

Previous Management Experience as a Determinant of Entrepreneurs' Business Performance: Evidence from a Developing Economy*

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Abstract

Following the logic of human capital theory, this study explores the significance of previous management experience on entrepreneurial performance. It refines and extends previous studies on the subject, as management experience is treated not only in a general sense (having vs. not having) but also structurally, by management levels and functional areas. The study finds a significant impact of previous management experience on entrepreneurial performance in a sample of entrepreneurs from the Republic of Serbia. Nevertheless, the study failed to support the assumption of the importance of the structure of the management experience for entrepreneurs' business performance. The results show that entrepreneurs with prior management experience achieve higher profits, regardless of the level and the functional area in which they gained that experience. The study complements the body of knowledge by providing evidence from a developing economy, and insight from an under-researched context.

Keywords: experience, management, entrepreneurs, performance, Serbia

JEL Codes: L26, L25, M10

Introduction

Established companies have requirements regarding their employees' previous experience and education, as they develop training programs to *standardize individual performance by standardizing experience* (Dyke/Fischer/Reuber 1992:72). There are no such requirements or training programs for entrepreneurs. The fact that entrepreneurs have different prior experiences raised the assumption that these differences partly determine the differences in their business performance.

Entrepreneurial performance is a multifaceted phenomenon generally considered to be determined by four groups of factors: human capital, social capital, financial capital, and a business's characteristics (Matsuda/Matsuo 2017). The experience that an entrepreneur gains before starting their own business is part of their human capital, a widely explored determinant of entrepreneurial business performance (Beckman/Burton/O'Reilly 2007; Storey 2007). Regardless of the type, experience is a way of acquiring knowledge, abilities, and skills (Li/Zhang 2007). As with education, experience is also about learning, although from a different *teacher* (Cuba/Denezo/Anish 1983). Experience is regarded as informal

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education that can help acquire so-called tacit knowledge (Davidsson/Benson 2003). The importance of experience is in the specific, practice-relevant skills that are acquired while performing a particular job. Moreover, experience facilitates judgment, including the ability to assess business opportunities. That is why it is fair to expect more experienced individuals to be more successful in choosing their business field, a prerequisite for business success (Cassar 2014).

In the entrepreneurial setting, there are two main streams in researching the importance of the experience; one focuses on the experience as a determinant of starting entrepreneurial activity, and the other explores the importance of experience for entrepreneurial performance. As for the latter research field, by reviewing 70 studies published between 1985 and 2017, Hanák (2018) finds that in most cases, the entrepreneur's experience has a positive impact on entrepreneurial performance. Nevertheless, the results are inconsistent due to significant differences in the impact's strength or direction. Therefore, this relationship has not been unambiguously explained yet, which calls for further research.

As a form of investment in human capital (Martin/McNally/Kay 2013; Bae/Qian/Miao/Fiet 2014), experience can be measured and expressed in several ways. The standard approach followed by entrepreneurial studies is to decompose the overall previous experience of an entrepreneur into work experience, industry-related experience, management experience, current, and prior entrepreneurial (ownership) experience (Huang/Mas-Tur/Hui Kuang Yu 2012). Given the complex nature of experience, it is vital to investigate how its different forms impact entrepreneurial performance (Cassar 2014; Hanák 2018). A form of experience that is a variable worth exploring is an entrepreneur's previous management experience. For example, out of 70 studies reviewed by Unger, Rauch, Frese and Rosenbusch (2011), 21 explore the effect of an entrepreneur's management experience on their entrepreneurial success. Following this research direction, the present study focuses on the entrepreneur's previous management experience as a determinant of their business performance.

Apart from being a variable in entrepreneurial research studies, an entrepreneur's experience is commonly evaluated by investors and is considered essential criteria for making financing decisions (Stuart/Abetti 1990; Dyke et al., 1992; Gimmon/Levie 2010; Maxwell/Jeffrey/Lévesque 2011). The common notion is that the greater the human capital, the better the access to financial resources. Colombo and Grilli (2005: 812) call this *the wealth effect*. As venture capitalists evaluate various personal characteristics of an entrepreneur when deciding whether to invest in a specific venture, many make these decisions on the assumption that experience contributes to entrepreneurial business performance (Beckman et al. 2007; Cassar 2014). Nevertheless, the question is whether the impact of previous experience on entrepreneurial performance is overestimated

or whether any usable knowledge is generated through experience (Unger et al. 2011; Martin et al. 2013; Hanák 2018). If experience-sourced knowledge exists, it still does not mean it can be transferred automatically and limitlessly between businesses and time (Hanák 2018). That raises the obvious question of whether an entrepreneur's previous experience should be considered a criterion for judging the future performance of their business or, whether it should be given much significance.

