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COULD IT BE TIME TO LEAVE YOUR SALARIED JOB? AN EXPERIMENTAL ANALYSIS OF ENTREPRENEUR'S TIME ALLOCATION UNDER RISK-RETURN TRADEOFFS (INTERACTIVE PAPER)

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INTERACTIVE PAPER

COULD IT BE TIME TO LEAVE YOUR SALARIED JOB? AN EXPERIMENTAL ANALYSIS OF ENTREPRENEUR'S TIME ALLOCATION UNDER RISK-RETURN TRADEOFFS

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Principal Topic

Back in 1995, Inc. 500 Magazine reported that the owners of America's 500 fastest growing private companies kept their wage jobs for an average of four months after the birth of their new venture. Using the words of Folta and colleagues, "hybrid entrepreneurship" is still today a reality, as many entrepreneurs initiate their enterprises while simultaneously working for wages. In the U.K., the number of individuals who divide their working time between self-employment and employment is larger than the number of "pure" entrepreneurs.

We propose how individuals should allocate their working time between the wage job and the new enterprise, and contrast these propositions with how individuals allocate, de facto, their time between these two activities. We use the relationship between the new enterprise's risk and return, and the relationship between the returns from both working activities, to derive the utility-maximizing number of hours to allocate to the enterprise and its sensitivity. The resulting prescriptions are then contrasted with behavioral hypotheses based on regulatory focus theory.

Method

We run two controlled experiments with entrepreneurs and non-entrepreneurs. In situations where the uncertainty surrounding the new enterprise increases (respectively decreases) with every hour in the enterprise, we test whether highly promotion-focused individuals work more (respectively fewer) hours than they should in the enterprise when compared to low promotion-focused individuals, and whether those with a high prevention focus work fewer (respectively more) hours as compared to individuals with a low prevention focus.

Results and Implications

We find significant differences between entrepreneurs and non-entrepreneurs. Entrepreneurs are more promotion-focused with their time allocations, which motivates them to strive more for gains than non-entrepreneurs who instead are more prevention-focused and hence motivated to avoid losses. Entrepreneurs and non-entrepreneurs with the same focus (promotion or prevention) also behave differently. Promotion-focused entrepreneurs take more risk than non-entrepreneurs (i.e., allocate more hours in the enterprise), although entrepreneurs with a low promotion focus are less risk taking than non-entrepreneurs with a low promotion focus. Similarly, prevention-focused entrepreneurs take less risk than non-entrepreneurs with the same focus, yet entrepreneurs with a low prevention focus are more risk taking than non-entrepreneurs.

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