ELSEVIER

VENTURE CAPITALISTS AND SERIAL ENTREPRENEURS

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EXECUTIVE SUMMARY

Habitual entrepreneurship is receiving growing attention, much of which has focused on entrepreneurs who have started more than one venture. This paper examines the importance of habitual entrepreneurs to the venture capital industry, with particular emphasis on those who have exited from an initial investment in the venture capitalist's portfolio, termed serial entrepreneurs.

As venture capital markets mature, increasing numbers of entrepreneurs are likely to exit from their initial enterprises, creating a pool of entrepreneurs with the potential for embarking on subsequent ventures. Venture capitalists making investments may invest both in entrepreneurs starting new ventures and those who purchase a venture through a management buy-out or buy-in. On this wider basis, the paper develops a classification of types of serial venture. A number of issues are raised for venture capitalists, notably the relative attractiveness of reinvesting in exited entrepreneurs and the policy they adopt in tracking and assessing such individuals.

The paper addresses venture capitalists' perspectives on investing in serial entrepreneurs based on a representative sample of 55 UK venture capitalists (a response rate of 48.7%, and a follow-up survey of those who had more extensive experience of serial entrepreneurs (23 respondents). The results of the survey show that despite a strong preference for using an entrepreneur who had played a major role in a previous venture, the extent to which exiting entrepreneurs are funded from their own portfolio again is limited, though there is more extensive use of such individuals in a consultancy capacity. In screening entrepreneurs exiting from previous ventures for subsequent investments, venture capitalists scored attributes relating to commercial awareness, experience in a particular sector, and personal ambition of the entrepreneur most highly.

Venture capitalists do make extensive use of serial entrepreneurs who have exited from other venture capitalists' portfolios, primarily to lead management buy-ins. Indications from the survey are that venture capitalists rarely assess entrepreneurs formally at the time of exit and that it is unusual to maintain formal links with entrepreneurs after they have exited. These apparent shortcomings suggest that perhaps investment opportunities are being missed. Those venture capitalists preferring serial entrepreneurs generally

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had a larger volume of funds under investment and were rather older than those venture capitalists who do not prefer to use serial entrepreneurs, reflecting the possibility that longer established venture capitalists have had more opportunity and experience in relation to second-time entrepreneurs.

Investment appraisal factors were subject to a principal components analysis to identify underlying dimensions/relationships between them. With respect to the general investment appraisal factors, five factors were identified. Two factors were related to track record; one of these reflected ownership experience, while the other represented management experience. The third factor was related to personal attributes such as age, knowledge, and family background. The fourth factor represented links to the funding institution, and the final factor (a single variable factor) concerned financial commitment. The principal components analysis for screening factors on management buy-ins produced a single factor comprising all variables. These factors were then subject to a multivariate analysis of variance (MANOVA), with preference for use of a serial entrepreneur as the independent variable. The results suggest that there are significant differences between venture capitalists who prefer serial entrepreneurs and those who do not in respect to their business ownership experience, the length of their entrepreneurial careers, and the number of their previous ventures.

The results of the study have implications for practitioners. First, the findings emphasize the importance of not considering previous venture experience in isolation but in the context of other key investment criteria. Second, the lack of strongly greater performance from serial, versus novice, entrepreneurs further emphasizes the care to be taken in assessing experienced entrepreneurs. Third, the relatively low degree of formal and rigorous post-exit assessment and monitoring by venture capitalists suggests that important opportunities to invest in experienced entrepreneurs may be missed.

INTRODUCTION

Growing research effort has been devoted to entrepreneurs who found more than one venture. Such habitual or multiple entrepreneurs may provide important insights into the nature of entrepreneurship and raise questions concerning the relationship between entrepreneurship experience and venture performance (MacMillan 1986; Starr and Bygrave 1991). Our concern here in examining second-time or serial entrepreneurs is explicitly with those individuals who have exited from their first venture before embarking upon a subsequent one. Each of these ventures may have involved either the purchase of an existing venture or establishment of a new one. This broad definition is employed since the focus of this paper is primarily upon venture capitalists' approaches towards serial entrepreneurs and in this context it is necessary to recognize the range of entrepreneurial activity.

While entrepreneurs exiting from one venture may have accumulated sufficient funds to invest in subsequent ones, they are also likely to make use of venture capital, especially if they have accessed this source of funding before. In the United States, there has been evidence for some time that previously backed entrepreneurs are important in generating venture capital deal flow (Silver 1985) with consideration of previous entrepreneurial experience being an element of the deal-screening process (e.g., MacMillan, Zemann, and Subbanarasimha 1987). However, there has been little explicit attention to the process by which venture capitalists screen entrepreneurs who have exited from a previous venture and the criteria they use. Moreover, while there is some evidence concerning the extent to which founders of new businesses have previously started a venture (see Birley and Westhead, 1994, for a review), there is little evidence concerning the extent to which entrepreneurs existing from one venture are backed a second or subsequent time by their financial partner. This issue assumes increasing importance as a venture capital industry matures and exits from existing investments increase. The extent of such realizations is already substantial, both in the more developed U.S. market (see, e.g., Devlin 1992; Petty, Suhlman, and Bygrave 1992) and in the United Kingdom (EVCA 1995).

Although not all entrepreneurs leave a company when it exits from a venture capitalist's portfolio, many do. Some of these entrepreneurs will seek to start new ventures, a number will retire, while others will go to work for someone else (Ronstadt 1988). In addition, venture capitalists may consider that exiting entrepreneurs who are either unsuitable for a further venture or who do wish to pursue such a route may usefully be employed in some form of advisory role such as a nonexecutive directorship or consultancy. Among the large number of failed ventures in the recession of the 1990s, there may be entrepreneurs who have attractions for venture capitalists because the failure may have been beyond their control or they may have gained valuable experience through the failure (Vesper 1980).

Serial entrepreneurs can re-enter the venture process in various ways. Much of the debate in this emerging aspect of entrepreneurship has focused on the use of capital proceeds from one venture in the start-up of a new firm. However, for the formal venture capital industry, the funding of exiting entrepreneurs in the acquisition of existing businesses through a secondary management buy-out or management buy-in may be as important in terms of the volume of investments and possibly even more important in value terms. Hence, in analyzing the importance of serial entrepreneurs to the venture capital industry, this paper takes a broad perspective on serial entrepreneurs.

This paper examines the role of serial entrepreneurs in the venture capital industry as follows: The next section reviews the relevant literature relating to the nature of serial entrepreneurship and the venture capital screening process. The discussion provides an extension of the relatively limited existing literature by developing a conceptual typology of habitual and of serial entrepreneurship based on a broad definition of entrepreneurship, which includes both the foundation and acquisition of new ventures. This is followed by the second section, which discusses the importance of previous entrepreneurial experience within the venture capital screening process. This section extends previous models of the venture capital process by showing that the possibility for reinvestment in exiting entrepreneurs adds a dynamic dimension previously ignored. The third section outlines the data sources and methodology used in this study. The fourth section presents the results of the survey of venture capitalists' perspectives in relation to serial entrepreneurs, and the final section presents the conclusions and implications of the research.

