

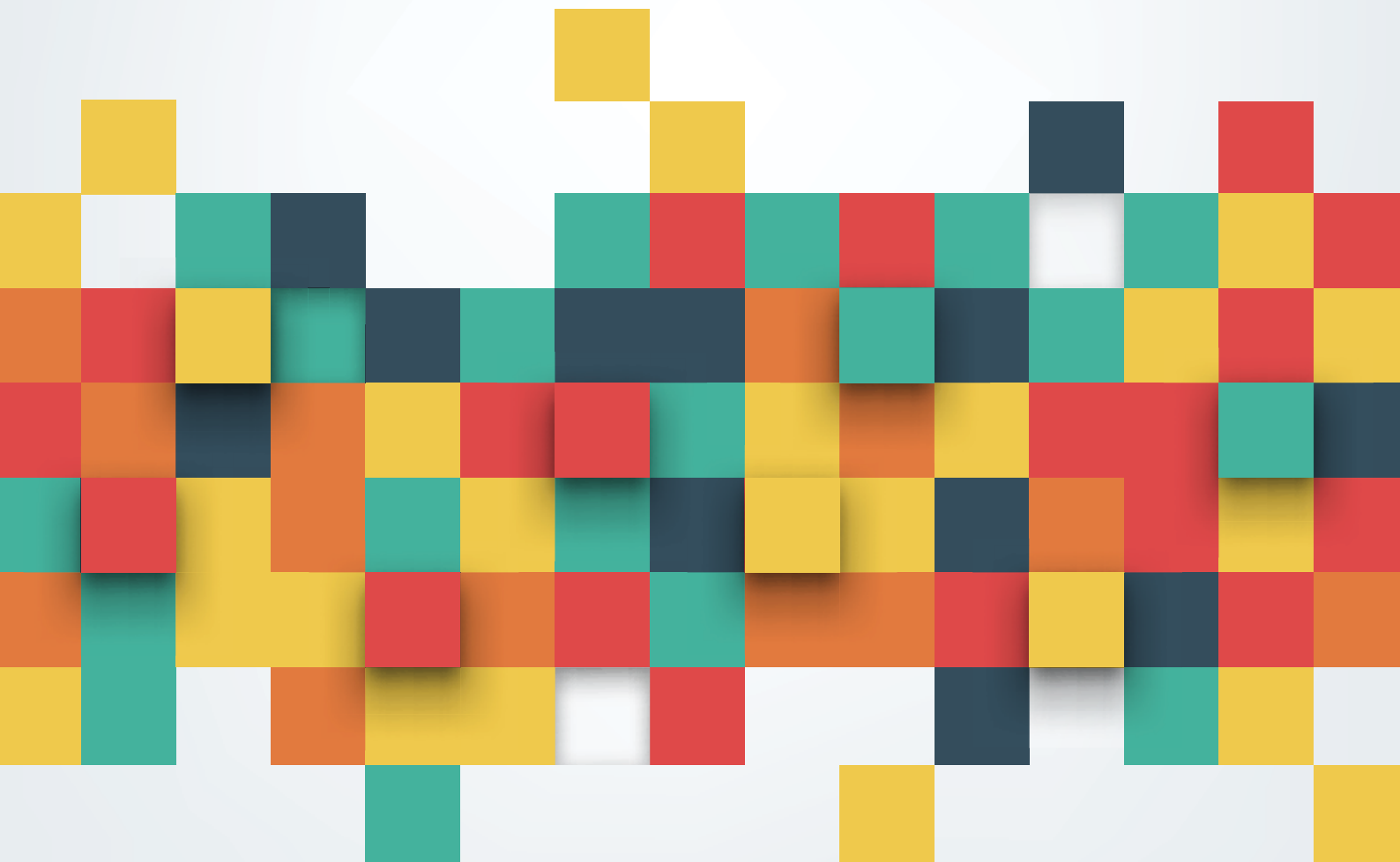
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DID YOU KNOW?

THE MYSTERY OF ENTREPRENEURSHIP



COLIBRILAW



When you think of entrepreneurs and entrepreneurship, the associations that likely spring to mind are public figures with a huge net worth, a dynamic lifestyle, a private jet, etc. Think Bill Gates, Mark Zuckerberg, Warren Buffet and the like. Indeed, self-created wealth based on innovation and persistence is inspiring. However, if entrepreneurship is likely to create a lot of wealth, why would anybody decide not to become an entrepreneur? Or is entrepreneurship not so profitable after all, if so many people prefer to find salaried jobs instead of launching their own businesses?

Economists have been asking these questions for a long time, and here we will examine their findings. Surprisingly, on average, entrepreneurs earn a lower income than their employed peers when adjusted for the risk they are taking¹. Additionally, entrepreneurs earn less than similarly skilled wage-earners². When it comes to financial decisions, most entrepreneurs seem to have under-diversified portfolios. In other words, they concentrate their wealth in their own private business to a larger extent than financial theory would recommend as sensible³. The natural questions therefore become: why do entrepreneurs become entrepreneurs, and what value is it that entrepreneurship offers and employment does not?

It turns out that entrepreneurs are peculiar animals whose attitudes distinguish them from their employed counterparts. First of all, entrepreneurs probably derive some nonpecuniary benefits from self-employment⁴. For example, they may enjoy taking risks or being their own boss. Secondly, entrepreneurs are generally overly optimistic about their entrepreneurial prospects and personal future wellbeing⁵.

Some interesting distinctions between the characteristics of entrepreneurs and wage earners have been identified in Russia⁶. There, entrepreneurs generally come from families that are already more well-educated and richer. Interestingly, Russian entrepreneurs are also almost twice as likely to have fathers that have been directors or bosses in the past.

Probably the most challenging question to answer with regard to entrepreneurship is whether entrepreneurs are born or made, i.e. is entrepreneurship a result of nature or nurture. Finding a definitive answer to this question is difficult for methodological reasons, as the decision to become an entrepreneur can be driven by individual factors as well as the environment in which the individual grows up. Modern research has attempted to use identical twins to estimate the likelihood of one twin becoming an entrepreneur being dependent on the other having chosen to do so as well. However, as the results thus far have been mixed, the mystery of entrepreneurship remains unsolved.



¹ Jorgensen (2002)

² Hamilton (2000)

³ Heaton and Lucas (2000), Moskowitz and Vissing Jorgensen (2002), Gentry and Hubbard (2004)

⁴ Benz and Frey (2004)

⁵ Coelho et al. (2004), Puri and Robinson (2013).

⁶ Djankov et al. (2005)

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