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Does Originating From A Wealthy Family Affect Entrepreneurial Performance? A Thesis Investigating Norwegian Entrepreneurial Businesses

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This master thesis presents the final submission of our time at BI Norwegian Business School, completing the Master of Science in Business program. The research we conducted on entrepreneurs in the Norwegian market has been illuminating. Writing this thesis has widened our understanding of certain conditions that favor entrepreneurship in Norway. Our research was conducted through a combination of in-depth interviews, data analysis and theories. We would like to thank several individuals for their help and support regarding our thesis. First and foremost, we would like to express our gratitude to our supervisor, Associate Professor Janis Berzins, at BI Norwegian Business School's Department of Finance, for his support and help throughout the thesis, as well as providing us with data. We would also like to thank the Centre for Corporate Governance Research at BI Norwegian Business School, for access to their database. Finally, we would like to extend our gratitude to all of our interview participants for giving us insight into their journey towards entrepreneurship.

ABSTRACT

In this paper, we delve into several questions regarding wealth and entrepreneurial performance in Norway. Specifically, we investigate whether or not entrepreneurs that originate from wealthy families perform better as entrepreneurs, than those that do not come from wealth. We utilize data from the Center of Corporate Governance Research at BI on Norwegian entrepreneurial firms from the period 2000 to 2015. We supplement the empirical research with several interviews with professional entrepreneurs.

Our analysis suggests that originating from a wealthy family increases firm performance. Entrepreneurship might therefore be more prosperous for wealthy individuals. By investigating firm performance during the financial crisis of 2008, we find that entrepreneurs originating from wealth have a higher firm-performance ratio than those that do not come from wealth, during economic disequilibria.

The qualitative analysis indicates that wealthy entrepreneurs have easier access to credit markets owing to recognition of their family surname or family assets. We further find that entrepreneurs that do not come from wealth have found ways to fund new companies without approaching formal credit institutions. This could suggest that entrepreneurs that are self-made might choose to enter less capital-intensive industries.

1.0 TOPIC MOTIVATION

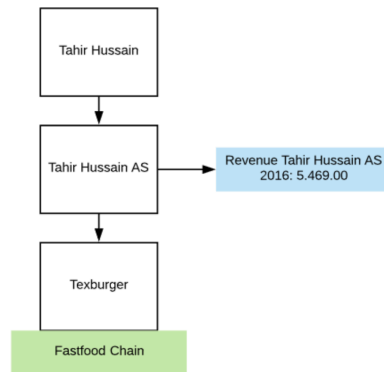
In recent decades, many Norwegian companies have enjoyed entrepreneurial success. Companies such as XXL ASA, Bremnes Seashore AS (Owner of Salma Laks), Norwegian Airlines and Chess are some of the well-known companies that make for interesting research topics. We have grown up hearing about these success stories, and later learned about them in lectures at BI. This motivated us to write about entrepreneurship in Norway.

We found the aspect of wealth on entrepreneurial activity alluring. For this reason, we chose to compare the firm performance of wealthy entrepreneurs against non-wealthy entrepreneurs in Norway.

Below, we have made several diagrams illustrating the firm network and family relations of successful entrepreneurs. We used Bizweb.no and Proff.no in order to extract information on firm network and family relation. In some cases the diagrams may be partly incomplete, as it proved too ambitious for the purpose of this thesis to access full disclosure on the families and their complete company/investment network. More maps are posted in **Appendix 1**.

Tahir Hussain is the founder and manager of Tex Burger AS, a fast food chain that sells burgers. He came to Norway in the 1960's, and considers the chain's prime location at Maritime, Oslo, his life work, with 23 million NOK in profits last year (Akersposten, 2017). He is considered an entrepreneur from the **non-wealthy** group.

Diagram 1.1: Tex Burger



Kjell Inge Røkke is considered an entrepreneur from the **non-wealthy** group. He started out as a fisher in Molde, a small town in rural Norway. After leaving for America in 1979 (Wikipedia, 2018), he bought his first fishing boat, which marked the start of his entrepreneurial career. In 2017, he was scored to be the 10th wealthiest man in Norway (Kapital, 2017). While the self-made man, Kjell Inge Røkke, is of the non-wealthy group, his offspring are considered to be in the wealthy group.

Diagram 1.2: Røkke Family Tree

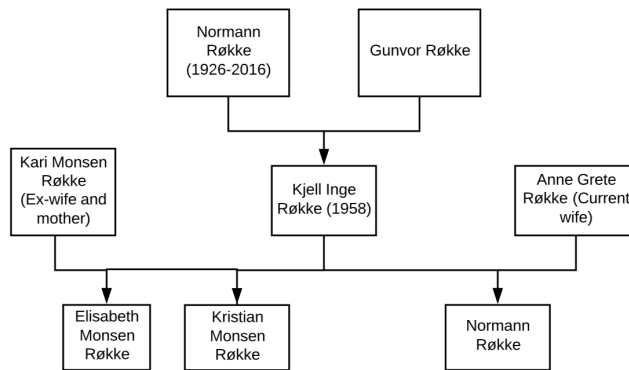
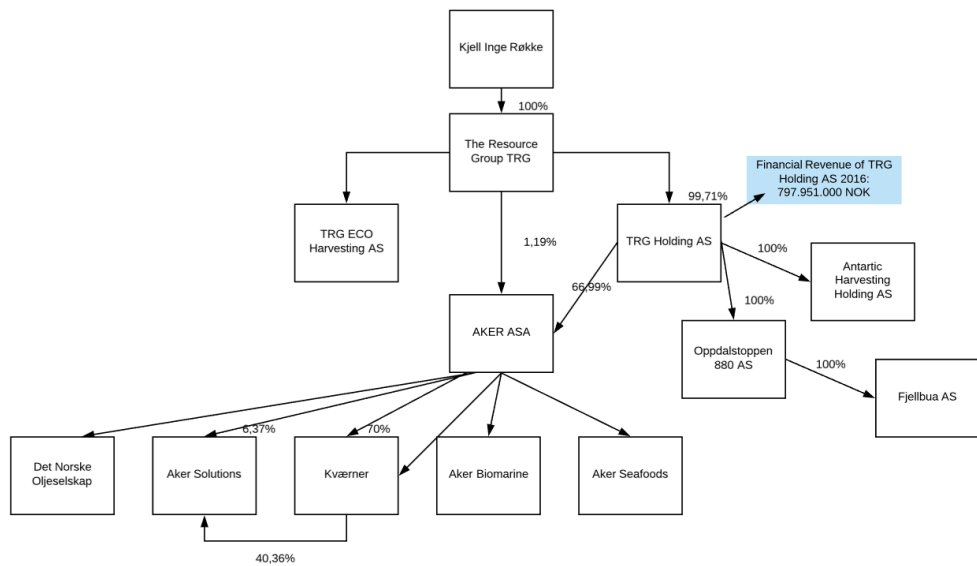


Diagram 1.3: Røkke Empire



Christian Ringnes Jr. is considered an entrepreneur that comes from a **wealthy** family. Although he started his entrepreneurial career as an App-designer for smart phones, without the help from his father (DN, 2014), he owns 30.77 percent of Ringnes Holding AS. The holding company had financial revenues of 290,401,000 NOK in 2016.

Diagram 1.4: Ringnes Family Tree

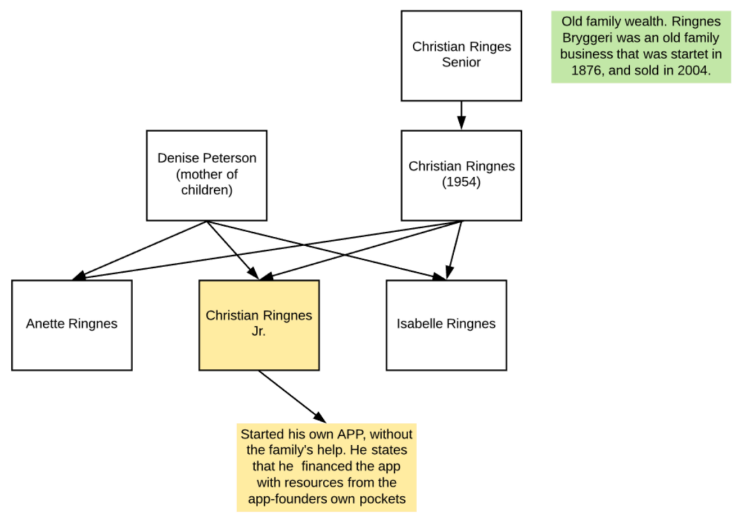
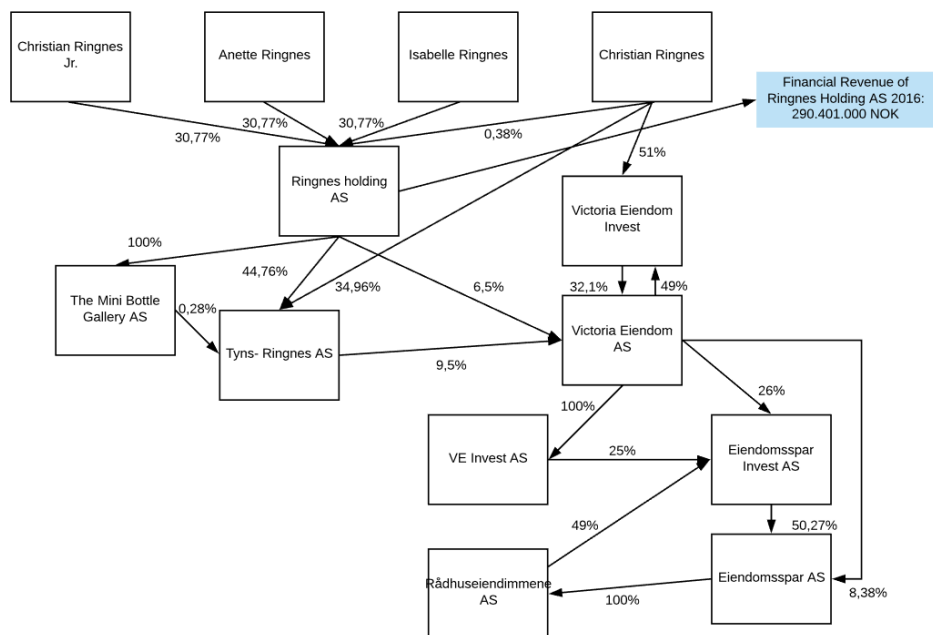


Diagram 1.5: Ringnes Empire



1.1 INTRODUCTION

The previous section shows the two types of entrepreneurs we investigate in this paper. We categorize them according to their family's wealth. The entrepreneurs that come from above the 70th percentile of the wealth distribution are considered the wealthy group. The entrepreneurs that come from below the 30th percentile of the wealth distribution are considered the non-wealthy group. Our wealth measure is based on the combined value of family assets of the entrepreneur. We are not able to disclose on specific families in Norway as represented in the diagrams. Instead, we use averages of the two groups to uncover whether one group's performance exceed the other. Entrepreneurial performance is measured by the company's return on assets.

The role of wealth on business *entry* has been investigated by several researchers before us (Schmalz et al. (2017); Hurst & Lusardi (2004); Rosen et al. (1994)). However, measuring the role of wealth on an already *established* business is the intent of this research paper.

Our results indicate that family wealth, in fact, does increase the performance ratio. Having a wealthy family increases return on assets by 8.52 percentage points. This effect is even greater if we only measure the top 5 percentiles against the bottom 5 percentiles of wealth. On a similar topic, Hurst and Lusardi (2004) found that the effect of parental wealth on entrepreneurial entry was only significant at the top 3 percentiles of wealth.

In economic crisis, we find that wealthy entrepreneurs have a higher performance ratio than the non-wealthy entrepreneurs. This gives further support to the effect family wealth has on firm performance.

Furthermore, we find that the three most capital-intensive industries in our sample are highly dominated by wealthy entrepreneurs. The less capital-intensive industries, such as services, have a clear dominance of non-wealthy entrepreneurs. This might indicate that wealthy entrepreneurs are more prone to start in industries where a substantial amount of starting capital is necessary.

