PERFORMANCE ASPIRATIONS AND ENTREPRENEURIAL EXIT

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Socio-Economic models view aspiration levels as firm-constructs used to set goals based on their past performance and the performance of comparable firms (e.g. Simon, 1955). Research in psychology and organizational behavior conceptualizes aspiration levels as individual constructs shaped in comparison with a peer group (e.g. Greve, 2003; Festinger, 1949). This study aims to integrate these literatures by showing how the economic decisions of founder-manager entrepreneurs are determined by their economic performance relative to a level of aspiration shaped in interaction with similar others – individuals with comparable social background and education. Detailed matched employee-employer data are used to test the theory on a population of Swedish entrepreneurs. The results indicate that a individual-level aspirations strongly influences entrepreneurs’ decision to liquidate their firms in ways differentially from how it affects the decision to sell their firms, highlighting the role of aspiration levels as an decision making heuristic guiding the strategic economic decisions of entrepreneurs. The results are robust toward attempts to address unobserved heterogeneity.