HABITUAL AND SERIAL ENTREPRENEURS

Within the continuing debate as to what is meant by entrepreneurship (see, e.g., Gartner 1985; Low and MacMillan 1988) there is growing recognition that the entrepreneurial act may not simply involve the creation of a single venture. Instead, a full career may see an entrepreneur become involved in a number of ventures. Serial entrepreneurship is essentially a subset of the wider phenomenon of multiple or habitual entrepreneurship, different forms of which can be categorized as in Table 1.

In general, entrepreneurship may involve activities within an existing organization or the formation of a new one (Cooper and Dunkelberg 1986; Robbie and Wright 1996). In particular, the relatively recent development of management buy-outs and buy-ins suggests the possibility for entrepreneurial acts in organizations that already exist (Bull

TABLE 1 Categorization of Multiple or Habitual Entrepreneurship

	Multiple entrepreneurship involving existing firms	Multiple entrepreneurship involving new forms
Ownership change between ventures	Quadrant 1 Serial MBO/MBI	Quadrant 2 Serial start-up
No ownership change between ventures	Quadrant 3 Multiple corporate entrepreneurship	Quadrant 4 Portfolio entrepreneurship

1989; Kelly, Pitts, and Shin 1986; Wright, Thompson, and Robbie 1992; Zahra 1995). In addition, examination of the characteristics of the leading individuals in buy-out and buy-in transactions identifies similar features to those found in respect to entrepreneurs who start new ventures, with buy-in entrepreneurs generally having more proactive features than their counterparts in buy-outs (Ennew et al. 1994). Entrepreneurship may also involve cases where the entrepreneur becomes an owner of the organization or is a manager with little or no ownership stake as in corporate entrepreneurship (Block and MacMillan 1993; Stopford and Baden-Fuller 1994).

Habitual and multiple entrepreneurship focuses on the dynamics of these entrepreneurial actions. However, there has hitherto been little attempt to identify the different types of habitual entrepreneurial activity. In their pioneering study, Starr and Bygrave (1991) take a general view of multiple venture experience. Hall (1995), in discussing habitual or multiple business founders, distinguishes portfolio owners (Quadrant 4 of Table 1), where ownership of the first venture is maintained when a subsequent venture is embarked upon, from serial owners who dispose of one venture before founding another (Quadrant 2). Although there is some evidence to show that habitual portfolio entrepreneurship is extensive (e.g., Birley and Westhead 1994), there is little empirical research that distinguishes between portfolio and serial entrepreneurs or that embraces other forms of entrepreneurship beyond start-ups.[1] Furthermore, the portfolio serial categorization may be too simplistic in light of recent developments in entrepreneurship theory and should perhaps be broadened to include activities relating to existing firms. Multiple corporate entrepreneurship (Quadrant 3) may occur within the same firm or by the entrepreneurial managers concerned moving to another firm, in both cases to engage in further acts of new resource deployment. Conversely, serial entrepreneurship could involve the purchase of an existing firm after the first venture is sold (Quadrant 1). Serial entrepreneurial behavior may be considered to be firstly a desire to exit from an initial venture when entrepreneurial opportunities are perceived to have been exhausted and to search for new possibilities through entry into a subsequent venture.

Quadrants 1 and 2 of Table 1 can be expanded to identify more specifically the different forms of serial entrepreneurship as shown in Table 2. Essentially, the categories of second-time entrepreneurship may be represented as[2] repeating entrepreneurial experience with the same enterprise—that is, selling out from whatever form the initial

[1]An exception, for example, is Kolvereid and Bulvag (1993), who examine portfolio entrepreneurs who start more than one business.

[2]These are the three main forms of serial entrepreneurship, although it is recognized that serial entrepreneurs may make minority and/or part-time investments as business angels and may have a comparative advantage over formal venture capitalists in making helpful contributions in operational and strategic functional areas of an enterprise's activity, though there may be difficulties in the process of searching and matching investors with investments (Harrison and Mason 1992).

TABLE 2 Categorization of Second Venture Types

	Second venture		
First venture	Secondary MBO	MBI	Start-up
MBO	Sale and subsequent buy-back	Cash-out and use funds to buy-in with venture capital funds	Cash-out and use own funds to start-up
MBI	ditto	Cash-out and repeat the venture	Cash-out and attempt a new business
Start-up	ditto	Cash-out and find a turnaround vehicle	Cash-out from success and start major new business with own funds or fail in first venture and try again

venture took and then buying it, or part of it, back (a secondary MBO); repeating entrepreneurial experience by leading a new venture involving a company that already exists and that may (a pure management buy-in, MBI) or may not (a buy-in/buy-out, BIMBO) involve incumbent management in equity ownership; and repeating the entrepreneurial experience with an entirely new company (a start-up).

Repeating an entrepreneurial experience with an entirely new company is generally regarded as the classic case of serial entrepreneurship (Birley and Westhead 1994). However, serial entrepreneurship may also entail re-establishing a relationship with a previously owned company. An entrepreneur may remain with an initial venture when it is sold and subsequently buy it back either because the acquisition fails to fit into the parent organization or because the parent experiences major trading difficulties. Alternatively, the entrepreneur may perceive an opportunity to buy-out part of the business that she or he considers to have growth prospects but that does not fit strategically with the new parent. Entrepreneurs may also seek to re-establish ownership to make good their sense of loss from having sold out in the first place (Petty et al. 1992).

Management buy-ins provide a further medium for serial entrepreneurship. Evidence indicates that well over a quarter of buy-in team leaders had previously owned a significant equity stake in a company in which they had been employed. Although such investments have many of the features of start-ups, they do involve an existing organizational structure. Typically, significant entrepreneurial input is required to turn around an enterprise subject to a buy-in (Robbie and Wright 1996). However, entrepreneurs entering buy-ins may be faced with potentially severe asymmetric information and adverse selection problems. Previous experience with a buy-in may alert entrepreneurs to the existence of these problems, though they may still be unable to assess the nature of them *ex ante* in a new venture. For these reasons experienced entrepreneurs may seek to complement less entrepreneurially experienced incumbent management, creating a hybrid buy-in/buy-out (so-called BIMBO).

As Table 2 indicates, serial entrepreneurs may pursue a second venture similar to their first or may shift their focus of attention. Shifts may occur, for example, where entrepreneurs, having exited from and turned around a buy-out, may seek a similar challenge by buying into an already existing company or, perhaps less likely given their experience, by creating a new company. Similarly, entrepreneurs having started and grown a company may seek to buy into an underperforming company with growth prospects in order to achieve a larger entity relatively quickly rather than starting totally afresh. Where serial entrepreneurship involves successive buy-ins, successive buy-outs, or some combination of the two, then venture capital is likely to be involved; this in turn raises issues concerning the process by which serial entrepreneurs are evaluated both by their initial venture capitalist and by other potential venture capital funders.

VENTURE CAPITALIST ASSESSMENT

A number of studies have developed models of the venture capital appraisal process (e.g., Bruno and Tyebjee 1985; Bygrave and Timmons 1992; Fried and Hisrich 1994), an example of which is shown in Figure 1. (This figure is adapted by the present authors from Fried and Hisrich, 1994.) In general this research does not explicitly distinguish the criteria used by those venture capitalists who prefer to invest in experienced entrepreneurs and those who do not. The existence of entrepreneurs who are exiting from venture capitalists' owns portfolios adds a feedback loop to the source of deal generation in Figure 1, and also raises issues concerning the nature of the process by which venture capitalists assess exiting entrepreneurs with a view to reinvestment. From Figure 1, the stages in the process as regards serial entrepreneurs can be conceptualized as involving the following: exit of the entrepreneur at the time of venture capitalist exit or afterwards with assessment by the venture capitalist for potential reinvestment; post-exit monitoring by the venture capitalist if reinvestment does not occur on exit; screening of entrepreneurs, together with novice entrepreneurs and entrepreneurs exited from other venture capitalists' portfolios, with a view to investment; and deal negotiation and completion.