The qualitative part of this thesis consists of interviews with seven successful entrepreneurs; two from the wealthy group and five from the non-wealthy group. Interestingly, their occupations follow the abovementioned finding. The wealthy entrepreneurs are both in industries that require substantial amount of capital; industrial industry and day trading. The non-wealthy entrepreneurs have mostly gone into businesses that offer a service, like private equity, law, or property management.

A striking finding in our thesis is that although entrepreneurial relationships suggest that the financial markets in Norway are fertile ground for entrepreneurial activity, the qualitative analysis suggests something else. We find that wealthy entrepreneurs have an easier time acquiring loans in banks due to their surname or assets they hold, while non-wealthy entrepreneurs state that they never approached a bank, or that it is quite difficult to receive loans. This gives weight to the liquidity constraint theory, which is explained in section 3. On a general basis, entrepreneurship seems to be generously rewarded in Norway, but even more so for people that come from a wealthy family.

The paper is organized as follows; in section 2 we review previous literature written on similar topics to our investigation. We then move on to relevant theories in section 3. In section 4, we present information about the Norwegian market for entrepreneurship. In section 5, we present the data, the data collection process, and the filtering and winsorizing process before moving on to descriptive statistics and multicollinearity tests. In section 6, we explain the methodology and justify choice of variables. Section 7 is a description of our model and regression. Section 8, presents the results from our empirical analysis, and section 9 presents a discussion of these findings. Section 10 includes our robustness tests, and section 11 describes additional tests we have performed. Section 12 takes on the qualitative analysis for this thesis. In section 13 thoughts for further research and limitations are provided. Finally, in section 14 we provide a conclusion.

2.0 LITERATURE REVIEW

2.1 Literature Review Related to the Quantitative Analysis and Qualitative Analysis.

Entrepreneurship is a luxury good: “When people are wealthy enough, they can afford to be their own bosses.” Schmalz et al. (2017)

Earlier research has been conducted on the effect of an individual becoming an entrepreneur given the parent’s occupation, the family wealth, or environmental factors. During 2010 Berglann et al. conducted a research on the origins and outcomes of entrepreneurship in Norway. They found that the transition rate into entrepreneurship tends to be positively correlated to the level of family wealth. A more recent finding by Schmalz et al. (2017) suggests that individuals who experience a wealth increase through inheritance are more likely to start a firm, but they may also have greater access to business opportunities for reasons unrelated to their wealth. Although, most of previous research has focused on wealth’s role for entering into entrepreneurship, we analyze the role wealth plays when an individual has already established a firm. Thus, we capture the effect wealth plays on the entrepreneur’s firm performance, not on the entry into entrepreneurship.

In 1994, Rosen, Joulfaian and Holtz-Eakin conducted research, finding significant proof of entrepreneurs remaining self-employed in cases when they received inheritance, rather than becoming a wage earner. Not only inheritance, but also access to liquid assets is positively correlated with and statistically significant for entrepreneurial performance. Liquid assets and inheritance can be interpreted as proxies for wealth, which they find to have a positive significant effect on entrepreneurial performance. This is in line with our findings. Using family assets as a proxy for family wealth, we find that wealthy entrepreneurs’ firms perform better than firms of non-wealthy entrepreneurs.

Hurst and Lusardi (2004) found that wealth appears to matter only for those households at the top of the wealth distribution. Having such rich parents increases the probability that the child will become a business owner by 7.2 percentage points over someone who has a parent with wealth in the bottom quintile of the parental wealth distribution. In the presence of liquidity constraints, wealth should matter more for starting a business that requires a large initial capital investment than for starting one that requires a small initial capital investment. In chapter 11.1 we analyze the top and bottom 5 percentiles of the wealth distribution and find that family wealth in fact increases firm performance by 41 percentage points.

In new business formations, liquidity constraints should bind, thus exclude less wealthy individuals from becoming entrepreneurs (Hurst & Pugsley, 2015). This would imply that entrepreneurship is a luxury good, limited to the wealthy. In 2004 Hurst & Lusardi (2004) found contradicting evidence of the liquidity constraints. Lending markets in the U.S. appeared to work sufficiently well at funneling funds to those households with worthy entrepreneurial projects. Our research on the Norwegian market seems to align with this. On the other hand, Gallo and Vilaseca (1996) suggested that financial intermediaries might analyze the personal wealth of the owner rather than the repayment capability of the firm when making a lending decision, thereby implying the importance of personal wealth. The qualitative analysis of this paper found proof of this. Although financial markets in Norway are efficient at funding good business ideas, the wealthy interview subjects stated that they had no problem accessing credit institutions, partly because of family reputation.

On the matter of how entrepreneurs actually finance their projects, Robb & Robinson (2012) found that the average amount of bank financing is seven times greater than the average amount of insider-financed debt. This indicates that most start-ups seem to rely heavily on external debt sources and less extensively on friends- and family based funding sources. Basu & Parker (2001) agreed on the importance of bank debt as a funding source for new businesses, but that it comes in second to self-financing. They found that the entrepreneur's own savings are

the single largest source of funds, and that loan from family members comes in third. The results from our qualitative analysis supports Basu & Parker's research. This proved true especially for the self-made entrepreneurs, where savings from previous jobs were an important source of capital.

Entrepreneurs that come from business-wealthy families do essentially come from "winners" in business. This might be a reason why they choose to be entrepreneurs themselves. This would give evidence of the "house-money-effect" in entrepreneurial succession, which forecasts that an individual is more prone to become an entrepreneur after experiencing profitable entrepreneurial activity before.

Natural benefits are usually common for the generation after business owners. They have both knowledge of, and kinship with, investors and capital institutions. While it is likely that parents could pass on relevant entrepreneurial skills to their children, it is also likely that children could inherit a taste for the entrepreneurial lifestyle (Nanda, 2007). This supports the assumption that individuals that come from wealth become entrepreneurs for non-pecuniary reasons, whether it is to prove or create something, follow in their father's footsteps or fame. Non-pecuniary benefits such as "being your own boss" and "flexibility" are reported to be primary reasons for starting one's own business (Hurst & Pugsley, 2001). This is even so when these entrepreneurs have lower initial earnings than that of employees with the same observed characteristics (Baton H. Hamilton, 2000). Results from our qualitative analysis support these findings.

Characteristics of those who are seen as entrepreneurs may not in fact be inherent qualities of entrepreneurs, but just reflect the specific characteristics that make an individual choose that occupation in a given environment (Banerjee and Newman, 1992). For example, one of our interviewees became an entrepreneur due to geographical relocation where there was a lack of workplaces offering jobs that specialized within his field.

2.2 The Gap in Literature

Despite the prevalence of profiled entrepreneurs in Norway, there has been little disclosure on the family wealth of an entrepreneur and the effect that it has on firm performance. Although Christian Ringnes and Petter Stordalen are both profiled individuals with extreme entrepreneurial wit, they had quite different economic starting points in their career. Ringnes Sr. came from a long-standing family business, Ringnes Bryggeri, while Stordalen worked his way up from being a strawberry seller on the main square in Porsgrunn. There are many factors affecting an entrepreneurial career choice and the performance of that career, such as wealth, education, family norms/culture, grooming and drive.

As we see from the literature review, there are contradicting empirical research around wealth and entrepreneurship, capital constraints and the circumstantial effects of becoming an entrepreneur. We analyzed aspects of entrepreneurship in the Norwegian market that earlier research has dedicated less attention to, namely if originating from wealth yields higher entrepreneurial performance, measured by firm performance.

We conducted this research by following our own curiosity and intuition. We have not chosen to replicate an existing study, but instead, created an independent study that drew inspiration from several research papers. For example, section 11.1, was inspired by Hurst and Lusardi's research paper; *Liquidity Constraints, Household Wealth and Entrepreneurship* (2004).

We have included a qualitative analysis in our paper in order to give depth to the topic in question. This part is especially interesting, as it provides insight from successful Norwegians entrepreneurs.

3.0 Theory and Hypothesis

3.1 Theory Related to The Quantitative Analysis

Wealth

We started this thesis reflecting on the assumption that entrepreneurs who come from wealthier families may be able to receive loans or financial support from their parents or extended family when pursuing entrepreneurial projects. Dunn & Holtz-Eakin (2000) stated that family credit markets might be a substitute for formal access to funds. If entrepreneurs cannot borrow to attain their profit-maximizing levels of capital, meaning that they are capital constrained, then those entrepreneurs who have substantial personal financial resources will be more successful than those who do not. Their enterprises are more likely to survive, and if they do survive, they perform better (Joulfaian and Holtz-Eakin, 1994).

In economic theory, entrepreneurship is a fundamental issue. Consequently, economists have conducted significant amounts of empirical research on the topic of entry into entrepreneurship. In Norway, it is fairly easy and inexpensive to establish a limited company (AS) or holding company. There are several programs and capital sources that are accessible for new businesses. The transition into entrepreneurship is therefore not as challenging as in many other countries. The financial market in Norway has the maturity and means for funding good business ideas.

The relationship between liquidity constraints and business formation is therefore not *as* interesting as the relationship between wealth and entrepreneurial performance.

Although wealthy individuals might have an easier time accessing funds, either through family or formal credit institutions, it does not mean that they have better entrepreneurial ideas. Andersen and Nielsen (2012) found evidence which implies that wealth is an important factor that can influence the probability of establishing a business, but not necessarily how well it performs. Coming from money, gives funds, but not necessarily ideas. A wealthy individual might run out of ideas before he runs out of funds. This gives wealthy individuals a longer lifeline,

because they could have a continued access to funding although performance is low. On the other hand, wealthy entrepreneurs are affected by the families in which they are brought up in, and the network of those families. They might receive advice in order to filter out bad entrepreneurial ideas and they most likely have had exposure to several good entrepreneurial endeavors in their social circles.

Non-wealthy entrepreneurs, however, might only invest in ideas they are certain will yield high performance. Although these are interesting aspects to discuss, we do not make any such assumptions regarding the people in our data or in our interviews.

Higher wealth is associated with having more assets, and thus might affect access to credit. Entrepreneurs with higher asset levels, tend to commit more capital to their businesses and consequently have higher entrepreneurial income. They might even enter industries that require higher starting capital, but that also are generously rewarded in cases of success. The higher the levels of assets are the higher the expected benefits of entrepreneurial activity will be (Joulfaian and Holtz-Eakin, 1994). Therefore, we expect higher performance for those entrepreneurs that come from family wealth versus those that are self-made.

***Hypothesis 1:** We expect a positive correlation between wealth and performance, that is, we expect the performance ratio to increase with wealth:*

H₀: Family Wealth regression coefficient = 0

H_A: Family Wealth regression coefficient > 0

Financial Crisis

“The Financial Crisis” was a global economic crisis that marked its presence when Lehman Brothers went bankrupt in September of 2008. Although Norway was not as severely affected as other European countries, the number of companies going bankrupt increased by over 100 percent from 2007 to 2009.

A research conducted by Magma (2012), showed that most Norwegian companies were first affected by the crisis during the fall of 2008 and the spring

of 2009. They also found that 68 percent of the Norwegian companies experienced a reduced demand for their products and services, but only 23,2 percent of the companies claimed that they had problems accessing credit. The fall in demand caused internal funds to be lowered. Reduced access to credit was a result of banks being unwilling to grant further loans due to existing high levels of debt.

Furthermore, companies with more debt than their competitors faced serious conditions faster.

One question we wished to investigate in this thesis was; did the companies of entrepreneurs that come from wealth perform better than the companies of those whom did not come from wealth, during the financial crisis? We constructed a model where the main purpose was to check this relationship. This model included a dummy variable for the financial crisis of 2008 to 2010, in addition to an interaction variable of the financial crisis and wealth, and an interaction variable of the financial crisis and leverage. We expected that during the financial crisis, overall, firm performance decreased. Furthermore, we expect that having leverage during this time period, contributed to reduced performance. We expect that wealthy entrepreneur's businesses had a higher performance ratio during this period, than those of non-wealth.