If previous management experience is important for entrepreneurial performance, then it is logical to suggest that a lacking it can undermine an entrepreneur's business success. If managerial knowledge and skills are important, but not gained through experience, then perhaps they can be acquired through entrepreneurial training and education, at least to some extent. Therefore, the studies investigating the importance of previous management experience for entrepreneurs' business performance can signal the need for specific entrepreneurial courses and training programs; and they can frame their content (Dyke et al. 1992).

Despite the relevance of including an entrepreneur's experience as a predictor variable, studies rooted in Western, developed economies dominate the field, so this is still an unexploited topic in developing and transitional economies (Li/Zhang 2007). As a developing and transition economy, Serbia is no exception to this rule. After industry-related experience, previous management experience is the most frequently studied type of experience as a determinant of entrepreneurial performance (Hanák 2018). However, experience in general, let alone previous management experience, is rarely a variable in studies on entrepreneurship in Serbia. A search for articles published in journals indexed in the WoS, Scopus, and SCIndex (Serbian Citation Index) reveals 72 papers containing the following searched terms: entrepreneur/entrepreneurship, experience, and Serbia¹. Nevertheless, after excluding papers containing only one of the searched terms and duplicates in the databases, a total of nine papers that treated an entrepreneur's experience as an independent variable were found. Of those nine papers, only one investigated how an entrepreneur's level of industry-related experience affects business failure. The rest of the papers explore the level of experience as a predictor of entrepreneurial intentions and gender-based differences in experience levels and types within a population of entrepreneurs. Clearly, this is an under-researched topic in the Serbian context, which underlines the significance of this study.

There is a consensus on the importance of researching previous business experience of entrepreneurs. It is important for the entrepreneurial intentions, their subsequent performance, the venture capitalists' decision-making, and the development of educational platforms for entrepreneurs. However, the current

1 The search was conducted in January 2022.

pool of knowledge on the topic is built predominantly on empirical evidence from developed countries. Working within the framework of the human capital theory, this study aims to explore the effects of entrepreneurs' previous management experience on their business ventures' performance. Acknowledging the importance of the experience variable and responding to the call to examine the impact of different forms of experience on entrepreneurial performance, this study is designed to answer two interconnected research questions: 1. Is an entrepreneur's previous general management experience a determinant of their business performance? and 2. Are there differences in the importance of various types of an entrepreneurs' previous management experience for their business performance?

The study provides the missing record that completes the human capital theory, by looking for answers in an under-researched context of a developing country. It further refines and extends previous studies on the subject, as entrepreneurs' previous management experience is treated in a general sense (having vs. not having) and structurally by management levels and functional areas where the experience is gained.

The structure of the paper is as follows: After discussing the theoretical framework for hypotheses development within the literature review section, the methodological aspects of the study are presented. The research results are presented and discussed in the third part of the paper, followed by concluding remarks, limitations of the study, and possible avenues for further research.

Literature Review and Hypotheses Development

The main logic underlining this study is the argument derived from human capital theory (Shultz 1961; Mincer 1974; Becker 1993), that the differences in entrepreneurial success can be explained by their human capital differences. Human capital consists of knowledge and skills acquired through schooling, on-the-job training and other types of experience, and it determines one's capabilities to do productive work. In the entrepreneurial domain, human capital is an individual's knowledge and skills generated in education and through experience, determining their ability to generate economic value. Investments in generating people's internal resources are investments in human capital, and should bring additional results. Thus, human capital represents an asset, so those with more (or of better quality) should expect a more favourable output. In entrepreneurial language, those with better human capital will be more successful in perceiving and exploiting profitable opportunities (Davidsson/Benson 2003). In their review study, which integrated 30 years of research on human capital impact on entrepreneurial success, Unger et al. (2011) determined a positive relationship between human capital and success.

From the human capital perspective, previous career experience is a form of human capital investment (Unger et al. 2011; Martin et al. 2013). What pre-hire experience is for individuals in the paid-employment sector, experience prior to starting a business is for entrepreneurs. As the workers' pre-hire experience is different from their post-hire and total experience (Van Iddekinge/Arnold/Frieder/Roth 2019), an entrepreneur's experience before their entrepreneurial activity differs from their post-entrepreneurial experience, which is why they should be researched separately.