Several studies examine the relative importance of the factors taken into account in the screening process for new venture investment (e.g., Bruno and Tyebjee 1985; MacMillan, Siegel, and Subbanarasimha 1985; MacMillan et al. 1987). An entrepreneur's past experience is undoubtedly of importance, although it is only one among many criteria used in the screening process. MacMillan et al. (1987) show that the most important criteria used by venture capitalists in screening investment proposals were entrepreneurial personality and experience, with lesser dependence being placed on market, product, and strategy. The particular attraction of past experience in the context of screening is the potential reduction in adverse selection problems because of the information contained in past and potentially similar experience. Where such experience relates directly to entrepreneurial activity, it will be of particular value.

This suggests the following propositions:

> *Proposition 1a*: Venture capitalists who express a preference for investing in experienced entrepreneurs will place greater emphasis on previous entrepreneurial experience than those who do not have such a preference.

> *Proposition 1b*: Venture capitalists will evaluate first-time entrepreneurs and serial entrepreneurs differently.

Of course, it is important to recognize the assets and liabilities of past experience (Starr and Bygrave 1991, 1992; Starr, Bygrave, and Tercanli 1993). Previous venture experience may have both positive and negative features. Positive features include reputation, expertise, and networks of contacts. Negative features include reduced motivation to work as hard or to take on risky projects, and fixation on previous success/failure factors (blinders) that may not be appropriate for the new venture. These studies suggest that the negative features of experience are likely to lead to experienced entrepreneurs not implementing resourceful strategies and using resources parsimoniously. In the con-

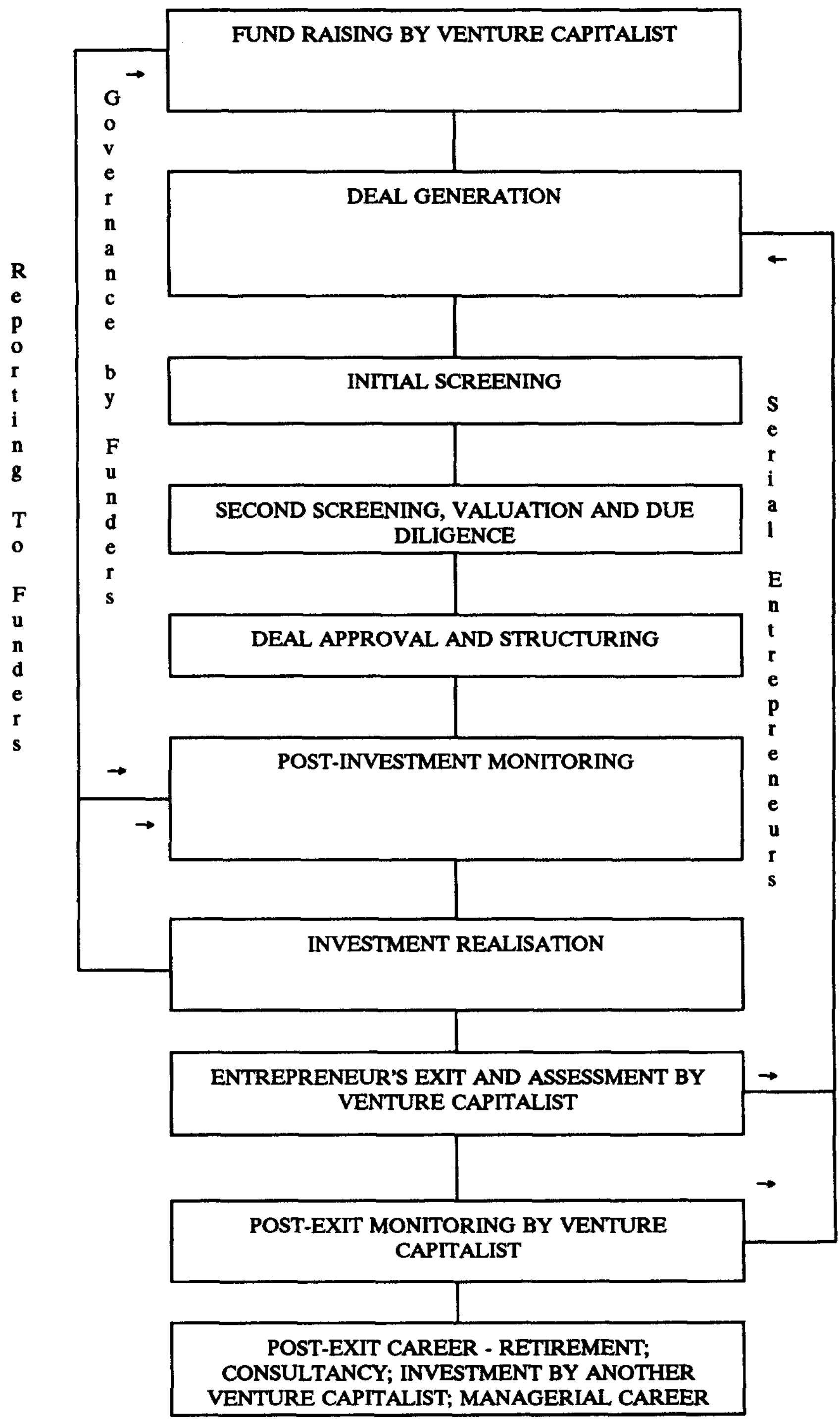

FIGURE 1 Venture capitalist fund raising, deal appraisal monitoring, and serial entrepreneurs (source: adapted by the authors from Fried and Hisrich 1944).

text of repeat management buy-outs, the danger may be that entrepreneurs take the same actions in an attempt to repeat their previous success though the conditions surrounding the enterprise may have changed. It may be expected that if the process is working effectively, venture capitalists will assess both the assets and the liabilities of an individual entrepreneur's previous experience and invest in only those cases where the former exceed the latter. Hence the proposition:

> *Proposition 2*: Venture capitalists will assess the net benefits of previous experience and target those entrepreneurs where the assets of previous experience exceed liabilities.

Starr and Bygrave also propose that the positive experience of previous entrepreneurial ventures should make it easier to raise start-up financing *per se* and in larger amounts. However, they do not distinguish between raising further finance from existing sources or from alternative possibilities, which may be important. At the initial investment stage, entrepreneurs are unlikely to be fully conversant with the workings of venture capitalists, hence among other things the widespread use of financial intermediaries. For the venture capitalist, there is a potential adverse selection problem in contracting with novice entrepreneurs that the above screening mechanisms are designed to obviate. At the initial stage, venture capitalists may see themselves as able to negotiate relatively advantageous terms compared to the entrepreneur. In recontracting with entrepreneurs who have exited from their own firm's portfolio, venture capitalists are potentially faced with a situation where the entrepreneur is more aware than previously of the effectiveness of the venture capitalist's monitoring and of how (dis)advantageous the initial contract was. There is essentially a multi-period game whereby serial entrepreneurs will seek to shift the distribution of expected gains in their favor.