Hypothesis 2: *We expect that the financial crisis affected performance negatively. That is, we expect the financial crisis variable to have a negative coefficient:*

H0: Financial Crisis regression coefficient = 0

HA: Financial Crisis regression coefficient < 0

Hypothesis 3: *We expect that the interaction variable of financial crisis and leverage to have a negative coefficient. That is, we expect the performance ratio to decrease with higher leverage during the financial crisis:*

*H0: Financial Crisis * Leverage regression coefficient = 0*

*HA: Financial Crisis * Leverage regression coefficient < 0*

Hypothesis 4: *We expect that the interaction variable of financial crisis and wealth to have a positive coefficient. That is, we expect the performance ratio to increase with higher levels of wealth during the financial crisis:*

*H0: Financial Crisis * Wealth regression coefficient = 0*

*HA: Financial Crisis * Wealth regression coefficient > 0*

3.2 Theory Related to The Qualitative Analysis

Risk Aversion

As suggested by Hurst & Lusardi (2004), wealthy entrepreneurs might have lower absolute risk aversion, making them more likely to become entrepreneurs. The reason being that they have a financial safety net, which will catch them should the entrepreneurial project go wrong. Furthermore, they have access to funding that does not entail “payback” commitments. A similar statement by Berglann et al. (2010) suggest that wealth may decrease absolute risk aversion, as the earnings of other household members provide insurance against failed entrepreneurship.

It is also interesting to consider the risk taking behavior of individuals that receive windfall wealth, such as lottery winners. An experiment conducted by Hvide and Lee (2016), found that windfall gains lead to more risky and less patient choices than money earned through manual labor. This indicates that people, who have easy access to money, are not as careful in their spending of that money. This might lead them to pursue entrepreneurial ideas that are not profitable in the long run.

We will examine how risk aversion differs between the entrepreneurs that come from wealth and those that do not come from wealth in the qualitative part of the thesis. In the interviews, we ask about the risks the interview subjects faced when entering into entrepreneurship, and attitudes towards these risks.

Overconfidence

Pikulina et al. (2017) define overconfidence to be *when subjects assess their ability, achievements, level of control, or probability of success to be higher than they actually are, meaning that subjects overestimate their skills relative to others*. This might therefore lead to excessive business entry. Not only do individuals overestimate their own abilities, they also forget to take into account their competitors who possess the same cognitive bias. This again can be defined as reference group neglect (Camerer and Lovallo, 1999). Research conducted by Cooper et al. (1988), showed that like all other individuals, entrepreneurs are likely to suffer from cognitive bias. They documented interviews with roughly 3,000 participants where 81 percent of the entrepreneurs estimated their own chance of success to be 70 percent or higher. Furthermore, 33 percent believed their probability of success to be 100 percent. Considering the high probabilities of failure, evidence suggests that new business owners might be overconfident when assessing their own skills.

The interviews shed light on this matter, as we specifically asked our interview subjects about their beliefs regarding the qualities they embody and how these qualities enabled them to succeed. We also asked why they dared to bet on themselves as entrepreneurs.

Entrepreneurial Characteristics

Viinikainen et al. (2017) define entrepreneurial capital as financial, social and human capital. As no human is identical, the range of differences in entrepreneurial capital is extensive. Consequently, this leads to a large degree of variation in entrepreneurial success. For example, human capital refers to the personality characteristics of an individual. This entails motivations, intentions, productivity, agency creativity and work ethic, which affect their entrepreneurial ability.

Entrepreneurs have been characterized as individuals who detect and exploit opportunities, and make rapid decisions under uncertainty (Viinikainen et al., 2017)

Entrepreneurial characteristics might also be something that comes with age, inspired by someone close. Lafèrre (2001) found that the probability to become self-employed is 1.5 times higher for a son of a self-employed father than for a son of a wage worker. Family environment seems therefore to be of great importance for transition into entrepreneurship.

What are then the traits of successful entrepreneurs in their own opinion? We constructed a qualitative interview which aimed at revealing what successful entrepreneurs themselves believe are essential qualities in succeeding as an entrepreneur.

The Entrepreneurship Earnings Puzzle

Pecuniary benefits of entrepreneurship are low. Because of this, it makes little sense that individuals would pursue a career in which they earn less than as a wage worker. This is *The Entrepreneurship Earnings Puzzle*.

Hamilton (2000) found that individuals are willing to relinquish higher earnings if it means remaining self-employed. This gives proof to the non-pecuniary benefits outweighing the pecuniary benefits of entrepreneurship. Despite this, Berglann et al. (2010) found that entrepreneurship in Norway tends to be rather generously rewarded. Even in the high-risk-economic environment, the upside is larger than the downside. Contradicting the findings of Berglann et al., Statistisk Sentralbyrå analyzed the Norwegian employed population from 2001-2011, and found that the average return on entrepreneurship was negative (SSB, 07.05.18).

In order to understand why individuals pursue a career as entrepreneurs, one has to consider the non-pecuniary benefits, genetic and environmental factors, or cognitive biases such as overconfidence, and wage expectations.

We asked our interview subjects whether or not they were driven by the thought of earning more, or if there were other aspects of the entrepreneurial lifestyle that enticed them to enter that career.

4.0 The Norwegian Market and Entrepreneurship

In this section, we wish to give the reader a clear image of the entrepreneurship ambience in Norway. We convey information stated in the Global Entrepreneurship Monitoring report, which was created to compare entrepreneurial activity across the world and includes conditions that must be present for entrepreneurship to thrive.

4.1 The Global Entrepreneurship Monitoring (GEM) report of 2014

The report from 2014, is the latest dated rapport made by GEM. At that time, only 5,7 percent of adults in Norway were involved in a newly established firm. In terms of entrepreneurship culture, Norway scored well. There were many (83 percent of the sample in Norway) who believed that successful entrepreneurs have high status in Norway, and entrepreneurship is considered a good career choice among a majority of the population. Although this indicated high appreciation for entrepreneurship, some also expressed concerns that the fear of failure stops them from even trying to become entrepreneurs (33 percent, in 2014).

Financial conditions in a country must be adequate in order for entrepreneurs to obtain capital financing for their projects. Furthermore, political priorities, taxes and fees could work as either discouragement or incentives for entrepreneurship. In Norway, there are several programs and capital sources that are accessible for new businesses, see **Appendix 2** for complete list.

This evaluation of entrepreneurial conditions and atmosphere in Norway indicates that it is quite possible to obtain financial aid and capital when starting one's own business. There are of course advantages and disadvantages with being able to evade the capital markets and financial aid institutions, provided that you have a wealthy network from which to draw resources.

5.0 Data

This section presents and describes the data utilized in this research paper and how the data was trimmed and filtered. Moreover, this section presents numerous descriptive statistics in order to visually portray the body of the data. The Center of Corporate Governance Research (CCGR) at BI Norwegian Business School, is the database with most advanced data on Norwegian firms. From this database, a set of accounting and corporate governance data was retrieved from the period 2000 to 2015. Corporate Governance data is only available from 2000. To make the data coherent, no accounting data dated further back than 2000 was included.

5.1 Data Collection

18 variables were retrieved from CCGR, while the remaining seven corporate governance variables were constructed as in "Illiquid shareholders and real firm effects: The personal wealth tax and financial constraints", a paper by Janis Berzins, Øyvind Bøhren and Bogdan Stacescu.

Table 5.1: List of variables, divided between those retrieved from CCGR and the research paper "Illiquid Shareholders and Real firm Effects: The Personal Wealth Tax and Financial Constraints".

CCGR	PAPER
<i>Company ID</i>	<i>CEO Birth Date</i>
<i>Foundation Date</i>	<i>CEO Gender</i>
<i>Industry Code</i>	<i>Family Assets</i>
<i>Interest Expenses Paid to Other</i>	<i>ID Company Group</i>
<i>Operating Income</i>	<i>Large Company (Dummy)</i>
<i>Other Financial Income</i>	<i>Medium Company (Dummy)</i>
<i>Other Interest Expenses</i>	<i>Small Company (Dummy)</i>
<i>Other Interest Income</i>	<i>CEO Ownership</i>
<i>Share Owned Ultimately by CEO</i>	
<i>Sum Total Operating Revenue</i>	
<i>Total Current Assets</i>	
<i>Total Current Liabilities</i>	
<i>Total Equity</i>	
<i>Total Fixed Cost</i>	
<i>Total Long-Term Debt</i>	
<i>Total Provisions</i>	
<i>Year</i>	

The variable of *Family Assets*, a variable constructed in accordance with the "Illiquid shareholders and real firm effects: The personal wealth tax and financial constraints" paper, was imperative for this research in order to make a distinction between entrepreneurs that come from a wealthy family and those that do not.

The data was collected at yearly intervals over a period of 16 years. As this empirical analysis does not look at firm specific differences, but group specific differences, the averages between the two groups were evaluated over these 16 years. After retrieving the data from CCGR, new variables were created, as seen in chapter 5.2. The financial crisis from 2008 to 2010 is represented by a dummy variable. This was used to check for the performance during economic hardship, as well as the ability to maintain performance between the two types of entrepreneurs. The corporate tax rate in Norway changed from 27 percent to 28 percent in 2013. Therefore, a tax-variable was created to take on the value 27 percent from 2000 to 2013, and 28 percent from 2014 to 2015.

5.2 Calculation of Variables

This section displays how some of the dependent and independent variables have been calculated. These are in accordance with common practice in finance;

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$OROA = \frac{\text{Operating Revenue}}{\text{Total Assets}}$$

$$ROE = \frac{\text{Income Before Extraordinary Items}}{\text{Total Equity}}$$

$$\text{Leverage} = \frac{\text{Long Term Debt}}{\text{Total Assets}}$$

$$\text{Debt Maturity} = \frac{\text{Long Term Debt}}{\text{Total Debt}}$$

$$\text{Capital Intensity} = \frac{\text{Average Total Assets}}{\text{Revenue}}$$

5.3 Filters and Winsorizing

This section describes the filtering- and winsorizing process of the data. The filtering process includes a set of pre-set filters, in addition to filters implemented after obtaining the data. Moreover, the winsorizing process was utilized in order to adjust extreme values in the data.

5.3.1 Filtering Process

The data that was retrieved had already eliminated some firms due to pre-set filters. Furthermore, several filters were applied in order to clean the data of those firms and observations that were unnecessary for this research.

5.3.1.1 Pre-set Filters

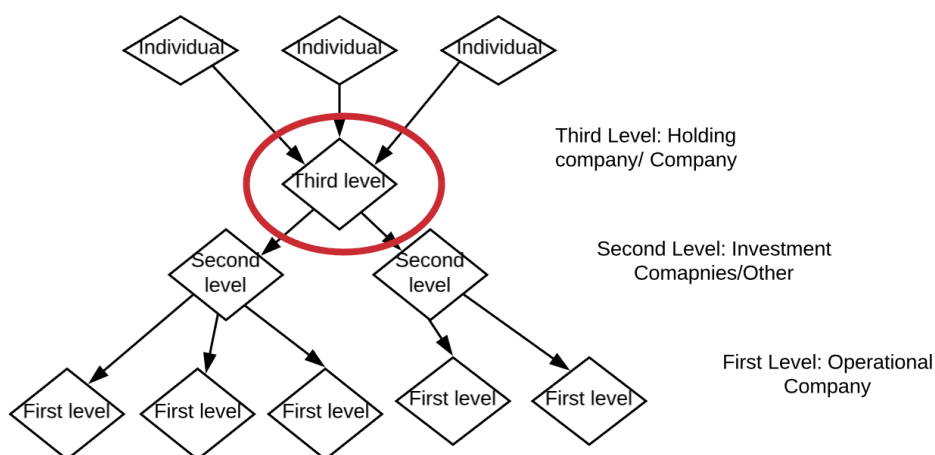
The first filter excluded those firms that were complex in their number of levels. Three levels deep, at most, was set. The levels entail companies that are owned downward from the holding company; see Figure 5.2 for visual explanation. The second filter required there to be a maximum of 5 companies at the first level. The third filter required the firms at the first level to be younger than 10 years, in order to ensure entrepreneurial firms. The last filter imposed a restriction on the CEO's ownership of the firm. The CEO had to own at least 50 percent of the company. For the purpose of this thesis, an assumption was made that the CEO is the entrepreneur of the company.

