

What Makes an Employer-Entrepreneur?*

Marco Caliendo
Potsdam University

Frank M. Fossen[†]
University of Nevada, Reno

Alexander S. Kritikos
DIW Berlin

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Abstract:

Why do increasing numbers of entrepreneurs remain solo while fewer of them start hiring employees and grow? And which characteristics help entrepreneurs to remain an employer? A better understanding of what makes an employer-entrepreneur is of high interest as the policy debate on entrepreneurship centers on start-ups that create jobs and have growth potential. Using the German Socio-economic Panel (SOEP), we analyze the full dynamics of transitions between the labor-market states of solo- and employer-entrepreneurship, paid employment and non-employment. We take into account personality traits and other individual characteristics influencing entrepreneurial choice. We distinguish between individuals who hire directly when they become entrepreneurs and those who become employers stepwise via initial solo-entrepreneurship, and we find important differences. Using various proxies for entrepreneurial abilities, we observe that those who have better abilities are more likely to hire immediately and also survive a longer time span as employer-entrepreneurs. In contrast, high levels of risk tolerance not only drive selection into but also out of employer-entrepreneurship. Overall, we reveal that personality traits matter more for survival than for the selection into employer-entrepreneurship.

JEL classification: J22, J23, L26.

Keywords: Employer, entrepreneurship, business creation, firm exit, personality

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[†] Corresponding author, address: University of Nevada, Reno, Department of Economics, 1664 N. Virginia Street, Reno, NV 89557-0030, U.S.A., email: ffossen@unr.edu.