With respect to entrepreneurs who have exited from other venture capitalists' portfolios, the contracting problem is more complicated as the entrepreneur now has knowledge about the venture capital negotiating process in general, though not of the venture capitalist to whom an approach is being made for the first time. Moreover, while venture capitalists may know the entrepreneurs who have exited from their own portfolios, they are still faced by potential adverse selection problems in respect of entrepreneurs who have exited from other venture capitalists' portfolios. Hence the following propositions are suggested:

> *Proposition 3a*: As a result of the potential for recontracting problems, venture capitalists will be cautious about reinvesting in experienced entrepreneurs from their own portfolios.

> *Proposition 3b*: Venture capitalists will be cautious about investing in entrepreneurs who have exited from other venture capitalists' portfolios because of recontracting problems relating to both asymmetric information and the entrepreneurs knowledge of the negotiation process.

Ultimately, the key question is whether entrepreneurial experience affects performance. The implications of ownership experience for the performance of serial entrepreneurs are surrounded by a degree of ambiguity. Vesper (1980) found that a variety of entrepreneurial and functional experience, including prior failure, was an indicator of better performance. Stuart and Abetti (1990) find that the most significant influence on performance was the level of managerial experience in previous ventures. Studies that have specifically examined cases of experienced, versus novice, entrepreneurs are

Overview

The use of exiting entrepreneurs in further ventures by the same institution appears limited. A number of institutions responding to the survey considered that it was too soon for them to have had significant, if any, experience of using entrepreneurs again,[5] although others also stated that the data were not available.[6] The 28 institutions that responded to this part of the first survey indicated that less than 5% of previously funded entrepreneurs were funded in any subsequent venture by the same institution. Indeed, over three-quarters (77.1%) of the lead entrepreneurs in previously backed investments were not used again by the venture capitalist in any capacity. Where previously funded lead entrepreneurs were used, it was usually in an informal advisory consultancy (13.1%) role or as a non-executive director in a new venture (5.5%).

The most important reason given by venture capitalists for the low extent to which they invested again in entrepreneurs who had previously been supported was the view that no suitable candidates had emerged. This factor seems particularly important among smaller companies,[7] which might reflect the ability of larger organizations to attract a good pool of potential entrepreneurs. The second most important reason cited was that venture capitalists had not actively pursued entrepreneurs who had exited with a view to making new investments with them. The operation of formal policies of not reinvesting in the same entrepreneur or of only using them in other consultancy, non-executive, due-diligence roles was generally seen as unimportant. There was no evidence of any significant difference in the degree of importance attached to any of these three factors by small and large venture capitalists.

Evidence from the second survey suggests that even when proposals are received from potential serial entrepreneurs, they are often found wanting. Twelve respondents had declined to invest in a proposal brought by an entrepreneur who had exited from their portfolio. Proposals that were viewed as not being viable (M: 4.46; SD: 0.93, on a scale where 5 = very important to 1 = irrelevant/very unimportant) or that did not meet current investment criteria (M: 4.09; SD: 0.94) received the highest scored reasons for being turned down. Personal (M: 2.82; SD: 1.25) and financial motivations (M: 2.91; SD: 1.45), unreasonable negotiating demands (M: 2.82; SD: 1.54), and attempts to repeat a previously successful approach in an inappropriate situation (M: 3.00; SD: 0.89) were all viewed to be of little importance. There was some slight indication that serial entrepreneurs may be rejected when they attempt a venture that is beyond their skills (M: 3.08; SD: 0.90).

Funding serial entrepreneurship is not restricted to the funding of an organization's own exited entrepreneurs; it may also be manifested in the funding of entrepreneurs who have exited from ventures funded by competitors. Slightly over half the sample of venture capitalists (52.9%) had made use of entrepreneurs who had exited from in-

[5] *T*-tests were conducted for significant differences between the characteristics of respondents who provided information on their usage of serial entrepreneurs and those who did not. There was no evidence of differences between the two groups at conventional levels of significance. Absolute t-values ranged from 0.09 to 1.55.

[6] To test whether this was significantly related to size of portfolio we tested for significant differences and found that although non-respondents were larger, they were not significantly so.

[7] Small organizations are those with less than the median number of executives. Between the mean score in respect to no suitable candidates having emerged was significantly smaller for larger organizations (M: 3.5; SD: 1.4) than for smaller ones (M: 4.9; SD: 0.37), with a t-value of -3.52.

TABLE 4 Reasons for Preferring to Finance a Manager with Previous Venture Experience

	Mean	SD
Wider management experience	3.13	1.53
Demonstrated motivation	3.24	1.57
Track record available	3.47	1.73
Aware of venture management pressures	2.84	1.38
Greater commercial awareness	3.07	1.51
More likely to achieve success again	3.04	1.57
Career entrepreneur	2.44	1.33
Financial commitment higher	2.35	1.32
Commercial motivation greater than financial	2.31	1.32
Number of respondents	40	

vestments funded by other venture capitalists. The median use of entrepreneurs had been 3, although there was considerable variation around this level. Almost half (48.0%) of lead serial entrepreneurs were used to lead a buy-in, BIMBO, or buy-out. Well over half (55.6%) of other entrepreneurial team members were being used in a formal supporting executive director role, with finance directors being particularly prominent.

Almost three-quarters of venture capitalists in the sample (40 out of 55) claimed to prefer to finance an entrepreneur who has played a major role in a previous venture. The most important reasons for preferring entrepreneurs with previous venture experience are shown in Table 4. The most important reason emerging is that previous experience provides a track record, followed by demonstrated motivation. Some importance was attached to the view that such managers were more likely to achieve success again.

There is no evidence to suggest that there is any systematic relationship between preference for using serial entrepreneurs and the characteristics of the individual venture capitalist, as the results in Table 5 show.[8] In particular, there is evidence of considerable similarity in the composition of portfolios in terms of both number and value of investments. However, it is noticeable that those venture capitalists preferring serial entrepreneurs do appear generally to have a larger volume of funds under investment and to be rather older than those venture capitalists that do not prefer to use serial entrepreneurs. This may simply reflect the fact that the longer established (and often larger) venture capitalists have had more opportunity and experience in relation to second-time entrepreneurs.

It was shown earlier that many venture capitalists do not actively pursue entrepreneurs who have exited with a view to investing in new deals. Evidence from the questionnaire responses suggests that the nature of any continuing or developing relationship is mainly of an informal/social or *ad hoc* nature. Other more systematic approaches, such as active procedures to monitor post-venture activities, formal assessment of managers' performance, and feedback of performance into proposal evaluations, were identified as relatively unimportant means of developing the relationship. Indeed, only 17% of

[8]Because of the interdependent nature of the proportions of venture capitalists' portfolios that are invested in each investment stage, we used MANOVA to test for differences between those venture capitalists who prefer serial entrepreneurs and those who do not. Since proportions data sum to one, the MANOVA was performed using only 4 of the 5 possible dependent variables. There was no evidence of any significant differences between the two groups. In addition a rank-order correlation coefficient was calculated based on the rankings associated with each of the five investment stages. A value of 0.9 ($p = .04$) for the distribution by volume and 1.0 ($p = .00$) for the distribution by value, indicates considerable similarity between the two groups and confirms the findings of the MANOVA. We are grateful to a referee for this point.