5.3.1.2 Further Filtering

In addition to the pre-set filters, several new filters were implemented before the winsorizing process was carried out. The first filter was set so that companies would only be measured at the third level. As figure 5.2 below displays, this usually entails the holding companies or other companies. Ultimate ownership is defined as the sum of the individual's direct and indirect ownership of the company through other companies. The tax reform of 2006 triggered a shift from

direct ownership by individuals to their indirect ownership through holding companies (Berzins, Bøhren & Stacescu, 2013). Because of this, one could expect the third level to include more holding companies than other types of companies. Although it would be interesting to investigate the top two levels in order to capture the holding level and the operational level of firms, this paper was limited to only analyze the third level. This group of firms is illustrated in the figure below.

Figure 5.2: Figure of a hierarchy of firms sourced back to the ultimate owner.



An age filter was applied as the data displayed outliers in this variable. The youngest entrepreneur in the data was 21 years, while the oldest was over 100 years. The upper cap was set to 80 years, as it is reasonable to assume that many entrepreneurs work beyond the retirement age of 67 years (SSB, 2007). The life expectancy in Norway is 81 years for men and 84 years for women (Bævre, 2014). While most individuals do not work until death, as the cap would suggest, self-employed individuals do have the opportunity to work beyond the retirement age, and might still be owners of their company until their time comes.

The third filter implemented was the wealth measure. The proxy for wealth originates from the assets owned by the family of the CEO. Assets change over time, and in order to keep companies that lie over the cutoff points in *most* periods, averages of their assets were applied.

Entrepreneurs were separated into two groups based on two refinements. Wealthy entrepreneurs are those that fall into the 70-100 percentile of wealth and non-wealthy entrepreneurs are those that fall into the 0-30 percentile of wealth. Entrepreneurs that fall in between were disregarded in order to get a stronger effect of the difference between the two groups. Those observations of wealth that were blank were also disregarded.

The fourth filter dropped those firms that had negative revenues and assets, in order to avoid inactive firms. Although Berzins, Bøhren and Stacescu (2017) eliminated negative sales in their filtering process, this paper removed negative revenues. The purpose of doing this was because firms were analyzed at the holding level, where all types of income must be considered whether it is operational or financial. Revenue was defined as the sum of interest income, financial income and total operating revenue.

After implementing the above-mentioned filters the data contained 115,740 observations, where 46.49 percent were of the “wealthy” group, and 53.51 percent were of the “non-wealthy” group. The mean firm age was 14.7 years. There was a clear dominance of self- employed males, 82.62 percent. The mean age of the individuals in the dataset was 55.47 years. This is displayed in section 5.5.

5.3.2 Winsorizing Process

The table below displays selected variables in the dataset, their mean value, maximum value, minimum value and differing percentiles, prior to winsorizing.

Table 5.3: Variables pre-winsorizing.

The variables return on assets, operating return on assets, return on equity, leverage and capital intensity are listed with a set of statistical information. These include: number, mean, minimum value, different percentiles and the maximum value

Variables	N	Mean	Min	P5	P25	P50	P75	P95	Max
ROA	115740	-0.08	-1080.50	-0.69	-0.04	0.07	0.19	0.46	628.27
OROA	115740	-0.04	-876.12	-0.51	0.00	0.05	0.17	0.41	458.63
ROE	115595	0.46	-718.00	-1.43	0.00	0.30	0.77	2.83	1058.50
Leverage	115740	0.33	-4.08	0.00	0.47	0.00	0.26	0.82	1816.67
CI	115740	29.81	0.00	0.12	0.28	0.47	0.93	14.01	266858.00

Winsorizing helped minimize the influence of outliers in the data, by assigning the outliers values closer to other values in the set. This method was chosen as it adjusts extreme values instead of cutting them out of the set entirely.

What was an outlier in the total data set, might not have been an outlier within the wealthy or non-wealthy group. Therefore, winsorizing within the two groups of entrepreneurs was necessary. Table 5.4 illustrates the data subsequent to winsorizing. The extreme values have been adjusted. The outlier problem is considered dealt with.

Table 5.4: Variables post-winsorizing.

The variables return on assets, operating return on assets, return on equity, leverage and capital intensity are listed with a set of statistical information. These include: number, mean, minimum value, different percentiles and the maximum value

Variables	N	Mean	Min	P5	P25	P50	P75	P95	Max
ROA	115740	0.03	-1.01	-0.5618	-0.04	0.07	0.19	0.44	0.48
OROA	115740	0.04	-0.73	-0.42	0.03	0.05	0.17	0.36	0.45
ROE	115595	0.43	-1.92	-0.88	0.00	0.30	0.77	2.44	3.17
Leverage	115740	0.16	0.00	0.00	0.00	0.00	0.26	0.76	0.84
CI	115740	2.41	0.12	0.12	0.28	0.47	0.93	10.66	43.70

5.4 Descriptive Statistics

The baseline sample consisted of 115,740 observations for 34,972 firms, over 15 years. Table 5.5 shows the summary statistics including observations, mean, standard deviation, minimum and maximum values for *ROA*, *ROE*, *OROA*,

Leverage, Natural Logarithm of Revenues, Debt ratio, Capital Intensity, CEO Age, Natural Logarithm of Firm Age and CEO Ownership

Table 5.5: Descriptive statistics. Table of variables with their statistical value, including number, mean, standard deviation, minimum value and maximum value.

Variables	Observations	Mean	Std.Dev	Min	Max
ROA	115740	0.0333	0.2901	-1.0118	0.4767
OROA	115740	0.0374	0.2307	-0.7374	0.4468
ROE	115595	0.4335	0.9550	-1.9250	3.1743
Leverage	115740	0.1579	0.2513	0.0000	0.8379
Ln (Revenues)	115740	14.2222	1.7038	6.9078	20.4493
Debt Ratio	115271	0.1820	0.2768	0.0000	0.9169
Capital Int.	115740	2.4113	7.4799	0.1217	43.7018
CEO Age	115740	55.4684	10.2451	22.0000	79.0000
Ln(Firm Age)	112078	2.6077	0.4222	1.3863	3.2958
CEO Ownership	115740	93.6326	14.0883	50.0000	100.0000

Within the entire sample, ROA had a mean value of 0.0333, and a standard deviation of 0.2901. The minimum value of ROA was -1.0118 and the maximum value was 0.4766. Having negative ROA was peculiar, but seeing as the data had been winsorized, it was left as is. This goes for OROA and ROE as well, which both had negative minimum values of -0.7374 and -1.9250 respectively. The mean value of ROA, ROE and OROA were positive, indicating that overall firm performance appeared to be positive.

Leverage had a mean value of 0.1579, suggesting that firms, in general, had little long-term debt compared to their assets.

The natural logarithm of revenues had a mean value of 14.2222 and a standard deviation of 1.7038.

Debt ratio had a mean value of 0.1820 and a standard deviation on 0.2768.

Overall, the sample seemed to have low amounts of long-term debt compared to total debt.

Capital intensity ranged between 0.1217 and 43.7018. These were big differences in capital intensity, and might be explained by differences within industries.

CEO age displayed a mean age of 55.5 years, where the youngest in the sample was 22, and the oldest 79. There was approximately the same distribution in age, whether we looked at wealthy or non-wealthy entrepreneurs.

The natural logarithm of firm age ranged between 1.3863 and 3.2958. CEO ownership ranged between 50 percent and 100 percent after the trimming of the data was conducted. The mean ownership stake in the firm across the sample was 93.63 percent. Furthermore, a statistics summary of the dummy variables was included in this section:

Table 5.6: Descriptive statistics of dummy variables. Number of observations and percentages are listed

Variable		Frequencies	Percent
Wealth	Wealthy	53808	46.49
	Non-Wealthy	61932	53.51
	Sum	115740	100
Gender	Male	95619	82.62
	Female	20121	17.38
	Sum	115740	100
Small Firm	Small	94098	81.30
	Not Small	21642	18.70
	Sum	115740	100
Large Firm	Large	109	0.09
	Not Large	115631	99.91
	Sum	115740	100

Table 5.6 displays the dummy variables used in the regression. 46.49 percent of the samples were of wealthy type, while 53.51 percent were of the non-wealthy type. The gender differences were highly uneven, with only 17.38 percent female CEOs in the sample. Small firms seemed to be the dominant size of firms in the sample, measured to 81.30 percent. Only 0.09 percent of the sample consisted of large firms. This indicated that 18.61 percent were medium sized firms.

5.5 Multicollinearity

Multicollinearity occurs when two or more variables in the regression have a nearly perfect linear relationship. If the multicollinearity is not treated it can result in unstable estimates of the coefficients and an inflated standard error of these coefficients (Chen et al., 2003). This is discussed because there were variables in

the OLS regression that seemed to be highly correlated. For instance, as displayed in table 5.5, there was a somewhat high correlation between the natural logarithm of revenue and capital intensity. A highly negative correlation between the two variables could be justified, as the natural logarithm of revenues is based on revenues, and capital intensity is calculated using revenues in the denominator. Another issue with multicollinearity was that the coefficients of the variables would be very receptive to changes, so that removing or adding a variable could cause large changes in the coefficients and the significance of the other variables. For example, when adding another size measurement, such as the natural logarithm of assets in the regression, both the natural logarithm of revenues and wealth changed from being positive to negative. Two methods for analyzing multicollinearity were employed. The first method consisted of examining the correlation between the explanatory variables with a correlation matrix. Table 5.7 displays the correlations between the variables.

Figure 5.7: Correlation matrix of dependent and independent variables.

	ROA	Wealth	Small Firm	Large Firm	Gender	Ln (Revenue)	Capital Intensity	Leverage	CEO Age	Ln (Firm Age)	CEO Ownership
ROA	1.0000										
Wealth	0.1952	1.0000									
Small Firm	-0.1041	-0.4627	1.0000								
Large Firm	0.0100	0.0325	-0.0633	1.0000							
Gender	0.0545	0.1096	-0.0961	0.0108	1.0000						
Ln (Revenue)	0.2130	0.3298	-0.4128	0.0082	0.0443	1.0000					
Capital Intensity	0.0273	0.2700	-0.1636	0.0707	0.0608	-0.4376	1.0000				
Leverage	-0.1095	0.1738	-0.0467	0.0086	0.0084	0.0469	0.0524	1.0000			
CEO Age	0.0254	-0.0387	0.0231	-0.0180	0.0812	-0.0530	0.0235	-0.0044	1.0000		
Ln (Firm Age)	-0.0310	-0.0810	-0.1085	0.0084	0.0822	0.0658	0.0074	0.0977	0.4299	1.0000	
CEO Ownership	0.0004	0.0979	-0.0043	0.0042	-0.0374	-0.0432	0.0702	0.0072	-0.0810	-0.1952	1.0000

As already mentioned, the natural logarithm of revenues and capital intensity were negatively correlated. Age of the CEO and the natural logarithm of firm age were also somewhat highly correlated. This seemed natural, as the CEO and the firm age at the same rate. Correlation between two variables in the correlation matrix doesn't necessarily mean that they will pose a threat to the model if both were to be included. Especially when the correlations were not remarkably high. We conducted another method for checking multicollinearity, to see how the variables reacted together in the model.

The second method for evaluating multicollinearity entailed using the *variance inflation factor* (VIF) after running the regression. A criterion for this method is

that a VIF value of 10 or more could mean that the variable might be a linear combination of other explanatory variables (Chen et al., 2003). The explanatory variables all had VIF values below 10. There was no problem of multicollinearity in the model. This can be seen in table 5.8.

