Comments on “The Intangible Capital of Serial Entreprenurs” by Kathryn Shaw and Anders Sorensen

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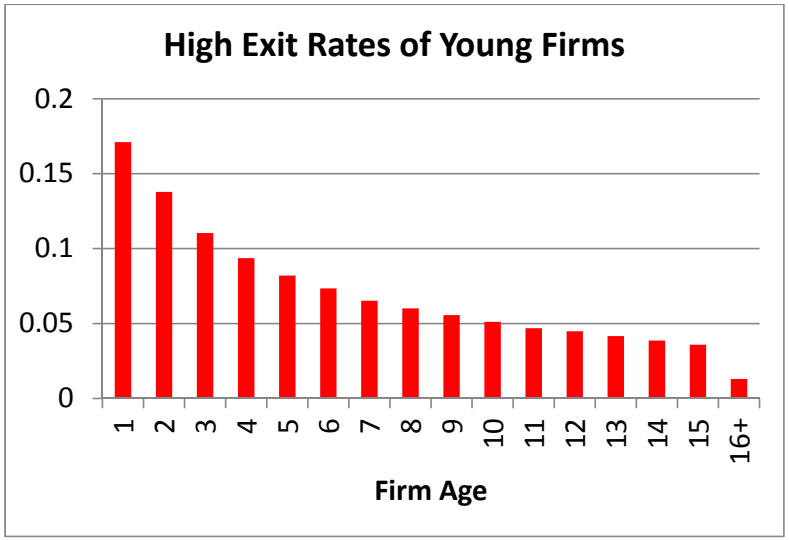
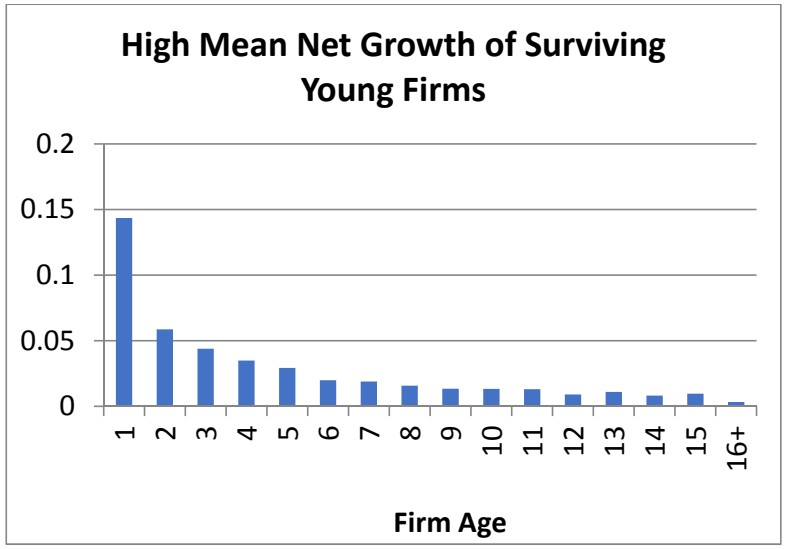
Overview