TABLE 5 Characteristics of Venture Capitalists and Their Preferences for Second-Time Entrepreneurs

	Prefer serial entrepreneur	Do not prefer	Prefer serial entrepreneur	Do not prefer
	Investment patterns (% of investments)		Investment patterns (% of funds)	
Seed/start-up/early stage	0.18	0.17	0.16	0.15
Expansion/development	0.31	0.22	0.25	0.24
Management buy-out	0.26	0.36	0.35	0.42
Management buy-in	0.13	0.13	0.14	0.14
Secondary purchase/replacement	0.12	0.04	0.10	0.04
			T Ratio	Sig. Level
Age (years)	14.44	9.28	1.08	0.286
No. of investment executives	13.48	6.43	0.87	0.386

venture capitalists who responded to the questionnaire claimed that they carried out an evaluation of a manager's performance at the time they exited.

Screening of Serial Entrepreneurs

Propositions 1a and 1b deal with issues surrounding the screening and evaluation of entrepreneurs and differences according to the type of entrepreneur and the preferences of the venture capitalist. Evaluating Proposition 1a requires a comparison of two groups of venture capitalists across a set of screening criteria. Clearly, the criteria used in investment appraisal are not independent, and relationships between some, if not all, criteria would be expected. Consequently, simple univariate tests on each criterion would be inappropriate. Accordingly, a multivariate approach that accommodates the effects of interdependence between criteria was preferred. The first stage in this analysis was to subject both sets of investment appraisal factors to a principal components analysis to identify underlying dimensions/relationships between these factors. With respect to the general investment appraisal factors, the principal components analysis identified five factors accounting for 70% of the variance. A varimax rotation suggested that two factors were related to track record; one of these reflected ownership experience while the other represented management experience. The third factor was related to personal attributes such as age, knowledge, and family background. The fourth factor represented links to the funding institution, and the final factor (a single variable factor) concerned financial commitment. The principal components analysis for screening factors on management buy-ins produced a single factor comprising all variables. Thus, it was decided that this set of variables should be treated as measuring a single dimension.

The five investment appraisal factors and the one management buy-in screening factor were then subject to a multivariate analysis of variance (MANOVA), with preference for use of a serial entrepreneur as the independent variable. The results of these analyses are shown in Tables 6 and 7. Table 6 presents the results for general screening factors. In most instances, there is no evidence of any significant differences in the rating applied to each factor across the two groups of venture capitalists. However, in relation to previous ownership experience, there are some differences that might be considered marginally significant. As might be expected, previous ownership experience, length of

TABLE 6 Multivariate Analysis of Variance for Investment Appraisal Criteria

	Means tests				
	Prefer serial entrepreneur	Do not prefer	Multivariate F-ratio	Univariate F-ratio	Significance
Ownership			2.45	—	0.074
Previous ownership experience	2.85	2.14	—	2.48	0.098
Length of ownership career	2.58	1.79	—	4.09	0.048
Number of previous ventures	2.5	1.79	—	5.69	0.021
Management			1.10	—	0.340
Managerial experience	4.53	4.71	—	0.84	0.362
Managerial success	4.85	4.79	—	0.19	0.661
Personal background			1.07	—	0.389
Qualifications	2.53	2.86	—	1.10	0.297
Knowledge of industry	4.35	4.79	—	2.88	0.095
Stable family background	2.28	2.76	—	2.49	0.120
Age	2.78	3.07	—	1.18	0.281
Motivation	4.62	4.71	—	0.12	0.732
Institutional links			1.15	—	0.323
Level of funding sought	2.60	2.43	—	0.20	0.656
Previous relationship with manager	2.90	2.28	—	2.30	0.135
				0.43	0.67
Financial commitment*	3.80	3.93	—	0.43	0.67
N	40	14	—	—	—

*Reported test statistic is T-ratio because financial commitment is a univariate measure.

ownership career, and number of previous ventures all obtain significantly higher ratings from those venture capitalists who prefer to use serial entrepreneurs.

Table 7 presents the results for the analysis of management buy-in screening. The overall analysis suggests that there are no significant differences between the two groups, although there is some evidence to suggest a marginally significant difference in relation to the assessment of managers' contributions to target achievements, with those venture capitalists preferring to use serial entrepreneurs scoring this factor significantly higher than those who do not.

Thus, the evidence to support Proposition 1a appears weak. There is some tentative indication of a preference for the use of serial entrepreneurs among the older and larger

TABLE 7 Multivariate Analysis of Variance for Investment Appraisal Criteria

	Prefer serial entrepreneur	Do not prefer	Multivariate F-ratio	Univariate F-ratio	Significance
Screening for MBI			1.66	—	0.118
Years of management experience	3.40	3.57	—	0.15	0.702
Age	2.75	2.64	—	0.10	0.755
Personal ambition	3.87	3.86	—	0.00	0.969
Entreprenreur's desire for job security	2.15	1.86	—	0.71	0.402
Independence & motivation	3.05	2.93	—	0.10	0.758
Commercial awareness	4.02	3.92	—	0.05	0.824
Previous experience—similar site venture	3.43	3.21	—	0.29	0.592
Experience in sector	3.90	4.07	—	0.14	0.704
Achievement of targets in previous ventures	3.57	3.29	—	0.53	0.469
Manager contribution to target achievements	3.63	2.86	—	3.56	0.064
Experience as lead manager	3.38	2.79	—	1.91	0.172

less sanguine. Birley and Westhead (1994) found no evidence to suggest that new businesses established by habitual founders are particularly advantaged compared to their more inexperienced counterparts. Kolvereid and Bullvag (1993) examine differences between novice and experienced business founders where experienced entrepreneurs still own their original business. They are also unable to identify performance differences between the two types of entrepreneur. There are no indications from these studies that entrepreneurs in established subsequent ventures had been subject to scrutiny by venture capitalists as to previous experience and performance. The discussion relating to earlier propositions suggests that, in the case of serial entrepreneurs, during the screening process venture capitalists will need, and be more able, to satisfy themselves that experienced entrepreneurs still have the motivation to perform, and that experienced entrepreneurs will perform at least as well as they did before and at least as well as inexperienced entrepreneurs. Hence the following proposition is suggested:

> *Proposition 4*: Venture-backed serial entrepreneurs are expected to perform both at least as well as they did in their own first venture and as well as novice entrepreneurs.[3]

The following sections examine evidence on the extent and nature of investment in serial entrepreneurs by venture capitalists and seek to test the above propositions. Because little is yet known about the links between venture capitalists and serial entrepreneurs, we also place emphasis on basic information describing the phenomenon.

DATA AND METHODOLOGY

In order to assess the extent and nature of usage of serial entrepreneurs, data were collected by means of two postal questionnaires.[4] The first survey was carried out at the end of 1992 and beginning of 1993. A draft questionnaire was developed and subsequently piloted with a number of venture capitalists, advisors, and academics. The scales used in the questionnaire concerning the criteria used to assess entrepreneurs were developed from a review of the existing literature and from discussions with the main participants in the venture capital industry. Following analysis of the replies, modifications were made to the content and structure of the questionnaire.