Table 5.8: VIF test of explanatory variables. All of the variables have a VIF value below 10, indicating that there are no multicollinearity problems when using these variables together in the model

<i>Variables</i>	<i>VIF</i>
<i>Ln (Revenues)</i>	<i>2.05</i>
<i>Capital Intensity</i>	<i>1.78</i>
<i>Small Firm</i>	<i>1.56</i>
<i>Large Firm</i>	<i>1.01</i>
<i>Wealth</i>	<i>1.62</i>
<i>Ln (Firm Age)</i>	<i>1.31</i>
<i>CEO Age</i>	<i>1.25</i>
<i>CEO Ownership</i>	<i>1.06</i>
<i>Leverage</i>	<i>1.04</i>
<i>Gender</i>	<i>1.03</i>
<i>Mean VIF</i>	<i>1.37</i>

6.0 Methodology

The methodology for testing the hypothesis of this research paper is described in this chapter. The chosen performance measure was return on assets (ROA), which measures how well a company is at generating profit from their assets. This is a measure commonly used in empirical testing of firm performance. The statistical software program used for this analysis is Stata.

6.1 Performance measure

One of the most prevalent measures of performance in financial literature is return on assets (Isakov Weisskopf, 2014; Andres, 2008; Che & Langli, 2015). ROA tells us how efficient a firm is with respect to its total asset base (Dess et al., 1984). ROA was the correct measure for this particular research as the effect of family wealth on firm performance was investigated.

6.2 Panel data

The data followed firm information through 16 years, in other words, longitudinal data, also known as panel data. In this case, there were 478.249 firms spanned over 16 periods. This gave 3.461.962 observations, prior to filtering. Panel data handles both the time-series and cross-section aspect at the same time:

$$Y = X_{it} + u_{it}$$

Where $i=1,2,\dots, 478.249$, and $t=1,2,\dots,16$.
(Baltagi, 2005)

The i denotes firms and t denotes time. α is a scalar and X_{it} is the different panels of explanatory variables. In this thesis, a performance-measuring equation was run, where Y_{it} measured ROA and X_{it} contained a set of explanatory variables such as family wealth, leverage, age of CEO, and so on.

The panel data error component model for the disturbances, is shown below:

$$u_{it} = u_i + v_{it}$$

(Baltagi, 2015)

u_i captures the unobservable firm-specific effect that is omitted from the regression. For the simple model created, where ROA was the response variable, this term may have caught many omitted variables affecting performance, such as; education of CEO, CEO’s entrepreneurial ability, CEO tastes and CEO’s experience. The remainder disturbance v_{it} can be thought of as the usual disturbance in the regression (Baltagi, 2015).

The data was unbalanced as several firms had missing observations in several periods.

Table 6.1: Description of data frequencies. The table displays number of observations within each period, 16 in total.

Distribution of T:i:			Min	5%	25%	50%	75%	95%	Max
			1	1	1	3	5	8	10
Freq.	Percent	Cum.	Pattern						
3121	8.94	8.941						
2100	6.01	14.9511						
1738	4.98	19.93111						
1548	4.43	24.36	1.....						
1297	3.71	28.07	11.....						
898	2.57	30.64	111.....						
817	2.34	32.981.						
785	2.25	35.23	1111.....						
766	2.19	37.42	1111.....						
21857	62.58	100	(other pattern)						
34927	100		xxxxxxxxxxxxxxxx						

As seen from the table 6.1, 50 percent of the companies were observed 3 years or less. Only 5 percent of the companies in the dataset were observed in 8 years or more. Although none of the companies were observed in all periods, at most only 10 periods, the research focuses on group-specific differences. The averages within the two groups compensated for the missing observations.

6.3 Interpretation

Two different models were created in order to capture the effect wealth had on performance. The first model was intended to unravel how wealth affects performance. The second model was intended to unravel how wealth affects performance during a financial crisis.

6.3.1 Wealth

In order to interpret the effect family wealth has on performance, the dummy variable *wealth* was examined. As stated in the literature review, several researchers found that wealth has a positive effect on entrepreneurial activity. The main goal for this thesis was to investigate this further, in the Norwegian entrepreneurial market. The firm of the entrepreneur was considered as a single entity, without business ties to the family. For this reason, the business connection to family was not of importance, but rather the wealth connection. The true wealth of the family of the CEO will not be disclosed in this paper, due to the sensitivity of this information. Instead, a proxy variable for family wealth was used. Professor Janis Berzins constructed this measure, for the purpose of this thesis. Family assets and family wealth were highly correlated, which made family assets a viable measure for this thesis. The variable was listed as percentiles. In order to divide CEOs that come from wealth and those that do not, the most extreme entrepreneurs on the scale were measured against one another. The extremes were set to 0-30 percentile for the non-wealthy and 70-100 percentile for the wealthy.

The wealth variable equals 1 if the entrepreneur comes from a family with high wealth (top 30 percentiles of the wealth distribution) and 0 if the entrepreneur is self-made (bottom 30 percentiles of the wealth distribution).

A positive and significant coefficient of this variable would imply that family wealth and firm performance are positively correlated. On the opposite side, a significant but negative coefficient would indicate that family wealth and firm performance are negatively correlated.

6.3.2 *Financial Crisis*

In order to measure the effect of financial crisis on the data sample, we have included three new variables. The first variable included was an indicator of the financial crisis of 2008-2010. It is a dummy variable that takes on the value 1 in 2008, 2009 and 2010, and 0 otherwise. Although the crisis can be defined to a broader period, the crest of the crisis was during 2007 to 2009, following IMF (2013). Norway was not affected by the financial crisis until 2008/2009 (Magma 2012), and had a milder reaction compared to other countries in Europe. Therefore the financial crisis was defined as a period from 2008 to 2010, in this paper. The financial crisis was characterized by extensive distrust among banks and other financial institutions, who did not know if the counterparties had enough capital to cover any losses (Norsk Leksikon, 2017). It was a difficult time to get loans from banks. Therefore, one would expect to see a negative relation between firm performance and the financial crisis dummy variable. The second variable included was the interaction variable of the financial crisis and leverage. The third variable included in this model was the interaction variable of the financial crisis and wealth. Wealthy entrepreneurs might be able to draw upon additional capital during financial crisis, and thus one could expect higher firm performance in the wealthy group during this period.

6.4. *Control Variables*

This section describes the reasoning for including the selected control variables for firm and founder characteristics. The variables included are those that are most commonly used in research of similar empirical testing.

6.4.1 *Size*

We include size in order to measure the effect of this firm characteristic on firm performance. For the purpose of this thesis, size was not measured as the natural logarithm of a firm's assets. Although this is common practice for measuring operational performance, the variable correlated too significantly with other

variables. Instead, variables that indicated small, medium or large firms were chosen as size measurements. Small firms are characterized by having less than 10 million NOK in sales, and less than 10 employees. Large firms are characterized by having more than 100 million NOK in sales and more than 100 employees. Medium sized firms are the firms in between. Medium sized firms were not included in the model as the effect was picked up by the constant. Furthermore, the natural logarithm of revenues was included as an additional size measurement. It was added, as the large firm variable was not statistically significant in the model.

6.4.2 Leverage

Leverage was included in the model. Several other research papers found that leverage had a negative impact on return on assets (Anderson & Reeb, 2004; Anderson & Reeb, 2003), while Che & Langlie (2015), found that leverage had a positive effect on return on assets. Leverage might have a negative effect on return on assets if the debt burden is costly enough to cut into the net income. On the other side, if the increase in debt leads to significant increase in revenues, it might increase return on assets.

As prior researchers find differing effects of leverage on performance, it is difficult to make general assumptions on what effect it will have in the model at hand.

6.4.4 Capital Intensity

Capital intensity is an important measure, as it reflects the amount of capital needed to generate one Norwegian Kroner in revenue. Capital intensity is often measured in sales, but considering the dataset, where firms were measured at the third level, revenues were used in order to capture all types of income.

6.4.5 Firm Age

Firm age was measured as the natural logarithm of the number of years since the establishment of the company, following Anderson & Reeb (2003). Several research papers found that the age of the company and firm performance were negatively related. Lodere and Waelchli (2010) found that corporate aging could reflect a cementation of organizational activities over time. This would entail higher costs, slower growth, maturation of assets and decreased R&D. Andersen & Reeb (2003) found a negative relationship between firm age and return on assets.

6.4.6 CEO Age

It is likely that the age of a CEO affects the performance of the firm. As individuals get older, their networks increase, their savings increase, and their experience and knowledge increase. These are all important attributes of a CEO that might have an impact on the performance of a firm. According to Rosen, Joulfaian and Holtz-Eakin (1994) an individual's age may be correlated with his attitudes toward risk and toward the various non-pecuniary aspects of being an entrepreneur. The age of a CEO is a cryptic thing to measure, as it contains a lot more information than just years since birth, age is related to the individual's years of labor market experience and, hence, human capital. To allow for nonlinearities, we include a logarithmic term in age.

7.0 Regression

This chapter covers the two models included in the empirical analysis of this paper. The first model is described as the “wealth model” and the second model is described as “The Financial Crisis model”.

7.1 Regression for Wealth model

The following regression was constructed to check for firm performance in the wealth model.

$$ROA = \gamma_1 * Wealth + \gamma_2 * Small Firm_i + \gamma_3 * Large Firm_i + \gamma_4 * Gender_i + \beta_1 * Ln(Revenue)_{it} + \beta_2 * Capital Intensity_{it} + \beta_3 * Leverage_{it} + \beta_4 * CEO Age_{it} + \beta_5 * Ln(Firm Age)_{it} + \beta_{it} * CEO Ownership_{it} + u_{it}$$

The performance regression included the explanatory variables thought to be essential in explaining return on assets of a firm. This included a set of corporate governance measures, such as gender, CEO age and CEO ownership, but also accounting data such as leverage, capital intensity, and the natural logarithm of revenues. Most importantly, the measure of family wealth was included. Turn to chapter 5.2 for description of the variables.

7.2 Regression for The Financial Crisis model

During the financial crisis, firms experienced a substantial worsening in their ability to obtain credit from banks (Domenichelli, 2015). Firms that relied heavily on debt might not have weathered the storm as easily as those firms that had other sources of funding available. The following regression was constructed in order to investigate this relation:

$$ROA = \gamma_1 * Wealth + \gamma_2 * Small Firm_i + \gamma_3 * Large Firm_i + \gamma_4 * Gender_i + \phi_1 * Fin. Crisis_{it} + \phi_2 * (Fin. Crisis * Leverage)_{it} + \phi_3 * (Fin. Crisis * Wealth)_{it} + \beta_1 * Ln(Revenue)_{it} + \beta_2 * Capital Intensity_{it} + \beta_3 * Leverage_{it} + \beta_4 * CEO Age_{it} + \beta_5 * Ln(Firm Age)_{it} + \beta_6 * CEO Ownership_{it} + u_{it}$$

The financial crisis dummy measured the additional effect of performance during the 2008-2010 financial crisis. The *FinCrisis*Leverage* measured the extra effect leverage had on performance during this period, and the *FinCrisis*Wealthy* measured the extra effect on how the entrepreneurs that came from family wealth performed during the crisis, compared to those entrepreneurs that did not come from wealth.

8.0 Regression Results

In this section, we analyze the results of the aforementioned regressions. The results will be discussed in light of their significance for our research question, and in light of prior studies that we mentioned in the literature review.

8.1 Results Wealth Model

As evident from table 8.1, we see that all but one variable is statistically significant at all normal levels. *Large firm* is not statistically significant, and the *natural logarithm of firm age* is only significant at the 10th percent level.

Table 8.1: Regression results “Wealth Model”. The model displays the regression coefficients and the z-test.

* Significant at the 0.10 probability level.