One's previous experience is an important source of learning that affects their perceptions and actions (Dokko/Wilk/Rothbard 2009). These effects result from two interrelated phenomena: specific or task-related knowledge and mental models (Stone/Tudor 2005; Dokko et al. 2009). Specific knowledge is related to a particular environment and type of task, and it determines what an individual can do and how they conceptualize problems. Specific knowledge affects the results in performing the tasks related to the experience. Moreover, experience is a reference point for interpreting events. Elements of an event similar to prior experience are more pronounced (dominant in interpretation), leading to the problem being interpreted in a familiar framework. The other phenomenon refers to the mental models or frameworks where individuals understand the world around them. These models are based on previous experience, and they describe causal relationships between events, as well as individuals' assumptions about which behaviours are desirable.

As previous experience is a complex variable, various types of prior experience are studied in the context of entrepreneurial performance, such as general work experience, industry-related experience, management experience, and entrepreneurial (ownership) experience (Rauch/Rijsdijk 2011). Management experience is one of the forms of an entrepreneur's experience that is a possible determinant of entrepreneurial performance. Out of a total of 70 studies reviewed by Unger et al. (2011), 21 of them explore the effect of an entrepreneur's management experience on entrepreneurial success. Batjagral, Hitt, Tsui, Arregle, Webb, and Miller (2013), as well as Matsuda and Matsuo (2017), find that the time an entrepreneur spends in a managerial position before starting their own business has a positive impact on their entrepreneurial venture's performance. Similarly, Davidsson and Benson (2003) argue that an individual's previous management experience positively impacts the probability that they will profit as an entrepreneur. Examining the importance of different types of entrepreneurial experience for growth and profitability performance, Dyke et al. (1992) show that certain types of experience are generally significant across different industries and performance measures. This refers to industry-related and previous management experience, which are beneficial for different performance measures in different industries. In reviewing 13 studies that explore the importance of different aspects of entrepreneurs' human capital for their

business success, Gimmon and Levie (2010) show that five studies focus on management experience, three of which find a significant impact of this variable on attracting finances and venture survival.

Based on the previous, it is hypothesized that:

Hypothesis 1. An entrepreneur's previous management experience positively impacts the business performance of their entrepreneurial venture.

It is generally accepted that knowledge, skills and abilities are crucial for discovering and exploiting business opportunities. Nevertheless, it is important to explore what type of knowledge is useful for business success (Davidson/Benson 2003) because knowledge and skills gained through different kinds of work experience may not be equally useful (Dyke et al. 1992; Dokko et al. 2009). Hanák's (2018) review study finds that an entrepreneur's experience impacts entrepreneurial business performance, but when broken down, the impact intensity varies between different types of experience.

The present study builds on the human capital perspective by broadening the conceptual framework by acknowledging the importance of the structure of the experience (Beckman et al. 2007). Because prior professional careers of entrepreneurs can vary in breadth and depth, taking this fact into account results in a *more fine-grained* analysis (Gabrielsson/Politis 2012). Following this reasoning, Beckman et al. (2007) find that previous top management experience and functional diversity of the founding and management team's previous work experience is important for a start-up's performance. Stuart and Abetti (1990) conclude that the quality (level of management) and not the quantity (number of years) of the previous management experience is important for the growth and profitability measures of entrepreneurs' business performance. The previous is indirectly supported by Miloud, Aspelund, and Cabrol (2012), who find that venture capitalists place higher value on start-ups whose founders have previous top management experience.

While the importance of the level of management experience is examined (although rarely) as a predictor of entrepreneurial performance, the same does not hold for the functional area of management experience. For example, out of 23 studies from Hanák's (2018) review where management experience is an independent variable, in 16 of them the variable is operationalized as having/not having management experience, while the rest measure the length of the management experience in years. Similarly, 10 out of 21 studies on the significance of management experience for entrepreneurial success from Unger et al. (2011) review work with management experience as a dichotomous variable (having/not having), five measure the duration of management experience, four appreciate the management level and two consider the number of managerial positions. While the functional structure of management experience is not stud-

ied, various studies empirically test and prove the significance of different types of general previous functional experience for a business venture's performance. For example, Beckman et al. (2007) and Beckman and Burton (2008) find that the functional structure of previous experience is important for the business success of entrepreneurs. Similarly, Gabrielsson and Politis (2012) show that having previous experience in different functional areas contributes to the generation of business ideas. To fill this gap, the present study advances and explores one additional argument: the effect of the functional structure of management experience on entrepreneurial performance.

In line with the presented arguments, the second hypothesis is defined:

Hypothesis 2. The structure of an entrepreneur's previous management experience explains some of the entrepreneurial performance differences.

