we assume that educational level as well as survival of discontinued business both positively affect the restart activity.

Social capital and societal attitudes perceptions. Social capital represents the external knowledge that other people in the entrepreneur’s environment and social network provide (Ramos-Rodríguez et al., 2010). In GEM, this phenomenon is captured by examining whether the individual knows an entrepreneur who started a business within last two years. The positive impact of knowing an entrepreneur on involvement in entrepreneurship has been proven by research (Lukeš et al., 2013). Particularly regarding the issue of business restart, knowing and personal contacts with entrepreneur proved to be positively related to the probability of taking a second chance (Stam et al., 2008; Wagner, 2002). In our analysis, together with traditional GEM-based social capital measure we also include the perceptual measures capturing the perceived societal attitudes towards entrepreneurship, that in our opinion act as catalysts of social knowledge influence on individual entrepreneurial propensity. These measures express alertness to stories about successful entrepreneurs in media, belief that successful entrepreneurs possess high level of status and respect and that entrepreneurship is considered a desirable career choice. These characteristics represent also social side of entrepreneurial capacity. According to the above mentioned information, we assume that knowing an entrepreneur, perceived high successful entrepreneurs media coverage, belief in high status of successful entrepreneurs, and belief that entrepreneurship is considered a good career choice positively affect business restart.

METHODS AND RESOURCES

GEM is a unique source of information on individual entrepreneurial activity. Comprehensive view on entrepreneurial dynamics and focus on individuals rather than on firms belong to its main characteristics. Since business restart is by its nature an individual phenomenon, we consider GEM data a sufficient source to provide a snapshot insight into this issue.

We used GEM 2011 and 2012 data (each year the sample was representative according to gender
Anna Pilková, Marian Holienka, Michal Munk

and age distribution) for our analysis of business restart in Slovakia, and created a combined sample, resulting into sample comprising of 4000 individuals from adult population (age 18 to 64 years). Out of these respondents, 235 individuals reported discontinuation of business activity in the last 12 months and became the main sample for our analysis. Gender and age distribution frequencies of this sample are presented in Tab. I.

We built our analysis on GEM variables. Restarted entrepreneurs were defined as those individuals who reported discontinuation of business activity in the last 12 months and at the same time were involved in early-stage entrepreneurial activity. Not restarted entrepreneurs were defined as discontinued entrepreneurs who either expect to start a new business activity within the next three years, but have not done so yet, are not decided yet, or do not expect to start a new business activity at all. The investigated demographic, perceptual, human and social capital factors were represented by GEM variables used to examine the particular underlying facts.4

Our dependent variable was a binary variable. Therefore we analyzed our data using binominal logistic regression models. These models estimate the probability of an event happening. In our case the event is restarting entrepreneurial activity after discontinuation, i.e. being a restarted entrepreneur. To estimate the parameters of individual level data we used Statistica Generalized Linear/Nonlinear Models. The significance of parameters was tested using the Wald statistics. Requirements of the method (no missing values for independent variables) implied sample reduction to 179 individuals. Maximum likelihood estimations were used to calculate the logit coefficients which denote changes in the log odds of the dependent variable. Correlations between independent variables were tested and proved not to be problematic. Residual analysis was then used to identify cases with greatest contribution to model inaccuracy (Model 0). After their elimination we repeated the analysis. To obtain the final model, we gradually excluded redundant variables (Model I and II). The goodness of fit of the model was assessed using the Pearson's Chi-square test (as an alternative to LR test) and log-likelihood function (used to compare models). Logistic regression results for the final model (Model III) are presented in Tab. II.

### RESULTS AND DISCUSSION

The overall restart rate among discontinued entrepreneurs in Slovakia was 25.5%. Business restart was a young man's issue, with every third man (33.3%) and only every eighth woman (12.5%) restarting their business activity, and restart rate dropping (with one exception) with increasing age category. As for perceptions to entrepreneurship, restarted entrepreneurs showed more positive

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4 For GEM variables description see Bosma et al., 2012

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### Table I: Gender and age sample distribution

<table>
<thead>
<tr>
<th>Gender/Age</th>
<th>18–24</th>
<th>25–34</th>
<th>35–44</th>
<th>45–54</th>
<th>55–64</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>12</td>
<td>46</td>
<td>37</td>
<td>31</td>
<td>21</td>
</tr>
<tr>
<td>Female</td>
<td>12</td>
<td>18</td>
<td>22</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

### Table II: Binominal logistic regression results

<table>
<thead>
<tr>
<th></th>
<th>Coeff.</th>
<th>Std. error</th>
<th>Wald</th>
<th>p</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender (male = 1, female = 2)</td>
<td>-1.78059</td>
<td>0.529491</td>
<td>11.30871</td>
<td>.000771</td>
</tr>
<tr>
<td>Age</td>
<td>-0.07680</td>
<td>0.017655</td>
<td>18.92291</td>
<td>.000014</td>
</tr>
<tr>
<td>Opportunities perception</td>
<td>1.29777</td>
<td>0.518009</td>
<td>6.27656</td>
<td>.012235</td>
</tr>
<tr>
<td>Fear of failure</td>
<td>-1.05886</td>
<td>0.511914</td>
<td>4.27838</td>
<td>.038600</td>
</tr>
<tr>
<td>Self-confidence</td>
<td>2.60929</td>
<td>0.724883</td>
<td>12.95713</td>
<td>.000319</td>
</tr>
<tr>
<td>Discontinued business survival</td>
<td>1.44902</td>
<td>0.468080</td>
<td>9.58319</td>
<td>.001964</td>
</tr>
<tr>
<td>Perceived media attention</td>
<td>-2.37797</td>
<td>0.557699</td>
<td>18.18082</td>
<td>.000020</td>
</tr>
<tr>
<td>Good career choice</td>
<td>1.01214</td>
<td>0.476257</td>
<td>4.51649</td>
<td>.033570</td>
</tr>
</tbody>
</table>

