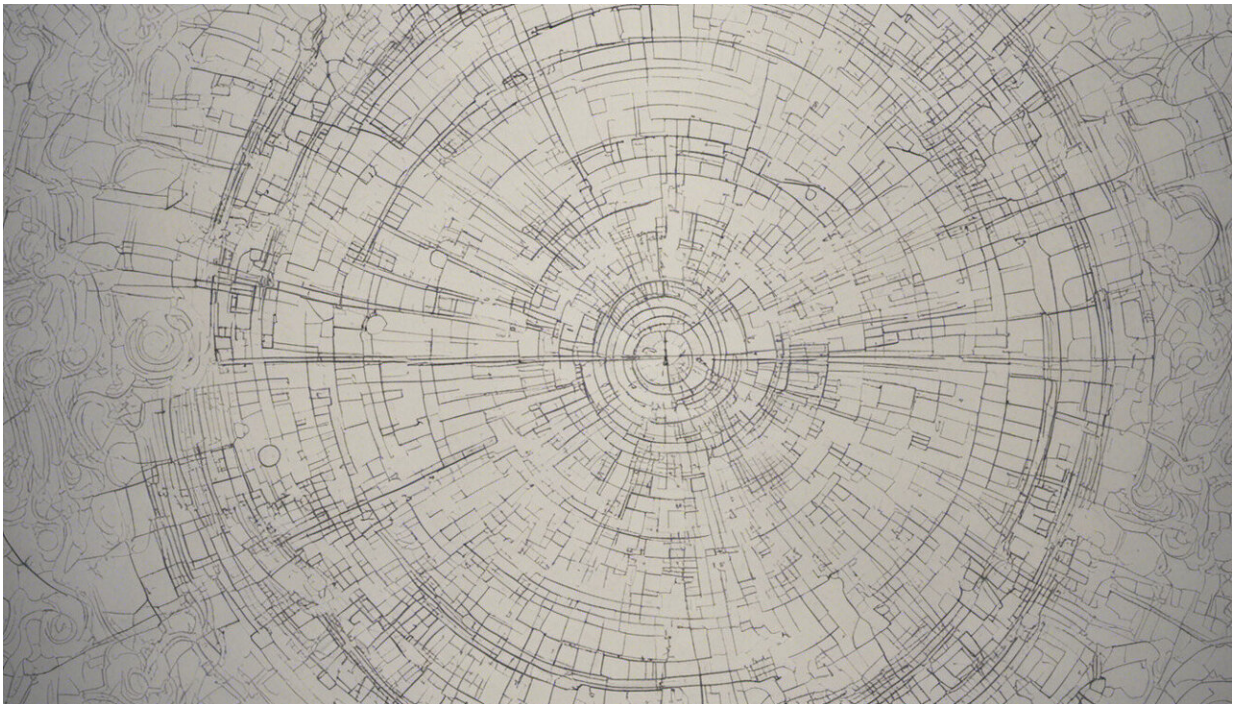


Entrepreneurship not quite as risky as it may seem, study finds

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Credit: AI-generated image ([disclaimer](#))

Becoming an entrepreneur is a rational decision—and failing doesn't hurt as badly as one might think, according to a new study from the Berkeley-Haas School of Business.

Tempted to launch a new business?

Entrepreneurs statistically fail more often than not, but new research suggests that the financial risk is not as great as previously thought, as failed entrepreneurs can return to the salaried workforce and recover their earnings quickly.

While prior research maintained that entrepreneurs bear more risk than salaried workers, Assoc. Prof. Gustavo Manso of the Haas Finance Group at UC Berkeley's Haas School of Business found that entrepreneurs receive comparable lifetime earnings when they return to a salaried position and, therefore, are exposed to less risk than previously thought.

And those who remain entrepreneurs earn substantially more than their less adventurous counterparts over time.

"Would-be entrepreneurs may think they have a huge chance of failure and will be sacrificing earnings for the rest of their lives, but it's not true," says Manso. "Even if the business fails, entrepreneurs don't suffer as much since they are able to quickly transition to the salaried workforce."

The findings can be found in Manso's working paper, [Experimentation and the Returns to Entrepreneurship](#).

Manso followed the careers of entrepreneurs over three decades, including both founders of innovative startups as well as [small business owners](#) such as restaurant owners—successful and unsuccessful.

He used the National Longitudinal Survey of Youth-1979 (NLSY79) to model entrepreneurship's return on investment, or ROI. He gained access to data on 12,686 young men and women who ranged in age from 14 to 22 years old when they were first surveyed in 1979.

The participants were interviewed annually through 1994—and continue to be interviewed every other year. The Longitudinal Survey also provided Manso with the participants' demographics, education, careers, and labor market traits.

The survey revealed that 52% of entrepreneurial endeavors last less than two years. Understandably, entrepreneurs who earned less while self-employed tended to abandon the solo route more often than those who earned more as entrepreneurs.

Over a lifetime, the [entrepreneurs](#) not only earn about 10% more but also do so with less risk than previously thought, according to Manso's research. "The study suggests that becoming an entrepreneur is a rational decision and failing isn't as bad as one would think," says Manso. "It doesn't hurt your lifetime prospects."

Provided by University of California - Berkeley

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