More specifically:

- H2a. Entrepreneurs with previous top management experience perform better than those with previous management experience acquired at lower managerial levels.*
- H2b. The nature of the relationship between the entrepreneurs' previous management experience and their business performance depends on the business function in which that experience was acquired.*

Research Methodology

Data and Sample

The Serbian Business Register Agency's database is used as a sample frame for randomly drawing sample units. A sample of 327 micro and small enterprises and individuals registered as entrepreneurs is obtained^{2,3}. An online survey with a closed-ended questionnaire is distributed via email and used to gather data on independent variables. The data on sample units' net profit is obtained from the Business Registers Agency's database.

One hundred and one completed questionnaires were received, for a response rate of 30.89%⁴. The realization rate of the online questionnaires ranges from 1 % to 30 % (Fox/Robinson/Boardley 1998; Aker/Kumar/Džej 2008). Therefore, the response rate obtained in this study can be considered acceptable. Though it may seem small, this sample is randomly drawn from the study population,

2 In the Serbian legal system, entrepreneurs are natural persons, while enterprises are legal entities.

3 In the Serbian legal system, micro and small businesses employ less than 50 persons.

4 Calculated as RR2 (American Association for Public Opinion Research 2016: 61).

increasing its statistical power (Omair 2014). The representativeness of the sample structure supports this. With 33.7 % of female and 66.3 % of male respondents, the gender structure of the sample corresponds to that analysed by Babović (2012) (Binomial test: $p=0.125$, 1-tailed) and by the National Agency for Regional Development (2013) (Binomial test: $p=0.464$, 1-tailed). As for the business industry, most businesses in the sample were in the service sector (79.2 %), which is comparable with the national-level data (Binomial test: $p=0.139$, 1-tailed) (Ministry of Economy of the Republic of Serbia 2020). In addition to being the owners, all respondents are also managers of their businesses⁵.

The missing data on the dependent variable (net profit)⁶ are handled following the guidelines suggested by Newman (2014). As this is a construct-level missingness and the percent of partial respondents is greater than 10 %, the maximum likelihood approach (the expectation-maximization (EM) algorithm) is chosen to resolve the missing data issue in this data set.

Variables and Methods

Dependent Variable

As entrepreneurship research primarily measures the organizational-level outcomes captured by financial indicators (Baron/Henry 2011), entrepreneurial business performance is measured by the average net profit realized in the three years preceding the field research. The profitability measures are commonly used in studies examining the effect of experience on entrepreneurial performance (Unger et al. 2011; Hanák 2018). This kind of global organizational performance measure is the most frequently used in studies examining the relationship between human capital and firm performance (Crook/Tood/Combs/Woehr 2011). As mentioned earlier, the Business Registers Agency's database is used to obtain the data on sample units' net profit.

⁵ In response to one of the questions in the questionnaire, respondents had to assess (on a five-point Likert scale) whether they take part in the strategic and operational management of their business. Both dimensions gained high scores (an average of 4.5 for strategic and 4.4 for operational management), indicating high managerial involvement of the entrepreneurs from the sample.

⁶ The sample included individuals officially registered as entrepreneurs who are not in the VAT system and who are not obliged to submit their financial statement to the Business Registers Agency. Therefore, for a number of entrepreneurs the Business Registers Agency does not provide the data on their net profit. In this case, all 15 respondents with the missing data explicitly refused to disclose the data on their financial performance.

Independent Variables

An individual's work experience is a complex variable, and there is no single approach in selecting its measure. Commonly used measures of work experience can be positioned along two dimensions: measurement mode (amount, time, and type) and level of specificity (task, job, and organizational) (Quiñones/Ford/Teachout 1995); or they can be seen as quantitative (amount or duration) and qualitative (type) measures of experience (Van Iddekinge et al. 2019). The present study measures the qualitative aspects of entrepreneurs' previous management experience; it uses measures referring to the type of previous management experience at the job level. By doing that, previous management experience is analysed along several dimensions, such as the occupation of previous work experience, the existence of prior management experience, the functional area, and the management level at which previous management experience is acquired.

Except for the dichotomous (yes/no) variable *existence of previous management experience*, all the other independent variables are categorical variables with multiple answer options (Table 1).

Table 1 Categorical independent variables

Variable	Levels
Occupation of the previous work experience ^a	Expert Administrative officer Worker <i>Manager</i> ^b
Level of management at which previous management experience was acquired	Operational management Middle management <i>Top management</i> ^b
Functional area of previous management experience	Production Finance Research and Development <i>Marketing</i> ^b Other

^a Categories of the occupation are defined according to the Serbian List of Occupation Codes (Government of the Republic of Serbia 2020)

^b Reference level of the independent variable

Control Variables

The study controls for the effects of several variables, including the following: the entrepreneurs' age and gender, the duration of the entrepreneurs' previous work experience, the industry in which the entrepreneurs are currently operating, the industry of their previous work experience, and the age of the business. The duration of the entrepreneurs' previous experience and the age of their businesses are measured in years, while other controls are dummy variables (Table 2).