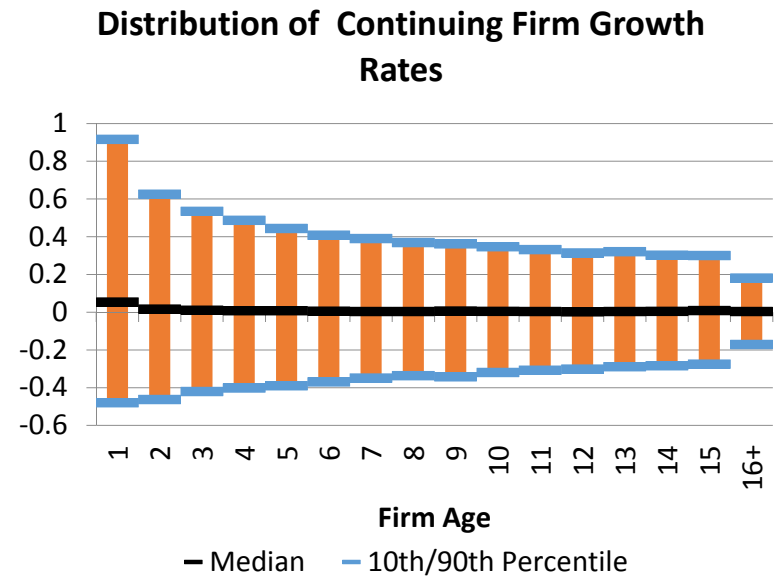
- Tremendous heterogeneity across entrepreneurs:
  - Disperse and skewed sales, employment and productivity
  - Most fail or don't grow – but a small fraction grow rapidly.
- We don't understand this heterogeneity very well:
  - Managerial/Entrepreneurial ability (Lucas (1978))
  - Stochastic realizations of productivity/demand (Jovanovic (1982) and Hopenhayn (1992))
    - Perhaps reflecting endogenous and heterogeneous investments in innovation and intangible capital as in Acemoglu et. al. (2013)
  - Non-pecuniary benefits vs. profit motive (Hurst and Pugsley, 2012 and 2016)
- Sorting all of this out is a challenge since ideally we want measures of outcomes of the business and the characteristics of the entrepreneur. Such integrated data are currently scarce.
- This paper takes advantage of very rich data from Denmark that integrates firm outcomes with characteristics of the entrepreneur
  - There are similar efforts ongoing in the U.S. but they are not as far advanced.
- Focus here is on one specific but closely related aspect of this heterogeneity:
  - Serial entrepreneurs and the hypotheses that such individuals either have more innate entrepreneurial/managerial ability and also they may accumulate knowledge capital (a form of intangible capital) through this process.

Key Results

- Serial entrepreneurs:
  - Out perform novice entrepreneurs in terms of sales, employment and productivity.
  - Performance gap grows with second business.
  - Gaps don't reflect within firm growth – indeed some evidence (not emphasized in Table 5) that within firm productivity growth is worse in serial entrepreneurs than novices.
  - Are much more likely to be LLCs than sole proprietors compared to novices
- Authors interpret this as higher innate ability and accumulation of intangible capital

