UNDERSTANDING THE ENTREPRENEUR: AN INDEX OF ENTREPRENEURIAL SUCCESS

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SUMMARY

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Principal Topic

A perplexing issue in entrepreneurship studies is what leads to successful entrepreneurship and determining the characteristics of successful entrepreneurs. Based upon a multidimensional model of the entrepreneurial firm, we obtain a quantitative index of success. These results improve our understanding of the entrepreneurial process and can be used to formulate public policies to increase the success rate for startups, thereby enhancing the dynamic efficiency of a market economy.

Method

The entrepreneurial firm is embedded in a probabilistic specification of the production process in which owners and total costs are transformed into revenue and revenue growth. Owner hours represent the extent to which owners are committed to the startup; total cost is a measure of the resources utilized; revenue captures the current success of the enterprise; while revenue growth is an indicator of future success. The evaluation of firm success is based upon dominance: a more successful firm is able to attain the same or more revenue and revenue growth with the same or less total cost and owner hours. The index is generated using the order-m frontier approach introduced by Daraio and Simar. The data are from the Kauffman Foundation Firm Survey for the years 2005 and 2006. The sample consists of 2864 firms that started business in 2004.

Results and Implications

For all firms in the sample, the mean index value is 0.60, with a standard deviation of 0.33, suggesting that the average firm is 60 percent successful compared to other firms, given total cost and owner hours. There is substantial room for improvement in startup performance. Based upon a comparison of mean performance between groups: firms owned by U.S. citizens (0.59) tend to be less efficient than firms owned by non-citizens (0.62); native born owners (0.58) tend to be less efficient than non-native born owners (0.60). The ethnic break breakdown is uniform with white owners, black owners, Asian owners, and Hispanic owners generating identical scores equal to 0.59. Firms that produce a product have a mean index value equal to 0.60; firms that produce a service have a mean index value equal to 0.59.

A nonparametric regression of the ratio of unconditional to conditional index values on first owner age and then owner work experience shows that the optimal owner age is 42 and the optimal work experience is 14 years.

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