The first questionnaire was mailed to the 113 institutions then listed as full members of the British Venture Capital Association. The questionnaires were sent to Chief Executives of the venture capital or senior colleagues with whom CMBOR has regular contact through its buy-out and buy-in surveys. Mailing of the questionnaires was undertaken in early December 1992. A follow-up reminder was sent in January 1993. In total, 55 completed and usable replies were received, representing a response rate of 48.7%. Ten respondents were CEO's, 22 were directors, and the remainder were assistant directors or equivalent. A further 13 replies were received with reasons for non-completion stated. These reasons generally related to the immaturity of a particular venture capitalist's portfolio, a deliberate policy not to answer questionnaires, or the fact that the com-

[3]An offsetting effect is that while an experience effect ought to exist and operate as in Proposition 4, there may be some regression to the mean whereby especially high performers revert to a more usual level of performance. Whereas the regression to the mean would benefit the worst performers (who would be likely to improve in their second try, even if experience taught them nothing), rather fewer of those failed entrepreneurs will receive venture capital the second time around. We are grateful to an anonymous reviewer for this point.

[4]Both instruments are available from the authors on request.

TABLE 3 Characteristics of Respondents and Non-Respondents

	No. investments per year	Value of investments (£m)	Age of venture capital firm (years)	No. of investment executives
Respondents:				
Mean	29.2	125.9	12.6	12.3
Std. dev.	135.0	334.7	11.7	30.0
Median	8	25.5	9.5	5.5
Nonrespondents:				
Mean	12.0	39.8	12.5	6.7
Std. dev.	16.9	59.6	10.2	4.6
Median	6.5	18.5	9.5	6.0

Note: n for respondents = 54; n for non-respondents = 42; t-test for differences between respondents and non-respondents were insignificant at conventional levels, except in respect of Value of Investments, where t = 1.85 (sig. at 7% level).

panies were no longer involved in venture capital. Comparative demographics of respondents and non-respondents are shown in Table 3 where data could be identified. The only significant difference between the respondents and non-respondents for whom data were available related to the total value of investments at cost.

Analysis of the responding institutions revealed that they covered a substantial proportion of the UK venture capital industry. Virtually all the principal and longest established venture capitalists in the UK had participated in the study. The venture capital firms in the sample had made 2,354 venture capital investments over the period 1990–92 worth over £3.5 billion.

A second questionnaire was specifically targeted at those venture capitalists who had experience of serial entrepreneurs as revealed by the first survey. The scales covered in this second questionnaire were derived from the existing literature relating to habitual entrepreneurship, notably Starr and Bygrave (1991), who suggest a number of positive and negative aspects of entrepreneurial experience. This questionnaire was piloted as for the first, and during this process considerable resistance to the provision of data on numbers and types of serial entrepreneurs funded by venture capitalists was identified. The problem essentially was due to the time involved in searching documentation for such information. As a result this question was dropped and accordingly we are unable to provide data on this aspect of serial entrepreneurs.

The second questionnaire was mailed to the 40 venture capitalists in the first sample who stated on the first questionnaire that they had either invested in an entrepreneur who had exited from their own and/or another venture capitalist's portfolio. This survey yielded 23 usable responses. Evidence from returned but uncompleted questionnaires and from the researchers' follow-up telephone contacts with potential respondents indicated that although these venture capitalists had experience with serial entrepreneurs they considered it to be too limited to draw general conclusions.

RESULTS

The initial discussion of results concentrates on providing a general overview of the nature of serial entrepreneurship as revealed by the two surveys. Thereafter, specific analysis is presented to address the propositions advanced earlier.

TABLE 8 Assessment of Serial and First Time Entrepreneurs Investment Potential

	Mean (serials)	Mean (first time)	T-Ratio	Sig
Achievement of sales/finance targets	3.85	4.05	1.12	0.27
Ability to meet timescales	3.53	3.71	1.20	0.23
Creation of commercial opportunities	3.85	3.69	−0.80	0.42
Leadership skills	4.18	4.31	0.77	0.44
Management skills	4.00	4.29	1.93	0.05
Financial commitment	3.40	3.38	−0.12	0.91
Enterprise driven	3.23	3.45	1.47	0.14
Financially driven	3.38	3.52	1.09	0.28
Ability to cope with venture stress	3.38	3.71	1.88	0.06
Time to exit	3.16	3.03	−1.02	0.31
Number of respondents		47		

venture capital organizations, but there is little evidence to suggest that this preference is then reflected in any substantive differences in investment appraisal across the two groups.

In order to analyze Proposition 1b, which suggests that venture capitalists place emphasis on different attributes of first time and serial entrepreneurs, respondents were asked to score 10 factors, derived from the existing literature, that may be important in assessing their investment potential. As Table 8 shows, there is a high degree of similarity in the ways in which the two types of entrepreneur are assessed, with only management skills and ability to cope with stress being identified as significantly more important in the assessment of first-time entrepreneurs than in the assessment of career entrepreneurs. In both cases, the three most important factors were leadership skills, management skills, and the achievement of sales/finance targets. For both types of entrepreneurs, time to exit was the least important factor. For first-time entrepreneurs, relatively more importance was placed on ability to cope with venture stress and being enterprise-driven than was the case for career entrepreneurs. Correspondingly, venture capitalists placed relatively more emphasis on the creation of commercial opportunities, an ability to meet timescales, being financially driven, and financial commitment for serial entrepreneurs.

This suggests that, as was the case with Proposition 1a, the evidence for Proposition 1b is weak; the weights associated with different screening criteria do not differ substantially between first-time and serial entrepreneurs, despite the potential for adverse selection problems to be lower for the latter group.

Assets and Liabilities of Serial Entrepreneurship

Proposition 2 concerns the extent to which venture capitalists weigh the assets and liabilities of serial entrepreneurship. Using a scale containing variables derived from Starr and Bygrave (1991) and responses from the second questionnaire, venture capitalists generally report that the previous entrepreneurial experience of serial entrepreneurs *in whom they have invested* is an asset rather than a liability (Table 9), with the ability to build on expertise in running an independent business and on reputation as a successful entrepreneur scoring particularly highly. Ability to identify business networks appropriate to a particular situation and ability to adapt expertise to new circumstances also score highly. The main factor relating to the negative aspects of previous experience

TABLE 9 View on Serial Entrepreneur's Initial Experience Brought to Second Venture

	Mean	SD	Median
Build on expertise in running an independent business	4.00	0.55	4.00
Ability to build on reputation as a successful entrepreneur	3.90	0.72	4.00
Ability to identify business networks appropriate to a particular situation	3.81	0.81	4.00
Able to adapt expertise to new circumstances	3.52	0.81	4.00
Fixation on repeating the same actions even though conditions may have changed	2.95	0.97	3.00
Unwillingness to take independent advice from investor	2.81	1.12	3.00
Reliance on network relationships which were successful in first venture	3.29	0.90	3.00
Overestimate their own contribution to the success of a venture: by refusing to delegate	2.86	0.91	3.00
Overestimate their own contribution to the success of a venture: by refusing to recruit experts	2.67	0.86	3.00
Unwillingness to maintain tight control on limited resources	2.43	0.81	2.00
Unable to recognise own limitations	3.33	1.03	3.00
Unwillingness to undertake important tasks which they now see as "beneath them"	2.71	0.90	2.00

Note: $n = 21$; Scores based on a range from 1 to 5, where 5 = strongly agree, to 1 = strongly disagree.

to score highly was that serial entrepreneurs were generally reported as being unable to recognize their own limitations. Reliance on networks that were successful in a first venture, which may be positive or negative, also scored reasonably highly. Note that these responses relate to serial entrepreneurs in whom venture capitalists had invested, suggesting an awareness by them of the positive and negative aspects of experience with those with negative attributes not receiving subsequent backing, an outcome that provides some evidence to support Proposition 2.

