Abstract

What happens to top performing employees when they fail as entrepreneurs? Using a novel dataset of matched entrepreneurs and employees from Belgium, we document that, on average, entrepreneurs returning to wage work are penalized. However, the penalty is most pronounced for workers in the upper tail of the wage distribution - i.e. the stars - and absent for those who earned relatively little before entrepreneurship. Moreover, the wage loss is only present for entrepreneurs who exit quickly, suggesting a penalty for failure. Finally, moving to a large employer appears to mitigate the wage loss for stars. We propose that entrepreneurial failure signals increased uncertainty around stars’ future productivity. Employers respond to this higher hiring risk by discounting the offered wage.