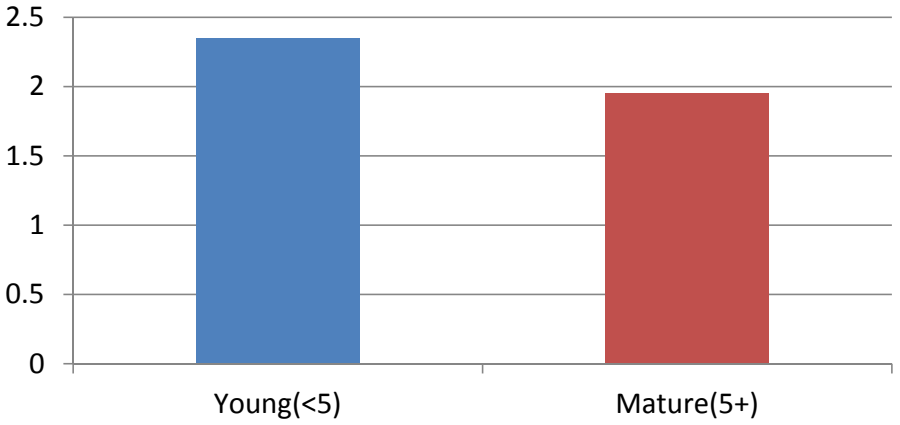




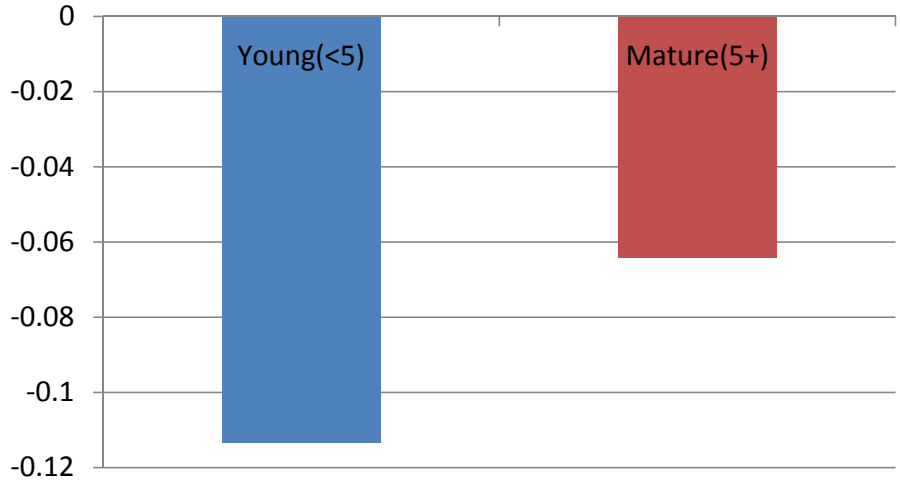


- **Strong "up-or-out" dynamics and high dispersion/skewness of young firms**
- **Skewness driven by more innovative sectors (e.g., High Tech) – High growth young firms much more likely in some Sectors.**

Within Industry Productivity Dispersion (90-10)

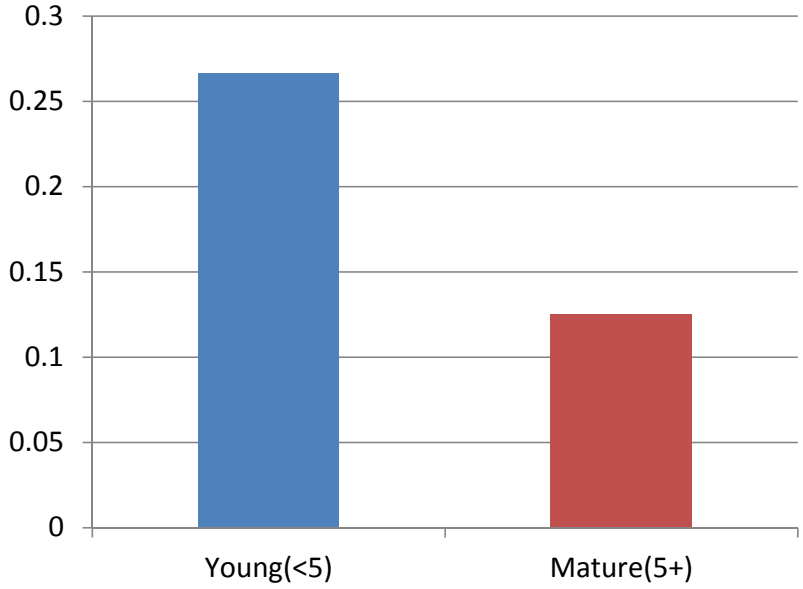


Marginal Effect of Productivity on Probability of Exit



Source: Decker et. al. (2016)

Difference in Probability of Exit between Firm at 90th and 10th Percentile of Within Industry Productivity Distribution



Comments

- What is the mechanism?
  - Need to incorporate and analyze selection/survival issues much more carefully:
    - In U.S. (and I presume Denmark) most young firms fail within the first five years.
    - In addition, it is the low productivity firms that are much more likely to fail.
    - Is selection driving the patterns? Serial entrepreneurs are more likely to shut down poorly performing firms? This may be another version of their innate ability hypothesis but acting in a different way.
  - Is it ability/intangible capital or is it access to credit markets? Do the serial entrprepreneurs have more experience/contacts/reputation/resources (e.g., collateral) with financial markets?
  - Does the results reflect Hurst and Pugsley differences in tastes (i.e., differences in non-pecuniary benefits)?
    - Sole prop vs. LLCs may be an indicator of this.

Other issues

- “Sole proprietors held by an individual who has already registered for taxable activities are excluded”.
  - Does this mean that the poorer performing (e.g, Hurst and Pugsley) serial entrepreneurs are excluded?
  - Should explore results controlling for legal form of organization.
- Investigate serial entrepreneurship and transformational/high growth entrepreneurs. For example, is the probability a firm is high growth greater if entrepreneur is serial entrepreneur? More generally, investigating the characterisitics of high growth/high impact entrepreneurs would be of great interest.
  - We know that it is these high growth/transformational entrepreneurs that contribute disproportionately to job creation and productivity growth.