** Significant at the 0.05 probability level.

*** Significant at the 0.01 probability level.

Return on Assets (ROA)			
	Coef.		Z
Wealth	0.0852	***	27.77
Small Firm	0.0782	***	20.10
Large Firm	0.0268		0.70
Gender	0.0248	***	7.53
Ln (Revenue)	0.0590	***	70.14
Capital Intensity	0.0052	***	29.72
Leverage	-0.1866	***	-44.80
CEO Age	0.0012	***	9.05
Ln (Firm Age)	-0.0041	*	-1.35
Ownership	0.0002	***	2.70
Z	10023.14		
R-Sq.	0.1193		
Prob.	0.0000		

The wealth variable has a coefficient equal to 0.0852, which indicates that family wealth has a positive effect on entrepreneurial performance. Being an entrepreneur and CEO of a firm that comes from family wealth, increases the firm performance by 8.52 percentage points. These findings are consistent with Berglann et al. (2010), Schmalz et al. (2017) and Joulfaian and Holtz-Eakin

(1994). Parental wealth or extended family wealth seems to be of economic significance for entrepreneurial performance. These results are in accordance with the first hypothesis, that wealth has a positive effect on firm performance.

We can reject the null hypothesis, of hypothesis 1.

Both small firms and large firms have a positive effect on performance with coefficients 0.07892 and 0.02468, respectively. However, only the small firm variable is statistically significant. Therefore, we cannot say for certain that the large firm variable has an effect on ROA. Although only one of the abovementioned is significant, both large and small firms exhibit a positive relation on ROA, suggesting that regardless of firm size, on average, firm performance is positive. This is further supported by looking at the other size measure, the natural logarithm of revenues. We see a positive coefficient of 0.0590 that is statistically significant at all levels. We can therefore assume that the larger the firm gets, in terms of revenues, the higher the return on assets will be. Although measured with the natural logarithm of sales, Anderson & Reeb (2003) find the opposite interpretation.

Gender has a positive coefficient, implying that being a male increases the performance of the firm by 2.48 percentage points. Without going into details on gender inequality and the glass-roof dilemma, this result is not surprising. Males have a dominant presence in the sample, and are generally more present in entrepreneurial firms (SSB, 2014). Moreover, it is evident that they are dominant within each industry (**Appendix 3**).

Capital intensity is positive and equal to 0.0052, and significant at all levels. As capital intensity measures how much investment in assets is needed in order generate one Norwegian Kroner in revenue, the variable indicates that those companies where high investments are essential also perform better, in terms of ROA.

Leverage is negative and equal to -0.1866 and statistically significant at all levels. This tells us that the more long-term debt a firm has compared to its total assets base, the lower the firms' performance will be. This is in accordance with the findings of Anderson & Reeb (2003; 2004).

CEO Age is positive and equals 0.0012 and is statistically significant at all levels. This variable indicates that as the entrepreneur ages, the performance increases. An increase in CEO age increases the performance by 0.12 percentage points.

Firm age has a negative coefficient of -0,0041. The effect firm age has on ROA is in accordance with earlier research (Lodere & Waelchli, 2010; Anderson & Reeb, 2003).

CEO ownership is positive and equals 0.0002 and is statistically significant at all levels. The coefficient tells us that a higher CEO ownership stake in the firm increases the performance of that firm.

8.2 Results The Financial Crisis Model

Table 8.2: Regression results “Financial Crisis Model”. The model displays the regression coefficients and the z-test.

* Significant at the 0.10 probability level.

** Significant at the 0.05 probability level.

*** Significant at the 0.01 probability level.

Return on Assets (ROA)			
	Coef.		Z
Wealth	0.0804	***	25.63
Small Firm	0.0786	***	20.20
Large Firm	0.0265		0.70
Gender	0.0243	***	7.37
Fin.Crisis	-0.0326	***	-11.46
Fin.Crisis*Wealth	0.0266	***	6.55
Fin.Crisis*Leverage	-0.0004	**	-2.30
Ln (Revenue)	0.0594	***	70.53
Capital Intensity	0.0052	***	30.02
Leverage	-0.1862	***	-44.73
CEO Age	0.0012	***	8.79
Ln (Firm Age)	-0.0035		-1.15
Ownership	0.0003	***	3.19
Z	10176.67		
R-Sq.	0.1198		
Prob.	0.0000		

As is expected during an economic crisis, we find that the financial crisis of 2008 had a negative effect on firm performance. This is presented by the negative and significant coefficient, -0.0326. These findings are in line with the second hypothesis, that the financial crisis had a negative effect on firm performance.

We can reject the null hypothesis, of hypothesis 2.

The *Fin.Crisis*Leverage* variable reveals a coefficient of -0.0004, significant at the 10th and 5th percent level. This indicates that the extra effect of holding leverage on performance was negative during the financial crisis. This is an expected result as leverage generally has a negative effect on return on assets in normal economic states. These results are in line with the third hypothesis, that holding leverage during a financial crisis has an extra negative effect on performance.

We can reject the null hypothesis, of hypothesis 3.

The *Fin.Crisis*Wealthy* variable reveals the extra effect the wealthy entrepreneurs had on performance during the financial crisis of 2008. The coefficient is positive and significant with a value of 0.0266, indicating that wealthy entrepreneurs performed better than non-wealthy entrepreneurs during the financial crisis of 2008 in Norway.

We can reject the null hypothesis, of hypothesis 4.

9.0 Discussion of Empirical Results

We are not able to draw any conclusions on whether or not entrepreneurs that come from family wealth have received family money when starting and operating their firm, but it is reasonable to imagine that they did. If they haven't received money, the increase in ROA for these individuals would mean that they inhabit qualities that make them better suited as entrepreneurs than those that don't come from family wealth. As stated in chapter 2, Schmalz et al. (2017) suggested that individuals who experienced a wealth increase through inheritance were more likely to start a firm, but they may also have had a greater access to business opportunities for reasons unrelated to their wealth. Even though our study employs a different proxy for wealth, we can to some degree say that the wealth variable in fact increases performance. Whether this relation is due to access to capital, personal characteristics or access to the right network, we cannot say. We can however state, in accordance with earlier research that, the higher the level of family assets are, the higher the expected benefits of entrepreneurial activity will be.

Entrepreneurship might not be a luxury good, as quoted by *Schmalz et al.*, but it might be a good that is more prosperous for the wealthy.

When it comes to financial crisis, Lins et al. (2013) stated that during the financial crisis of 2008, an unexpected liquidity shock moved firms out of equilibrium. We found that the firm performance decreased and that holding debt during this period had an additional negative effect on firm performance. It is clear that this period did indeed set firms out of their equilibrium. Our empirical research found that entrepreneurs that come from family wealth outperformed entrepreneurs that did not come from wealth. This might indicate that entrepreneurs originating from wealth are better equipped to handle financial crises.

10.0 Robustness

In this chapter we will discuss the two tests for robustness that were used. These tests were performed to ensure that the “core” regression gave the same interpretations when the regression specification was modified. First, the dependent variable ROA was replaced with another performance measure, operating return on assets (OROA). The second robustness test set the CEO ownership ratio to 90 percent or above.

10.1 OROA As A Performance Measure Instead of ROA

We used the same regression as before, using the same explanatory variables, only replacing ROA with OROA. OROA compares a firm’s cash flows to the total asset base used to generate them. Unlike ROA, OROA is unaffected by differences in firms’ capital structure decisions (Bennedsen et al., 2007). The regression and results can be seen below.

$$\begin{aligned} \text{OROA} = & \gamma_1 * \text{Wealth} + \gamma_2 * \text{Small Firm}_i + \gamma_3 * \text{Large Firm}_i + \gamma_4 * \text{Gender}_i + \beta_1 * \text{Ln(Revenue)}_{it} \\ & + \beta_2 * \text{Capital Intensity}_{it} + \beta_3 * \text{Leverage}_{it} + \beta_4 * \text{CEO Age}_{it} + \beta_5 * \text{Ln(Firm Age)}_{it} \\ & + \beta_{it} * \text{CEO Ownership}_{it} + u_{it} \end{aligned}$$

Table 10.1: Regression results of robustness test. The model displays the regression coefficients and the z-test.

* Significant at the 0.10 probability level.

** Significant at the 0.05 probability level.

*** Significant at the 0.01 probability level.

Return on Assets (OROA)			
	Coef.		Z
Wealth	0.0485	***	19.96
Small Firm	0.0794	***	25.77
Large Firm	-0.0337		-1.12
Gender	0.0176	***	6.71
Ln (Revenue)	0.0493	***	73.93
Capital Intensity	0.0034	***	24.76
Leverage	-0.1457	***	-44.17
CEO Age	0.0010	***	9.11
Ln (Firm Age)	-0.0017		-0.70
Ownership	0.0000		0.37
Z	9713.26		
R-Sq.	0.1075		
Prob.	0.0000		

As we see, the results from this regression confirm our results regarding how wealth affects performance. The *wealth* coefficient is still positive and significant, however, slightly lower than in the original regression. The *large firm* variable changed sign, but is still insignificant. The *natural logarithm of firm age* is now significant at all levels. Besides those mentioned, the regression results confirm previous findings, and gives the same interpretation as the initial model of performance.

10.2 CEO Ownership 90 Percent

In the second robustness test, the wealth-model regression was utilized, but with one restriction; CEO ownership of the company had to be at least 90 percent. The purpose of doing this was to change the definition of entrepreneurs from owning at least 50 percent, to owning at least 90 percent, to see if the results still hold.

The following regression and results can be seen below:

$$\begin{aligned}
 ROA = & \gamma_1 * Wealth + \gamma_2 * Small Firm_i + \gamma_3 * Large Firm_i + \gamma_4 * Gender_i + \beta_1 * Ln(Revenue)_{it} \\
 & + \beta_2 * Capital Intensity_{it} + \beta_3 * Leverage_{it} + \beta_4 * CEO Age_{it} + \beta_5 * Ln(Firm Age)_{it} \\
 & + \beta_6 * CEO Ownership_{it} + u_{it}
 \end{aligned}$$

Table 10.2: Regression results of robustness test with 90 percent ownership concentration. The model displays the regression coefficients and the z-test.

* Significant at the 0.10 probability level.

** Significant at the 0.05 probability level.

*** Significant at the 0.01 probability level.

Return on Assets (ROA)			
	Coef.		Z
Wealth	0.0933	***	28.42
Small Firm	0.0683	***	16.32
Large Firm	0.0025		0.06
Gender	0.0283	***	8.07
Ln (Revenue)	0.0546	***	59.60
Capital Intensity	0.0046	***	25.30
Leverage	-0.1756	***	-38.90
CEO Age	0.0011	***	7.90
Ln (Firm Age)	-0.0144	***	-4.51
Ownership	0.0058	***	5.55
Z	7902.32		
R-Sq.	0.1196		
Prob.	0.0000		

As evident from the table, we see that the CEO ownership coefficient is slightly higher than in the original regression. The wealth coefficient is higher than in the first regression, indicating an even stronger relation of wealth on firm performance. Although the coefficients are slightly different than the initial model, the interpretations remain the same. The results suggest that our initial regression leads us to make the right interpretations of entrepreneurial wealth and performance.

All robustness tests reveal that the significant effect of family wealth on performance is robust across the different samples and models. The coefficients are plausible and robust. This is commonly interpreted as evidence of structural validity (Lu & White, 2014).

11.0 Additional test

11.1 Inspiration from Hurst and Lusardi (2004)

We wanted to test if the findings from Hurst and Lusardi (2004) held for our model as well. Although we found positive and significant results of family wealth on entrepreneurial performance in the initial restrictions of the wealth distribution, we wished to inspect whether this effect was stronger at the 5th lowest and 5th highest percentiles. The following regression was run, with the adjustments to family wealth:

$$ROA = \gamma_1 * Wealth + \gamma_2 * Small Firm_i + \gamma_3 * Large Firm_i + \gamma_4 * Gender_i + \beta_1 * Ln(Revenue)_{it} + \beta_2 * Capital Intensity_{it} + \beta_3 * Leverage_{it} + \beta_4 * CEO Age_{it} + \beta_5 * Ln(Firm Age)_{it} + \beta_{it} * CEO Ownership_{it} + u_{it}$$

Table 11.1: Additional test of wealth, when we only measure the bottom and top 5 percentiles of the wealth distribution. The model displays the regression coefficients and the z-test.