Table 2 Control variables

Variable	Measure
Length of the previous work experience	Years
Age of the business	
Entrepreneur's gender	1: female; 0: male
Entrepreneur's age	1: up to 45 years; 0: more than 45 years
Industry of previous work experience	1: related to the industry of the current business; 0: not related to the industry of the current business
Industry of current business	1: production; 0: services

Methods

The data distribution is evaluated by *Shapiro-Wilk* test values, while the existence of atypical and extreme values is determined by visual evaluation of the box-plot diagrams. Since the data on *existence of previous management experience* have an asymmetric distribution (*Shapiro-Wilk* $p < 0.05$), a nonparametric *Mann-Whitney* test is used to compare differences in the net profit realized by entrepreneurs with and without previous management experience. Linear regression is used to determine the direction and intensity of the relationship between dependent and independent variables. Since the independent variables are categorical with multiple answer options, in order to perform the regression analysis, one level of the categorical variable is chosen as a reference level (these are marked italic in Table 1), while a dichotomous coding of the rest of the levels was performed (*dummy coding*). Each obtained dichotomous variable is considered a separate independent variable whose influence is evaluated relative to the selected reference category. In other words, a multiple regression analysis is performed to determine the extent to which the independent categorical variable's specific level affects the dependent variable's size (net profit) relative to the reference level of the independent variable being observed.

To check the methodological assumptions of the regression analysis, the existence of a linear relationship between the variables of the regression models is determined by visual insight into the scatter plot. The independence of the observations is examined by determining the *Durbin-Watson* test value (where the acceptable value of this indicator is the value ≈ 2). The assessment of heteroskedasticity is performed by visual insight into the scatter diagram of the relationship between standardized predicted values and standardized residuals. The existence of multicollinearity of variables was assessed by calculating the values of *Tolerance* (acceptable: $Tolerance > 0.10$) and *VIF* (acceptable: $VIF < 10$). The reference value for determining the leverage points is determined by $LEV > 0.20$ (there are leverage points), and the existence of influence values is assessed by *Cook's* distance (when $Cook > 1$, there are influence values). As

all the assumptions were met, the regression analysis results are presented and discussed further in the paper.

Results

Descriptive Statistics

Most of the respondents in the sample are male entrepreneurs (66.3 %) up to 45 years old (54.5 %) with previous work experience (82 %) of an average length of 9 years in an industry related to their current business (57.4 %). Most of the respondents currently operate in the service sector (79.2 %) owning businesses of an average age of 13 years.

Table 3 summarizes the descriptive statistics of the previous management experience of respondents. As data show, the dominant occupations for most entrepreneurs with working experience before starting their businesses are expert and manager, followed by worker and administrative officer. In the total sample, about 35 % of all the entrepreneurs have previous management experience, primarily at the operational level and in marketing.

Table 3 Descriptive statistics on previous management experience

	Number of answers	Relative share (%) ¹
		<i>Of those who had previous work experience²</i>
Occupation of the previous work experience		
Expert	25	30.12
Administrative officer	18	21.69
Worker	23	27.71
Manager	24 ³	28.91
Previous management experience		<i>Of all respondents</i>
Yes	35 ³	34.70
No	66	65.30
Level of management at which previous management experience was acquired		<i>Of those who had previous management experience²</i>
Operational	17	48.57
Middle	13	37.14
Top	8	22.86
Functional area of previous management experience		<i>Of those who had previous management experience²</i>
Production	9	25.71
Finance	7	20.00
Research & Development	2	5.71
Marketing	15	42.86
Other	6	17.14

¹Because of the multiple answer option, the sum may not be 100 %

²A total of 83 respondents have previous work experience

³The difference between the number of respondents who answered that their previous occupation was a manager (24) and those who answered that they have previous manage-

ment experience (35) is due to the fact that the first question implies a formal working title/occupation (according to the Occupational Code), while the second question refers to the performance of managerial tasks, regardless of the formal title of working position of the respondents. So, for example, one who is an expert by profession/occupation can perform senior management activities.

Regression Analysis

Table 4 shows the regression analysis results of the effects of prior management experience on the net profit of Serbian entrepreneurs. Based on the results, it can be concluded that the entrepreneur's previous experience gained in managerial positions is of the greatest importance for the average size of the net profit of their business venture. Regarding the reference occupation (manager), the lowest average value of the net profit is realized by owners who were employed as experts ($p=0.005$), followed by those who were workers before starting their own businesses ($p=0.006$), and finally by those who worked as administrative officers ($p=0.008$). The model, including the controls and the observed previous occupational experience as predictors, explains 19.6 % of the variation in the average size of net profit ($R^2=0.196$). The obtained regression model has good explanatory power since the independent variables statistically significantly affect the dependent variable ($F(9, 73)=1.973, p=0.05$).

