Working Paper | HBS Working Paper Series | 2011

Entrepreneurship and the Discipline of External Finance

by Ramana Nanda

Abstract

I confirm the finding that the propensity to start a new firm rises sharply among those in the top five percentiles of personal wealth. This pattern is more pronounced for entrants in less capital intensive sectors. Prior to entry, founders in this group earn about 6% less compared to those who stay in paid employment. Their firms are more likely to fail early and conditional on survival, less likely to be make money. This pattern is only true for the most-wealthy individuals, and is attenuated for wealthy individuals starting firms in capital intensive industries. Taken together, these findings suggest that the spike in entry at the top end of the wealth distribution is driven by low-ability individuals who can afford to start (and sometimes continue running) weaker firms because they do not face the discipline of external finance.

Keywords: Business Startups; Competency and Skills; Entrepreneurship; Financing and Loans; Personal Finance; Wealth;

Language: English Format: Print 36 pages Read Now

Citation:

Nanda, Ramana. "Entrepreneurship and the Discipline of External Finance." Harvard Business School Working Paper, No. 11-098, March 2011.

About the Author

Ramana Nanda
Sarofim-Rock Professor of Business Administration
Entrepreneurial Management