* Significant at the 0.10 probability level.

** Significant at the 0.05 probability level.

*** Significant at the 0.01 probability level.

Return on Assets (ROA)			
	Coef.		Z
Wealth	0.4157	***	15.93
Small Firm	0.1154	***	3.55
Large Firm	-0.0165		-0.12
Gender	-0.0108		-0.43
Ln (Revenue)	0.0943	***	16.17
Capital Intensity	0.0033	***	7.59
Leverage	-0.3144	***	-12.53
CEO Age	0.0018	**	1.72
Ln (Firm Age)	0.0836	***	3.61
Ownership	0.0003		0.53
Z	1291.78		
R-Sq.	0.1586		
Prob.	0.0000		

The coefficient for wealth is 0.4157 and is statistically significant at all normal levels. The interpretation is that when wealth is concentrated to only include entrepreneurs at the top 5 and bottom 5 percentiles, the effect on performance of coming from a wealthy family increases. In this test, coming from a wealthy

family increases entrepreneurial performance by 41.57 percentage points! This is significantly higher than the previous results. This finding might complement Hurst and Lusardi's research *Liquidity Constraints, Household Wealth and Entrepreneurship* (2004). We find that originating from wealth has a significantly stronger effect on firm performance in the highest percentiles of the wealth distribution, even though we also find positive results for the top and bottom 30 percentiles as well.

11. 2 Industry Specific Analysis

This section demonstrates the relationships of capital intensity within a selected number of industries and the two groups of entrepreneurs investigated. Furthermore, we demonstrate the relationship of the amount of leverage and debt maturity within these industries. We display these relationships through graphical models. Graphical analysis usually helps to shed light on relationships and further support assumptions.

Capital intensity measures the amount of money invested in order to get one Norwegian Krone worth of output. This variable was included to check for industry specific capital intensity and the propensity of there being more "wealthy" entrepreneurs within the sectors that are more capital intensive. If there is a higher propensity of establishing a firm within these sectors when an entrepreneur is wealthy, we cannot say. We believe this could be a possibility, as they have more assets to invest, and usually are able to obtain larger loans based on these assets. We can, however, look at their presence within different industries.

The graphs below compare the capital-intensive industries in our dataset, and the presence of each type of entrepreneur within these industries. Financials, multi industry and real estate are the three most capital-intensive industries. In these industries, wealthy entrepreneurs have a dominant presence. Financials and real estate are industries that commonly require a lot of start-up capital. Thus, are industries to which entrepreneurs of wealth might have easier access to. Non-

wealthy entrepreneurs are dominant in the service sector, where businesses typically offer knowledge or an expertise as a service. This is usually associated with low investment capital, and therefore it is reasonable that “less resourceful” entrepreneurs start in this sector. According to Berglann et al. (2010), the most entrepreneurial professions are hairdressers, dentists, veterinarians, and therapists.

Figure 11.1. Graph comparing the capital intensity of firms selected in our sample.

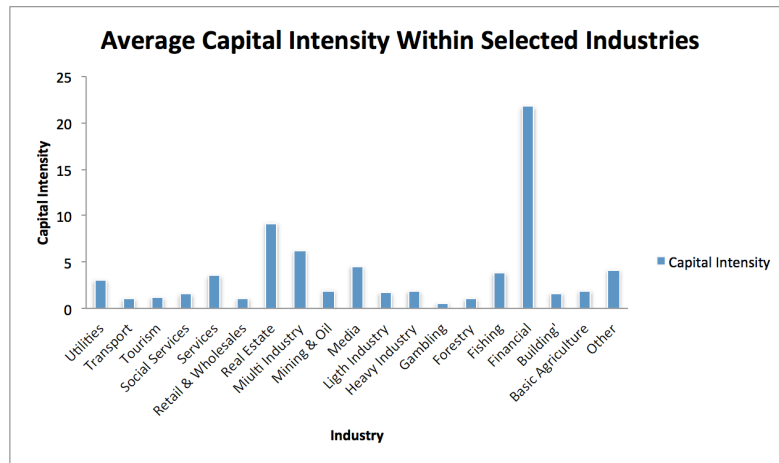
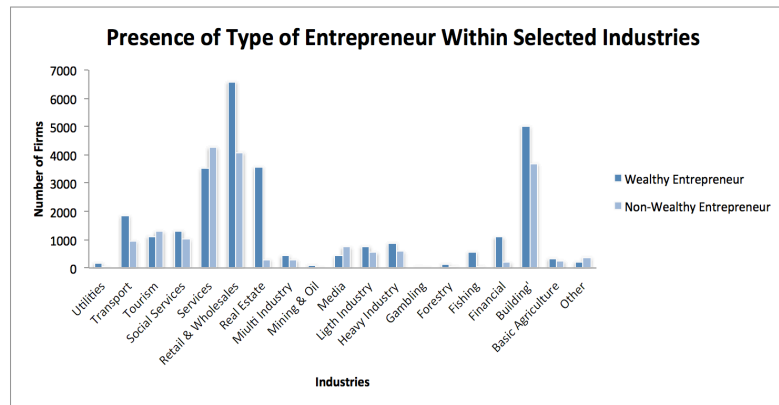


Figure 11.2. Graph showing the presence of each type of entrepreneur within each industry.



Next, we checked for leverage and debt maturity.

When assessing which group of entrepreneurs takes on more debt and has the highest debt maturity, we find that wealthy entrepreneurs have longer debt maturity in the three most capital-intensive industries. This might indicate that wealthy entrepreneurs achieve better loan contracts with financial institutions, in terms of longer maturity, and therefore have better prospects of entering such

industries. Low-quality firms with high asymmetric information between lender and borrower are usually screened out of the long-term debt market (Domenichelli, 2015). This finding might support the research by Gallo and Vilaseca (1996), that banks analyze the personal wealth of the owner rather than the repayment capability of the firm when making a lending decision. Higher founder wealth is likely to ease access to both short-term credit and long-term debt (Hvide & Møen, 2010).

In almost all of the industries, we see that non-wealthy entrepreneurs take on more leverage than wealthy entrepreneurs. Leverage is a measure of the long-term debt to total assets. It makes sense that non-wealthy entrepreneurs take on more debt than the value of their company's assets. Only financials and real estate display higher leverage values for the wealthy entrepreneurs.

Figure 11.3: Average debt maturity within selected industries.

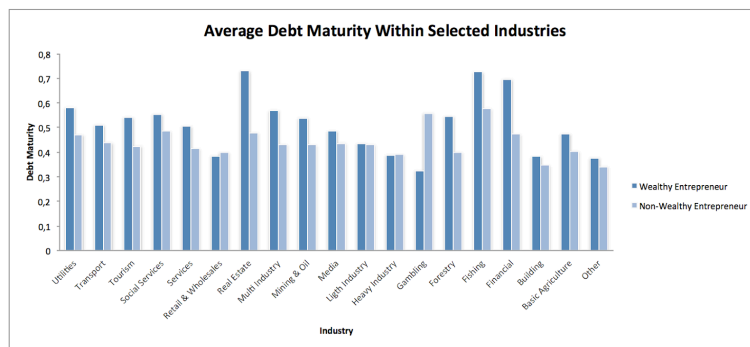
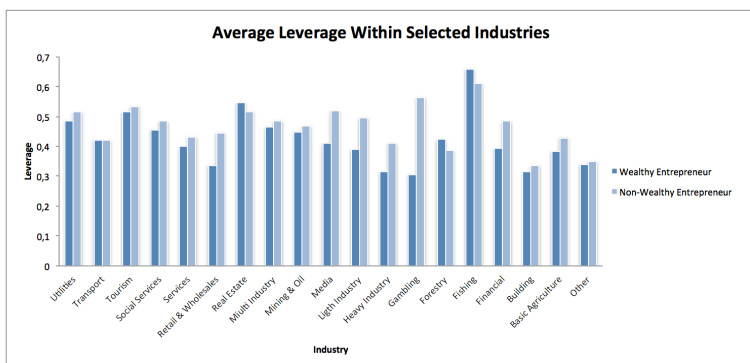


Figure 11.4: Average Leverage Within Selected Industries



12.0 Qualitative Analysis

In this chapter, we present an overview of our findings from a set of interviews conducted with entrepreneurs from our two groups of study. The purpose of this chapter is to shed light on subjective experiences of entrepreneurship. We discuss how well theories regarding entrepreneurs actually translate to the Norwegian market and the entrepreneurs operating in it. This section, compliments the quantitative analysis with perspectives from entrepreneurs in Norway. The full interviews can be found in **Appendix 4**.

12.1 Motivation

Our motivation for conducting several interviews was to compliment the quantitative analysis. We wanted to give this thesis a qualitative aspect by adding personal experiences and subjective thoughts of individuals we are analyzing in our data.

Although our data has restrictions on the firm age of the entrepreneurs we are analyzing, we decided to neglect this restriction for the part of the thesis that deals with the interviews. Our main reason was that most of the people in our network suitable for this topic are people with well-established companies. This, however, was not a shortcoming, but rather something that made for a stronger discussion on successful entrepreneurship.

We created several questions about how wealth affects entrepreneurs that we were not able to test empirically. This included the aspects of liquidity constraints, risk tolerance and the entrepreneurship puzzle. Through our network, we were able to gather seven individuals who participated in our interviews. Five of them belonged to the non-wealthy group while the remaining two belonged to the wealthy group.

12.2 Method: Processing and Analysis of Qualitative Data

After all of the interviews were conducted, the recordings were transcribed. All of the interview participants have given their permission for recordings of their interview. This enabled a better flow in the conversation during the interview. All the points and contexts were also more easily captured. The recordings were deleted after they were transcribed, as several of the interview subjects had this wish.

When all the interviews were transcribed, a thorough process of selecting out the most essential elements was initiated. Some of the quotes are included in our findings section. As this part of the master thesis was intended to compliment the quantitative research, a short summary of the most relevant findings and statements can be found in the next sections.

12.3 Interview Subjects

For the purpose of this thesis, interview subjects have been anonymized. However, this section describes the individuals who have been interviewed, and the industries in which they operate.

12.3.1 Wealthy Entrepreneurs

Interview Subject 1:

Age: 39

Works as a day-trader managing his own wealth. He started his career at 19 by purchasing his first apartment. He bought it in speculation, and sold it, earning good money, at that time. This was done with help from family money. His career continued for a while until he had built up a base of money, and had his own apartment. Then he started day trading, something he had been very interested in at a young age. He is the son of interview subject 4.

Interview subject 2:

Age: 71

Started his career when he finished his degree at BI Norwegian Business School. He graduated in the first class of “Siviløkonomer” at BI (which is nearly equivalent to an MBA). His journey went on to taking over the family firm. However, instead of continuing in his father's footsteps, he saw that the company would have to radically change direction and invest in then unheard of technologies. He not only took the family company to the next level, he transformed it and gave it a solid foothold in emerging technologies. His family, had industry within the agriculture and transport sector, but in the 1960's he took advantage of the emerging oil and gas industry in Norway, when these fossil fuels and the technology to extract and refine them were just being developed. He then built the company up to an investment company within real estate and finance.

*12.3.2 Non-Wealthy Entrepreneurs**Interview subject 3:*

Age: 55

Started his career as a salesman in marketing. He quickly understood his knack for selling as well as motivating sellers, and climbed the ranks of several of the companies in the sales sector... After 14 years of working in companies owned by others, he co founded a private equity company in Oslo. After 16 years of operations his PE company now manages funds for approximately 1 billion NOK.

Interview subject 4:

Age: 66

Grew up in the countryside, far from urban life. Started his career as an entrepreneur at the age of 10, selling fish along the side of the road near his home. He moved to Oslo where he worked at a food manufacturing company, and took evening classes in marketing on the side. Sales were his forte. After working at several companies, moving up in ranks in all of them, he started his own company. This company was within the debt collection industry. Some years later

he started another company in the banking sector. Today that company has 2300 employees, operating in 20 countries, and a market value of 8 billion NOK.