Moreover, the significance of previous management experience is supported by comparing the difference in the dependent variable for two independent groups of entrepreneurs: those who have and those who do not have previous management experience. There is a statistically significant difference in the average size of the net profit of businesses whose owners have previous management experience and those whose owners started a business without this experience (*Mann-Whitney U*=965.00, $p=0.017$) in favour of the former. Therefore, the results support the first hypothesis.

While previous management experience significantly contributes to the realization of higher values of net profit, the influence of the management level at which this experience is gained is not statistically significant ($F(8, 26)=0.597, p=0.772$). However, it is interesting to note that, in relation to the reference value (top management level), the average value of the net profit is higher in the case of those businesses whose owners have gained management experience at the operational level. Nevertheless, the explanatory power of any of the management levels was not statistically significant ($p>0.05$). Thus, the first part of the second hypothesis is not supported. Similarly, the business function in which previous management experience is gained does not significantly affect the size of the net profit ($F(10, 25)=0.627, p=0.777$). The average size of operating profit is highest in businesses whose owners have previously gained management experience working in R&D, followed by those who have management experience in marketing (reference value), followed by those who performed management

tasks in another, not listed functional area, and then by entrepreneurs with previous management experience in finance. Finally, the lowest net profit level is recorded for those businesses whose owners were production managers. Nevertheless, these results are not statistically significant ($p>0.05$), and do not support the second part of the second hypothesis.

Table 4 Regression results on the impact of previous management experience on net profit

Variables	B	SE _B	β
<i>Occupation of the previous work experience</i>			
Constant	7945.14	5282.458	
Length of the previous work experience	-104.994	149.706	-0.091
Age of the business	122.264	151.214	0.103
Entrepreneur's gender	-18.292	2154.025	-0.001
Entrepreneur's age	1416.402	2400.798	0.080
Industry of the previous experience	-1298.564	2081.288	-0.069
Industry of the current business	2544.247	2503.251	0.118
Expert	-7501.447	2577.579	-0.397*
Administrative officer	-7748.743	2820.271	-0.368*
Worker	-7526.351	2634.216	-0.389*
<i>Variables</i>			
<i>Level of management at which previous management experience was acquired</i>			
Constant	-420.883	18517.807	
Length of the previous work experience	-347.744	401.511	-0.238
Age of the business	11.778	404.434	0.007
Entrepreneur's gender	5404.834	6827.948	0.159
Entrepreneur's age	308.630	7457.578	0.011
Industry of the previous experience	-2773.605	6014.711	-0.095
Industry of the current business	3851.078	7859.285	0.126
Middle	-1028.589	6535.179	-0.039
Operational	3095.542	6852.918	0.121
<i>Variables</i>			
<i>Functional area of previous management experience</i>			
Constant	11030.687	15753.872	
Length of the previous work experience	-326.582	413.682	-0.221
Age of the business	103.781	410.643	0.061
Entrepreneur's gender	1838.982	6692.027	0.054
Entrepreneur's age	-1587.424	7269.877	-0.060
Industry of the previous experience	-4184.829	6426.487	-0.137
Industry of the current business	4219.543	8096.819	0.139
Production	-6454.867	6080.457	-0.221
R&D	344.134	11327.366	0.006
Finance	-6684.895	6431.167	-0.209
Other	-4205.593	7272.559	-0.124

* $p<0.05$

B= unstandardized beta; SE_B=standard error for the unstandardized beta; β=standardized beta

Discussion

As hypothesized, results confirm that entrepreneurs' previous management experience is important for their business performance. The first hypothesis is validated in two ways. First, it is shown that having previous managerial experience leads to higher net profits later as an entrepreneur, relative to those entrepreneurs who worked as administrative officers, experts, or workers before starting their businesses. Second, when all respondents were split into two groups (having/not having previous management experience), results again showed that the businesses of those entrepreneurs with previous management experience were more profitable. These findings concur with studies that find a positive impact of an entrepreneur's previous management experience on their business success (Dyke et al. 1992; Davidsson/Benson 2003; Gimmon/Levie 2010; Batjagraj et al. 2013; Matsuda/Matsuo 2017).