Recontracting Issues

Propositions 3a and 3b deal with the issue of recontracting and suggest that venture capitalists may be cautious about reinvesting in serial entrepreneurs as a consequence of the knowledge and experience of the negotiating process that those entrepreneurs have. Tentative support for Proposition 3a (entrepreneurs from the venture capitalists' own portfolio) is provided by the descriptive statistics presented earlier that reveal a low level of use of previously funded entrepreneurs. Indeed, where venture capitalists had made use of entrepreneurs whom they had previously backed, it was relatively unusual for them to be used as participants in buy-outs, buy-ins, or start-ups. The use made of entrepreneurs in management buy-outs, buy-ins, and BIMBOs accounted for only 2.6% of former lead entrepreneurs and 0.5% of other entrepreneurial team members. More in evidence was the role of the exiting entrepreneur in an informal or part-time context. Thus for both lead entrepreneurs and other members, the single most important area of subsequent involvement was in an informal advisory role. There was little evidence of any systematic variation in the use of previously funded entrepreneurs across different institutions. While generally the larger venture capital firms made more use of previously funded entrepreneurs (particularly in buy-outs and in the role of director), the observed differences were not statistically significant.

TABLE 10 Differences of Serial Entrepreneurs From First-Time Entrepreneurs in Negotiating Investments

	Mean	SD	Median
Able to forsee your negotiating techniques	4.41	0.73	5.00
Able to obtain higher equity stake	3.86	0.71	4.00
Unwilling to risk high proportion of personal wealth	3.72	0.88	4.00
Able to find other founders	4.14	0.64	4.00
Run an auction of other founders	3.36	0.85	3.00
Insist on the use of particular debt funder	3.09	0.87	3.00
Insist on veto of syndicate membership	3.27	0.83	3.00
Less reliant on other intermediaries	3.86	0.83	4.00
Insist on hands-off monitoring by the venture capitalist	2.86	0.89	3.00
Insist on greater say in timing and nature of exit	3.18	0.66	3.00
Understand the venture capital process better	4.50	0.60	5.00

Notes: $n = 22$; scores based on a range from 1 to 5, where 5 = more likely to be the case with serial entrepreneurs, to 1 = less likely to be the case with serial entrepreneurs.

Evidence for Proposition 3b is perhaps slightly weaker. Over 50% of respondents to the first survey indicated that they used entrepreneurs who had previously been funded by another venture capitalist; almost half of these entrepreneurs were funded for genuine serial entrepreneurship, that is, leading a buy-in, buy-out, or BIMBO. When compared to usage of entrepreneurs from the venture capitalists' own portfolio, there is evidence of a substantial difference, which would tend to suggest that venture capitalists see recontracting as less problematic with entrepreneurs previously funded by a different venture capitalist.

Further evidence for Proposition 3a and 3b comes from the second survey. Major differences between first-time and serial entrepreneurs in negotiations were identified and provide some support for the concerns venture capitalists were suggested to have about serial recontracting (Table 10). The ability of serial entrepreneurs to understand the venture capital process better received the highest score. Difficulties in negotiations were signaled by the ability of serial entrepreneurs to foresee the venture capitalists' negotiating techniques, their ability to find other funders, and their ability to obtain a higher equity stake, which were the second, third, and fourth highest scores, respectively. Other potential problem areas—such as running an auction of funders, insisting on a greater say in the timing and nature of exit, and vetoing syndicate membership—figured less highly, and insisting on hands-off monitoring scored lowest.

In cases where venture capitalists negotiated with experienced entrepreneurs who had exited from another venture capitalist's portfolio, there was little evidence to suggest a preference for this kind of individual, even though there seems to be a higher incidence of such investment (Table 11). There was no clear agreement with the view that an entrepreneur who was seeking to change venture capitalist is likely to be a potential problem and so there was need for great caution; nor was there clear agreement or disagreement that venture capitalists saw themselves as more able to negotiate acceptable terms with an entrepreneur in whom they had not invested before. Venture capitalists expressed some disagreement that they had had more suitable proposals from entrepreneurs who had exited from other venture capitalists' portfolios than from their own. Venture capitalists may or may not have considered investing in the individuals concerned the first time around and did not particularly take the view that entrepreneurs changing venture capitalist were demonstrating initiative that suggested that they were motivated to succeed in a second deal.

Thus, as was the case with the results of the first survey, the data from the second survey appears to provide some support for recontracting problems when venture capitalists deal with entrepreneurs from their own portfolios, but the extent of such difficulties seems rather less in the case of entrepreneurs from the portfolios of other venture capitalists.

Performance

Proposition 4 concerns performance and the extent to which serial entrepreneurs perform similarly or better when compared either with their first venture or with novice entrepreneurs. The results of the second survey suggest that in terms of performance in the second venture in comparison to that in the first, there was little evidence of much difference (Table 12). There was little indication that profit performance was better in the second than in the first or that sales growth was worse. However, venture capitalists scored their preparedness to support serial entrepreneurs in a third venture in the same capacity reasonably highly. Venture capitalists did not report serial entrepreneurs performing better than first-time entrepreneurs in whom they invested in the same period.

DISCUSSION AND CONCLUSIONS

The results of this study have implications for both academics and practitioners. The study suggests that the extent to which venture capitalists use previously funded entrepreneurs is relatively low compared to the number of investments harvested. This relatively low use of entrepreneurs in subsequent investments may be at least partially attributable to type of harvesting (e.g., entrepreneurs are more likely to leave their venture at the time of its sale to another company than at the time of an IPO); contractual arrangements made following the sale of a business between the selling entrepreneurs and the new owners (e.g., new management contracts, legal restraints on setting on competing businesses); the attitudes of entrepreneurs to being involved in second-

TABLE 11 Relative Advantages/Disadvantages of Experienced Entrepreneur who Has Exited from Another Venture Capitalist's Portfolio

	Mean	SD	Median
We feel better able to negotiate what we consider to be acceptable terms (equity stakes, exit horizons, etc.) with an entrepreneurwe have not invested in before.	3.00	0.67	3.00
An entrepreneur who is seeking to change venture capitalist is demonstrating initiative that suggests he or she has the motivation to do it again.	2.70	0.77	3.00
An entrepreneur who is seeking to change venture capitalist is likely to be a potential problem case, so we are very cautious.	3.17	0.72	3.00
We had considered investing in such a candidate(s) the first time around but had been unable to complete a deal.	2.70	0.66	3.00
We have so far had more suitable proposals from entrepreneurs who have exited from other venture capitalists' portfolios than our own.	2.32	1.09	2.00

Note: $n = 23$; Scores based on a range from 1 to 5, where 5 = strongly agree, to 1 = strongly disagree.