df 171

LR stat. 128.89059
Pearson Chi-sq. stat. 137.48265
LR stat./df 0.75375
Pearson Chi-sq. stat./df 0.80399
Log-likelihood −64.44529

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perceptions than those discontinued entrepreneurs with no restart. As for human capital, the educational background of both restarted and not restarted entrepreneurs was similar, while survival rate of discontinued businesses showed higher percentage of positive former business experience among restarted entrepreneurs (55.9% vs. 38.6%). Finally, social capital expressed in terms of knowing an entrepreneur was higher among restarted entrepreneurs. As for societal attitudes perception, restarted entrepreneurs compared to their counterparts with no restart activity showed higher belief that starting a new business was perceived as a desirable career choice, slightly lower belief that successful entrepreneurs enjoyed high level of status and respect, and surprisingly much lower perception of media awareness of successful entrepreneurs.

Binominal logistic regression proved that eight out of eleven analyzed individual independent variables were significant (Tab. II).

Both demographic variables proved their significance. The coefficients of gender and age showed a negative relationship with business restart. These results confirmed our assumptions that restart activity is significantly merely domain of men rather than women, and that it declines with the increasing age of discontinued entrepreneur. These results are in line with general entrepreneurship behavior pattern, however they are slightly different in comparison to former business restart studies (Stam et al., 2008; Wagner, 2002) as far as gender influence is concerned.

Accordingly, all three examined perceptual variables proved their significance as well. While self-confidence about having sufficient skills to start-up a new business together with perceived business opportunities positively affect individual restart activity, the effect of having fear of failure proved to be negative. These findings also correspond with our assumptions. Moreover, in our model the self-confidence presented the strongest relationship with restart activity among all analyzed factors.

From the analyzed human capital characteristics, only survival of discontinued business proved to be significant. It showed positive relationship with business restart activity, which confirmed our assumption. Educational background, unlike we assumed, played no significant role in our model.

The last analyzed group of factors was social capital and societal attitudes perceptions characteristics. There were four variables analyzed. Among these, knowing an entrepreneur and perceived high social status of successful entrepreneurs showed no significant relationship with business restart. Perception of media coverage on successful entrepreneurs surprisingly proved to have negative relationship with business restart. Moreover, strength of this relationship was the second highest in our model. On the other hand, the belief that entrepreneurship is considered a good career choice proved positive relationship with business restart. This was the only result in line with our initial assumptions regarding this group of factors.

**SUMMARY**

Business restart issue in Slovakia was examined using GEM 2011 and 2012 individual level data. Our data proved that each fourth discontinued entrepreneur (25.5%) restarted his or her business activity. Binominal logistic regression model employed identified the following key business restart drivers. First, analysis of gender (Coeff. = −1.78039, p = .000771) and age (Coeff. = −0.07680, p = .000014) influence proved that business restart was a young man's game. Second, perceptions to entrepreneurship played significant role in individual propensity for restart activity, with self-confidence being the strongest driver (Coeff. = 2.60929, p = .000319). While opportunities perception showed positive relationship with restart activity (Coeff. = 1.29777, p = .012235), the effect of having a fear of failure was opposite (Coeff. = −1.05886, p = .038600). Third, from among societal attitudes perceptions the belief that entrepreneurship is considered a good career choice showed positive relationship with individual business restart activity (Coeff. = 1.01214, p = .033570), while the effect of perceived media attention to successful entrepreneurs was surprisingly negative (Coeff. = −2.37797, p = .00020). Fourth, only survival of discontinued business proved to drive the business restart from among human capital characteristics (Coeff. = 1.44902, p = .001964). Presented results create relevant platform for formulation of policies that would improve conditions to second chance support in Slovakia. One implication is that government policies should systematically target the issue of inclusive entrepreneurship. Lower inclusion of women and older age categories in business restart corresponds with the pattern in overall entrepreneurial activity. Particular focus on restart support among these disadvantaged groups should therefore contribute to their inclusion in restart, which would in turn lead to preserving the overall existing stock of entrepreneurs from these groups. In order to achieve this, policy makers should create more favorable general conditions for second start after a honest failure, hand in hand with specific programs aimed at groups with lacking inclusion in entrepreneurship. Another implication draws the attention to system of education. On all levels it should better support not only the individual entrepreneurial skills, characteristics and attitudes that would lead to more favorable individual perception of entrepreneurship, but it should also help to form positive societal attitudes towards it. The system should not only provide basic instructions
how to start and manage a business. It needs comprehensive entrepreneurial mindset that should not only be embedded to curricula, but also to fundamentals of educational institutions themselves. Concluding on the above mentioned we can sum up that what is in favor of entrepreneurship in general seems to be, with certain nuances, in favor of business restart as well.

REFERENCES