These results can be interpreted in several ways. Entrepreneurship involves identifying and evaluating new business opportunities and acting in conditions of uncertainty (Knight 1964). The level of uncertainty is reduced by increasing the amount of information available and understanding the environment (Cassar 2014). As a previous career determines one's professional knowledge, perceptions, and actions (Dokko et al. 2009), it can help deal with the uncertainty surrounding the entrepreneur. Moreover, previously gained managerial competencies can help integrate and acquire new knowledge and adapt to new situations (Davidsson/Benson 2003; Li/Zhang 2007). Similarly, Stone and Tudor (2005) argue that managers will more easily learn how to perform new management tasks which are similar to those previously performed. Managers have a so-called dominant logic, which directs their actions and refers to thinking based on previous work experience. In line with these arguments, it seems that the knowledge, skills, and abilities that Serbian entrepreneurs gained working as managers before starting their businesses help them to manage their ventures profitably. Therefore, the study shows that management knowledge and skills accumulated through experience can be used in different environments or transferred between ventures and time.

The results may also support the argument that entrepreneurs with previous management experience have higher self-employment opportunity costs (lost incomes in the employed-for-salary sector) which is why they set higher profit and growth targets for their businesses (Lerner/Almor 2002; Storey 2010). Furthermore, these results can be regarded as empirical support for the venture capitalists' judgment, as Muzyka, Birley and Leleux (1996) find that venture capitalists attach the greatest relative importance to the managerial potential of an entrepreneur or of the founding team.

In line with Stone's and Tudor's (2005) and Dokko's et al. (2009) reasoning, the results show that entrepreneurs with previous management experience

gain specific management-related knowledge and skills. With this accumulated knowledge, entrepreneurs with previous management experience know *how* to manage their businesses, and they can also make managerial decisions *faster*, which is important for their business competitiveness in a modern dynamic environment. Moreover, the theory suggests that entrepreneurs with previous management experience may have managerial mental models. This means they can interpret business challenges they face in a managerial framework, enabling them to choose appropriate managerial responses (behaviour) to the challenge in question.

Although the significance of general previous management experience for entrepreneurial performance is confirmed, the hypothesis about the importance of the structure of this experience is rejected. The results suggest that entrepreneurs who have previous management experience will achieve higher profits, regardless of the business function or the hierarchical level at which this experience is acquired. As already mentioned, all the respondents from the sample are owners and managers of their businesses. They all have a significant role in strategic and operational management of their businesses across all functional areas. So, their current management practice includes all the hierarchical and functional aspects of management. It is logical to presume that in that kind of setting, an entrepreneur must be a *jack of all trades* (Lazear 2002: 27), and possess different skills and knowledge to successfully manage a business venture. In other words, they must be a *complete* manager and invest a range of skills in the venture (Beckman/Burton 2008).

In large enterprises it is common for a manager to be in a position matched to their previous functional experience, but in entrepreneurial ventures this match may or may not exist. Although there is a clear argument from the human capital perspective for a positive impact of experience on performance, it is unclear whether it is better to be a specialist or a generalist (Gabrielsson/Politis 2012). Specialist have *deep* work experience, which increases their capacity to process information in a specific area. This means that the specialist's experience allows them to focus on important dimensions within a specific area and to seek patterns. That leads to an increase of the specialist's intuitive thinking and faster decision making. On the other hand, a generalist has *broad* work experience. The combination of knowledge from different fields enables the generalist to identify new aspects and relations, which they could not perceive without their comprehensive viewpoint from their broad work experience. The results of the present study suggest that an entrepreneur should benefit from various functional and hierarchical management experiences equally. In a way, this study can support the findings that an entrepreneur should be multi-skilled with wide, rather than deep previous (in this case management) experience (Stone/Tudor 2005; Li/Zhang 2007; Gimmon/Levie 2010). Given the greater number of roles an entrepreneur needs to perform, they must have broader

human capital (Lazear 2002). Although they can hire different individuals for different tasks, the entrepreneur must have a sufficiently wide knowledge base to assess the competence of the engaged individuals.

The fact that the results fail to demonstrate a significant effect of the structure of previous management experience may also be interpreted in the strategic-choice context. That would mean that previous functional experience may be relevant for choosing a particular business strategy (Porter 1985), and not necessarily for the resulting business performance because they may be achieved by following different strategies. Finally, as entrepreneurs have an important role in their businesses' strategic and day-to-day management, their previous management experience gained at any level of the management structure is beneficial for their entrepreneurial success.

The present study suggests that in the management domain, it does not matter the *trade*, as long as the entrepreneur was a manager before. If all functional areas and all levels of management are equally important, then it is desirable that an entrepreneur was a *manager of any trade or any level* before starting their business.

