

An Empirical Microeconomic Study of the Entrepreneur

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Abstract

Entrepreneurs are an important segment of the economy, particularly in terms of economic development (Baumol, et al. 2007). However, the study of entrepreneurs and how they create firms is still an open question (Venkataraman 1998). In part, this question remains open as a result of the academic discussion about various definitions of entrepreneur and the identification of these individuals under each definition.

This dissertation uses the Panel Survey of Entrepreneurial Dynamics (PSED) to study two questions about nascent entrepreneurs. The first question is about the identity of these nascent entrepreneurs and if they differ from the self-employed. The second question examines what happens to these nascent entrepreneurs over their periods of firm formation, where they may either successfully begin an operating firm or choose to quit the effort at firm formation.

For the first question, a probability model of the decision to become an entrepreneur is analyzed. It is found that the self employed are, in fact, a different group than nascent entrepreneurs, although there are similarities. The differences between these groups dominate the similarities. The differences support the contention of entrepreneurship researchers, such as Aldrich (1990), that researching only the self-employed as entrepreneurs introduces selection bias in the study of entrepreneurship.

For the second question, a competing risks hazard model is used to estimate the effects of ability, optimism, resources, and management strategy on two possible outcomes for the nascent entrepreneur –successfully creating an operating firm or deciding instead to quit the effort. It is found that the nascent entrepreneur's ability, access to resources, and management strategy significantly affect the nascent entrepreneur's chances of getting a firm operational. However, only the self-employment status of the nascent entrepreneur has a significant effect on a nascent entrepreneur's decision to quit the effort of firm formation.