TABLE 12 Performance Rating of Serial Entrepreneurs in the Second Venture

	Mean	SD	Median
Their second venture has performed significantly better than their first in terms of sales growth.	2.90	0.57	3.00
Their second venture has performed significantly better than their first in terms of profits.	3.16	0.69	3.00
Their second venture has performed significantly better than budget.	3.21	0.63	3.00
Their performance has been significantly better than that of first-time entrepreneurs we invested in during the same period.	2.95	0.85	3.00
Exit has been achieved or is likely to be achieved in line with original intentions.	3.00	0.75	3.00
Overall performance has been such that we would be prepared to back them in a third venture in the same capacity.	3.53	0.96	4.00
Overall performance has been such that we would be prepared to back them in a third venture, but in a different role.	2.74	0.99	3.00

Note: $n = 19$; scores based on a range from 1 to 5, where 1 = strongly disagree, to 5 = strongly agree.

time ventures; and their assessment of the venture capital firm and process. Thus entrepreneurs who sell their business may retain a formal management position with the new owners or decide to pursue some totally different activity not involving a venture capitalist or wish to pursue a venture but with an alternative financing structure. Higher levels of personal wealth resulting from a successful sale of their first business may enable the second-time entrepreneur to avoid the use of venture capital finance in the initial stages of a second venture, although she or he may require such finance at a later point to fund growth, depending on the initial size and stage of the new venture. Additionally there may have been a significant change in the relative bargaining powers of the entrepreneur and venture capitalist that may make it more difficult for the venture capitalist to accept, for instance, the equity shares being demanded by the now financially wealthy second-time entrepreneur.

The results lend some support to the Starr and Bygrave (1991, 1992) observation about the assets and liabilities of experience. There was some concern on the part of venture capitalists as to whether exiting entrepreneurs can perform a second time either because they lose motivation or are unable to repeat the initial conditions. The study showed that in terms of appraisal of entrepreneurs, both in general and in respect of those experienced entrepreneurs exiting from initial investments, venture capitalists generally claimed to prefer to finance an entrepreneur who had played a major role in a previous venture. Multivariate analysis showed that previous ownership, length of entrepreneurial career, and number of previous ventures were rather more important for those venture capitalists who expressed a preference for serial entrepreneurs. Previous experience was viewed as being important in providing a track record, followed by demonstrated motivation. Some importance was attached to the view that experienced entrepreneurs were more likely to achieve success again, although this factor was not rated as highly as entrepreneurial ambition and motivation. Although previous ownership experience is of some importance, it is not in itself a critical factor, because indications are that venture capitalists will need to be satisfied that experienced entrepreneurs still have the motivation, ambition, and managerial skills to succeed in a subsequent venture. These points may be especially true of entrepreneurs exiting from a management buy-out, who typically may be reacting to the presentation of a one-off opportunity in the enterprise in which they find themselves. The views of those venture capitalists who had experience of serial entrepreneurs indicated a generally positive view of previous experience, apart from entrepreneurs' inability to recognize their own limitations. This suggests that venture capitalists have been careful about screening out those entrepreneurs who do not meet their criteria.

The effects of the extent and nature of scrutiny of experienced and novice entrepreneurs is reflected in the evidence relating to venture capitalists' perceptions of performance. While experienced entrepreneurs performed slightly better on average in their second ventures in terms of profits, it is less clear that they performed better than novice entrepreneurs in whom the venture capitalists invested during the same period. These findings are consistent with more general studies of habitual entrepreneurs by Birley and Westhead (1994) and Kolvereid and Bullvag (1993).

The use made of other venture capitalists' ex-entrepreneurs may reflect such factors as the ability of more seasoned entrepreneurs to purchase their finance in a more sophisticated way, the type of finance required, concerns over the way the harvesting process was managed, disputes over equity ratchets, or more fundamental problems in the personal relationship between the venture capitalist and the entrepreneur. The departing venture capitalist will also be more aware of the limitations of the entrepreneur that may not be so apparent to the new venture capitalist who will have been impressed by the track record. Additionally, the departing venture capitalist, through his or her personal experience with the entrepreneur, may make a different judgment from another venture capitalist about the abilities of the entrepreneur to move from, for example, a management buy-out to a management buy-in where different types of managerial and entrepreneurial skills are required. Nevertheless, the evidence implies that the lack of systematic follow-up of entrepreneurs backed by a venture capitalist may be presenting opportunities for competitor venture capital firms rather than allowing the original backer to generate new investments.

There was evidence from the follow-up survey that venture capitalists exercise caution when renegotiating with experienced entrepreneurs from their own portfolios, notably because of entrepreneurs' greater awareness of the venture capitalists' negotiating techniques, greater understanding of the process, and ability to obtain a higher stake. However, reasons for rejection appeared to be more related to the absence of a viable proposal or changes in investment criteria rather than unreasonable demands by entrepreneurs, but this also needs to be seen in terms of the changes over time in the type of deal sought by the venture capital firm and their targeted returns. Venture capitalists appeared to be more cautious than expected in negotiating and investing in entrepreneurs from other venture capitalists' portfolios.

To the extent that serial entrepreneurs are becoming more in evidence, further research may usefully be directed at consideration of the views of venture capitalists in relation to the characteristics and motivations of the entrepreneurs involved. Examination of issues concerning the processes by which entrepreneurs enter into subsequent ventures, from the perspective of the entrepreneurs, may help in understanding the phenomenon. These issues relate to consideration of whether entrepreneurs move directly to a subsequent venture or only arrive at it after a period of search or employment in a larger group. There is also a need to examine the nature of the serial entrepreneur's search process and, in order to counterbalance the views of venture capitalists, the extent to which and the reasons why serial entrepreneurs do or do not retain advisers and financiers who were involved in the initial ventures in subsequent ones.

In addition, although four broad categories of habitual entrepreneur were identified at the outset, this paper has only examined one subset. There would thus appear to be further scope for examination of the other types, comparison of the characteristics of the entrepreneurs involved, and analysis of their performance effects. One particular implication stems from the importance of venture capitalists in screening entrepreneurs prior to reinvestment with the aims of identifying cases where the assets of previous experience exceed the liabilities and of attempting to ensure that viable opportunities are funded. In the cases of multiple corporate entrepreneurship and portfolio entrepreneurship, there is a need to examine the existence and effectiveness of any parallel screening mechanisms. For example, in corporations one may envisage an analysis of the governance mechanisms (including incentive systems) applied when management undertakes repeat projects requiring entrepreneurial actions. In the case of portfolio entrepreneurs, there may be no independent screening of new projects where entrepreneurs are able to use the resources of the firm to finance new developments. A similar issue arises in the case of serial entrepreneurs who do not raise external finance in order to fund their subsequent ventures. Further comparative research of differences in performance of repeat projects undertaken where independent screening occurs, as documented in this paper, and in respect to the other cases shown in Table 1, where such screening may not be present or may take a different form, may provide useful insights for both researchers and practitioners.

The results of the study have a number of implications for practitioners. First, the findings emphasize the importance of not considering previous venture experience in isolation but in the context of other key investment variables. Second, the lack of strongly greater performance from serial, versus novice, entrepreneurs, which is consistent with that from other studies, further emphasizes the care to be taken in assessing experienced entrepreneurs. Third, the relatively low degree of formal and rigorous post-exit assessment and monitoring by venture capitalists suggests that they may be missing important opportunities to invest in experienced entrepreneurs.

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