Conclusions, Limitations, and Further Research

The hypotheses about the importance of prior management experience for entrepreneurial business success are developed within the human capital theory, which argues the importance of one's knowledge and skills for productive outcomes of their activities. As expected, the study confirms the positive effects of previous management experience on entrepreneurial business success. The results show that the businesses of entrepreneurs who have been managers before starting their own business are more profitable than those owned and managed by entrepreneurs without previous management experience. Nevertheless, the hypothesis about the importance of the structure of previous management experience is rejected, as the results failed to demonstrate a significant effect. Neither the functional area nor the hierarchical level of the management structure of the previous management experience explains the differences in the profitability of entrepreneurial ventures. All the functions studied (production, finance, research and development, marketing, other) and management levels (top, middle, operational) of an entrepreneur's previous management experience are equally important for their business profitability.

This study contributes to the theory and practice in at least two important ways. By working within the human capital theoretical framework, the study explores the significance of previous management experience on entrepreneurial performance, and it refines and extends previous studies on the subject as the management experience is treated in a general sense (having vs. not having), and also structurally, by levels and functional areas. Furthermore, this study

brings the evidence from insufficiently researched frameworks, such as developing and transition countries. The absence of evidence from different contexts can limit our understanding of a phenomenon, so this study complements the existing body of knowledge. This is significant because scientific conclusions and knowledge should be based on evidence from different environments. In Serbia, the entrepreneur's experience, both in general and by type, is an under-researched variable, especially as a predictor of entrepreneurial performance. To the best of the author's knowledge, there is no published scientific study on the importance of Serbian entrepreneur's prior management experience for their business performance.

This study indirectly supports the hypothesis of the importance of the breadth of human capital (in this case, experience). However, it does not directly explore the impact of the breadth of prior functional and hierarchical management experience. Apart from the general structure of management experience, further studies on the subject could be directed toward exploring the significance of the diversity of the entrepreneur's previous management experience. Therefore, the recommendation for further research is to examine whether, instead of a manager of *any* trade and level, it would be more accurate to say that individuals who were managers of *all* trades and levels before starting their own businesses are more successful later on as entrepreneurs.

Second, the study can help various subjects in making evidence-based decisions. Results suggest that an entrepreneur's previous management experience may predict the profitability of their business venture. This information can help investors better understand the importance of an entrepreneur's previous management experience when deciding whether to finance a venture. Furthermore, such results are important for the entrepreneurs themselves. Aware of the importance of the management experience for business success, entrepreneurs should be able to evaluate themselves and develop the experience they need, or to gain insight into how to make the best use of their experience (Dyke et al. 1992). The present study shows that for the profitability of the entrepreneurial venture, it is important to have management experience in general, regardless of the functional area or level at which it was acquired. That means that prospective entrepreneurs should not be discouraged if they do not have management experience in certain functions and management levels, as long they have some management experience. Finally, if there is the evidence supporting the assumption of the importance of management experience for entrepreneurial performance, then entrepreneurial training programs should offer practical management skills and knowledge to be effective. Building on the previous but within the research perspective, a possible question for further research is whether this empirically confirmed assumption about the impact of the previous management experience on entrepreneurial performance is acknowledged by decision-makers, especially within the under-researched contexts of developing and transition societies.

For example, certain studies find a gap between the criteria that should be used (as suggested by empirical evidence) and those that investors do use to evaluate entrepreneurial ventures, and that the *gut feel* is extensively used in evaluations (Miloud et al. 2012). So, it would be helpful to find out how much investors value the previous management experience of an entrepreneur, and how much practical management skills and applied knowledge are considered when designing various entrepreneurial training programs. Furthermore, it is vital to understand how important management experience is for building one's entrepreneurial self-efficacy and to what degree it influences entrepreneurial intentions.

Although with merits and contributions to the existing body of knowledge, the paper has limitations that can direct further research on the topic. First, although representative, the study is performed on a small sample of Serbian entrepreneurs. So, the presented results can be seen as preliminary ones, which call for further validation on larger samples. The study's overall results are partly determined by the measures used. For example, Crook et al. (2011) find that the relationship between firm performance and human capital is greater when operational performance is used (a measure of a specific value chain activity's performance) instead of a global performance measure (such is the case with present study). Also, Sturman's (2003) meta-analysis supports the argument that the relationship between job experience and performance is moderated by the type of performance measured. Similarly, different measures of management experience may generate different results (Quiñones et al. 1995). Therefore, changing the measure of the researched variables (entrepreneurs' business performance and previous management experience) may also increase the percentage of business performance variance explained, or change the nature of the results altogether. Finally, the paper's contribution is somewhat limited as the study does not eliminate possible alternative explanations for the findings which can be resolved by including additional control variables and/or mediators and moderators.

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