

# “Serial Entrepreneurship in China”

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- Serial entrepreneurs (SE) and firm creation in China
- Amazing data on entrepreneurship:
  - ↳ Universe of all firms in China
  - ↳ Tracking main founders through unique identifiers
  - ↳ Region-industry-year controls
- Intriguing empirical patterns for SEs, which are captured by a simple model:
  - ↳ Firms founded by SEs are more productive on average, with the 2nd firm even more productive than the 1st.
  - ↳ Concurrent versus sequential operation of multiple firms (depending on the gap in TFPs).
  - ↳ Industry choice for subsequent firms (learning about industry-specific skills versus diversification).
- Evidence for persistence of entrepreneurial skills and impact of financial constraints.

- ④ Why should we care about serial entrepreneurs?
- ④ Why is SE performance persistent?
- ④ Measurement of TFP

Should we invest with this guy?



# 1. Why should we care about serial entrepreneurs?

- Serial entrepreneurship is a big part of firm creation.
  - ↳ China: Large and rising share of Chinese firms created by individuals: 31% in 1995; 87% in 2015
  - ↳ Fraction of SE firms: 31% in 1995; 28% in 2015
  - ↳ U.S.: Around 10% in 2000 (Gompers, Kovner, Lerner, Scharfstein 2010)
- SEs help establish persistence of performance at entrepreneur level.
  - ↳ U.S.: An SE who succeeds in a venture has a 30% chance of succeeding (going public) in next venture, versus 21% for first-timer, 22% for SE who has previously failed (GKLS 2010).
  - ↳ This paper: TFP of non-SE firm < 1st SE firm < 2nd SE firm
- SEs might help us disentangle different sources of persistence:
  - ↳ Persistence in skill, learning, financial constraints
- Important implications for policy and practice:
  - ↳ Should the government foster learning by giving out many small grants (e.g. Howell 2017), or “chase skill” by providing more resources to SEs with good track records?

## 2. Why is SE performance persistent?

- This model: Selection by entrepreneurs + persistence in skill  $\Rightarrow$  Higher TFP for SE firms.
  - $\rightarrow$  If  $\rho = 0$ , non-SE and SE firms will have the same expected TFP.
  - $\rightarrow$  A side note: Connections (“who you know”) are also persistent. Are they part of the skill?
  - $\rightarrow$  Financial constraint: Affects the TFP threshold for future firms.
- Alternative channel: Perceived performance persistence can lead to real performance persistence – **success breeding more success**.
  - $\rightarrow$  With past success, an SE can attract capital, labor, suppliers, and customers more easily.
- This is especially true when financial constraints are severe.
  - $\rightarrow$  Past successes could relax financial constraints (increase  $\lambda$  or  $e$ ), which could potentially raise profitability and reduce failure rates controlling for  $z$ .
  - $\rightarrow$  In a more model in which both channels operate, can the data help us separate the two effects and allow us to estimate  $\rho$ ?

## 2. Why is SE performance persistent?

- Financial constraint? Compare degree of persistence among founders with large versus small amount of registered capital (controlling for industry).
- Compare industries that are more or less opaque; industries with more or less physical capital.
- Learning? Is it about own management experience (applying specifically to managers) or industry opportunities (need not be owners)? Is it about successful experience or failures?
- More dynamics:
  - ↳ Option to wait could generate the positive link between inside equity and TFP.
  - ↳ Richer predictions about capital structure.

### 3. Measurement of TFP

- Measurement of TFP:

$$z_i = y_i^{\frac{1-\alpha\eta}{1-\eta}} \left( \frac{w}{\alpha\eta} \right)^{\frac{\alpha\eta}{1-\eta}} k_i^{-\frac{(1-\alpha)\eta}{1-\eta}}$$

- Li and Yu (2021):  $k_i$  could be understated due to the presence of leased capital, which inflates TFP.
  - ↳ Especially among small and financially constrained firms.
- Do SE firms use more leased capital than non-SE firms?



# Conclusion

- An important contribution.
- Would love to see more analysis to help deepen our understanding of the sources of performance persistence.