Interview subject 5:

Age: 39

Started his entrepreneurial career at the age of 24, when he bought, refurbished and sold apartments in Oslo. He did this on his free time, as he worked within the glass industry as his day job. He convinced his father to take a mortgage on the house in order to receive the funding he needed to purchase his first apartment. Today he has over 100 employees spread out in the several companies that he owns.

Interview subject 6:

Age: 64

Studied law for 5 years and later on, one year of economics. He started off his career in the tax administration office, before he moved on to working as an associate lawyer for two years. He worked as a lawyer at that firm until he moved out of Oslo, and started his own law firm.

Interview subject 7:

Age: 56

Studied law for 5 years. He started his career as a consultant for a big corporate company, before moving on to another firm, working as a property manager. Now, he runs a successful property managing office with a partner. He manages property for over 1 Billion NOK.

12.4 Findings

In this section, we give a brief summary of the findings from the interviews, and selected quotes from the interview subjects.

12.4.1 Findings Related to Risk and Risk Aversion

In the process of interviewing, it became evident that risk taking was not a trait that belonged to one group or the other. It was rather a trait that was unique for each individual. We found however that the wealthy entrepreneurs took risks, but that they were careful with liquidity. For example:

“Letting a company go bankrupt, and losing other people's money is not ok with me. So, we have always borrowed a lot, but we have also had a lot of capital. We have had more than one leg to stand on.” (Interview subject 2, 2018)

Interview subject 1, from the wealthy group, stated that only 8% of his portfolio was of high-risk stocks. He further explained that he never risks everything he has, although he admits to probably being less risk averse than people whom do not come from wealth.

The non-wealthy group also displayed differing attitudes towards risk. Although three of the interview subjects did not find the entrepreneurial entry to entail a lot of risk, the other two subjects stated risk concerns but also felt highly confident in their ability to succeed. Examples of this are given respectively:

“Of course, it is risky starting on your own, but when you are lucky enough that clients follow you, those risks are more or less eliminated”. (Interview subject 6, 2018)

“The stakes were high. I had a family, small children and a wife that was not working, as she was at home taking care of the kids. We had no salary the first two years. But I never doubted that I eventually would succeed. I had the confidence, I worked hard and somehow I would make it work”. (Interview subject 3, 2018)

12.4.2 Overconfidence

Overconfidence is the overestimation of one's own relative abilities.

The interview subjects we met with demonstrated a high self-confidence. We cannot say for certain if this can be justified as overconfidence, as the skillset of each of the individuals we interviewed have made them successful in their line of business. A common trait amongst the entrepreneurs were that they believed they were good at what they did, and knew how to exploit their strengths:

“I am good at reading other people, and selling things. If I believe in what I sell, you will go a long way to find anyone better at selling it than me.” (Interview subject 3, 2018).

One of the other interview subjects from the non-wealthy group, whom also started in sales, explained that being good at what you do increases confidence, and that few people actually succeed within sales:

“It is kind of hard to explain, because it has nothing to do with intelligence, but some people have the ability to make the sales go through. I had an easy time making the sales go through, and this increases confidence.” (Interview subject 4, 2018)

The entrepreneurs we interviewed seemed to have figured out what their strengths were early on in their life. Usually, it was within a field they found intriguing. One of the entrepreneurs from the wealthy group stated that he got a confidence epiphany after starting his career as a real-estate speculator:

“I thought to myself that this is very easy! You almost become a self-declared genius when this happens. I continued purchasing more apartments, renovated them and sold them.” (Interview subject 1, 2018)

12.4.2 Entrepreneurial Characteristics

On the matter of what makes an entrepreneur successful, one of the entrepreneurs from the wealthy group said that talent is extremely important. He followed this up by expressing a quote he is pretty sure he coined himself.

“There are two different kinds of people. Those that are intelligent, these people are good at acquiring knowledge, smart and academically strong. And then there are those with wit. These people are often not educated. They are not academics, but they have an extraordinary ability to improvise, organize, structure and to use their own and others knowledge.” (Interview subject 2, 2018).

Several of the entrepreneurs from the non-wealthy group stated that they were not academic men. Two of them pointed out that many of the profiled entrepreneurs in Norway are in fact, not educated.

“Maybe it is because they cannot see the risks on par with that of an educated individual. Educated people are more concerned with the mistakes and risks that projects can become.” (Interview subject 4, 2018).

Hard work ethic, experience, and communication skills were traits that were recurrently cited in the interviews. Furthermore, one entrepreneur from the non-wealthy group pointed out that a huge advantage is to know your own weaknesses.

“I am not academic. That is why I got a partner who is. I am humble enough to say that I am extremely good at some things, and extremely bad at other things. As a young adult you believe you can do anything. But with more experience and maturity you are able to bluntly say that you are bad at some things, and that you need help” (Interview subject 3, 2018)

12.4.3 Liquidity constraints

From the wealthy group of individuals, we saw that both savings and gifts from family were common as a funding source. Furthermore, they also seemed to have no problem obtaining loans from financial institutions. One of the entrepreneurs stated this very clearly.

“I got some money for my 18th birthday. I also went to the bank to get a loan. Having this money helped getting a loan, and it probably helped that I had the last name that I have. I am not “cash rich”, but I have always been able to get loans in the banks quite easily, because I am “value rich”. This has further helped me get better loan conditions, and better credit lines“ (Interview subject 1, 2018).

The entrepreneurs that did not come from wealth were able to start their businesses without taking on debt. Either they saved up money from previous jobs, or had investors backing them with equity. A reason why these entrepreneurs were able to start up without debt, relate to the findings in 11.2. Entrepreneurs who do not come from wealth might start up in industries that are not as capital intensive, usually in the service sector. We conducted interviews with entrepreneurs from this group whom operated within law, property management, private equity and other. The businesses in these industries entail offering a service.

“We have never retrieved financial aid from banks and such. The first year, we worked pro bono, not taking out any management fees. With our own savings we paid for rent, fees etc. the first couple of years. We have zero debt. All is funded and run by equity.” (Interview subject 3, 2018).

The entrepreneurs that did not come from wealth seemed to be able to get a company up and running without approaching financial institutions, some even had clever ways of getting favors from people along the line.

“With the first company I started we had 500 million of share capital from investors. We also had a very positive landlord, who saw the importance of having this type of company at a certain location. This meant many more people visiting this location. We therefore got six months free rent for the location” (Interview subject 4, 2018).

A less traditional entrepreneur of the non-wealthy group stated that in order to receive his first loan as an entrepreneur, he convinced his father to take out a

mortgage on the house. He has taken on a lot of debt in his career, and in hindsight stated that he should have taken on even more.

“It has been the smartest thing I have done. Money has decreased in value, so those people whom have dared to take on debt have earned the most. In hindsight, I should have taken on even more debt, bought even more properties. But it’s not easy to acquire loans. It takes work.” (Interview subject 5, 2018).

12.4.4 Financial Crisis

The financial crisis of 2008 had an equilibrium disturbing effect on Norwegian firms. Although we found evidence of this in the quantitative analysis, we were not able to draw any conclusion of this in the qualitative analysis. This was because the entrepreneurs that participated in the interviews were not severely affected by the crisis:

“We didn’t really experience the financial crisis, due to the fact that we didn’t have debt from external financing institutions. We noticed that our network of clients didn’t expand, and since I work as a property manager, our clients did experience some difficulty with borrowing from financial institutions, but nothing really affected us.” (Interview subject 7, 2018).

The reason we see little effect of the most recent financial crisis among the entrepreneurs that did not come from wealth, was that they in general had little debt. This might in fact have been their intent.

“We were not hit as bad, as we are equity financed. If the rain falls, we do not want management to have to defend violated governance to the banks, and have to go find new funding. There is overall little debt in our portfolio companies.” (Interview subject 3, 2018)

Some entrepreneurs even saw the financial crisis as an opportunity to earn even more money. Two of the entrepreneurs stated that financial crises are good times

to invest, especially when you have equity to do so, or good relations with financial institutions.

“I earned a lot of money during the financial crisis. Two reasons for this; the interest rates went down. They suddenly were cut from around 7% to 3%. I thought that was really nice. And the other reason is that I bought a house (at a very nice location in Oslo) during the crisis. I got an extremely good price for that house. Handelsbanken fully financed that purchase. You can’t give up. If you don’t get the answer you want from that bank, you need to approach another bank.” (Interview subject 5, 2018).

12.4.5 Entrepreneurship puzzle

The entrepreneurship puzzle relates to the motives for entering entrepreneurship, when entrepreneurship is commonly thought to be less economically rewarding. Though the non-pecuniary benefits seemed to be of highest motivation for most of the interview subjects, we found that the entrepreneurial profession was highly economically rewarded.

“The biggest pro of being your own boss is the flexibility, both in terms of working hours and who you want to take on as clients and not having the free rider problem of other employees.” (Interview subject 7)

“It is a self-satisfaction to work for myself. I do not want someone bossing me around, and to grow old in a system, where they eventually degrade you for a younger model. I want to be free” (interview subject 3, 2018)

One of the interview subjects stated that becoming an entrepreneur was not motivated by either pecuniary or non-pecuniary benefits but by circumstantial factors:

“The main reason was to move back home. If I had stayed in Oslo, I would most likely have become a partner in the firm I worked for” (interview subject 6, 2018).

The interviews indicated that most of the entrepreneurs expected higher wages when working alone, but that the largest motivation was the flexibility of working alone. Proving, in part, that non-pecuniary benefits were of the highest motivation.

12.4.6 Business Entry

This finding was more directed at those entrepreneurs from the non-wealthy group. We asked whether they would have started out on their own earlier in life, given that they had access to more capital earlier. The answers were unanimously no. The most common answer was that starting on one's own wasn't solely dependent on monetary reasons, but other factors:

"I felt like I was my own boss the entire time I worked there, as I had free reins. The biggest owner of the company let me pursue exactly what I wanted. If he had told me what to do, I probably would have quit earlier." (Interview subject 3, 2018)

What we found interesting was that most of the interview subjects had different reasons for not starting out earlier. None of them gave similar answers when asked if they would have started earlier on if they came from wealth, as seen below:

"No, I think that would have been a totally different path for me. I did not come from a wealthy family; we had enough, but not a lot. This has affected me. I am no big spender. I do not like to splurge money. It is very natural to me to be careful. My kids on the other hand, have a different viewpoint of this than me." (Interview subject 4, 2018)

and,

“No, because it costs an incredible amount of time. There is a lot of hardship in order to reach goals. If you come from wealth, you might not put yourself in that discomfort.” (Interview subject 5, 2018)

12.5 Discussion

On the matter of risk and entrepreneurship, we found that all the entrepreneurs embody differing risk tolerance. We did not find evidence of the wealthy being more risk taking than those that do not come from wealth. Instead, we found that risk tolerance is related to personal characteristics. We did not find evidence of wealthy entrepreneurs being less risk averse due to their wealth, as the theory stated in chapter 3.2 would suggest.

As already stated, it is hard to figure out if our interview participants suffer from overconfidence, since they have all been very successful in their entrepreneurial careers. However, we saw that most of them had high confidence when it came to their own abilities. Whether they believed in themselves and the idea, or believed themselves to be better than others in certain areas.

As Hurst & Lusardi (2004) stated, wealthy entrepreneurs have access to funding that does not entail “payback” commitments. This is in line with our findings from the quantitative analysis. The wealthy group of entrepreneurs are characterized by having supply of family money that they have utilized in starting or growing their businesses. The entrepreneurs we interviewed have all succeeded as business creators and business runners. It might therefore be biased to draw a conclusion that liquidity constraints do not bind. The entrepreneurs with whom we have spoken with have not been stopped by this. The interview participants from the non-wealthy group stated that it was difficult to get loans in banks, while the interview subjects from the wealthy group said that they faced little problems with this. It is therefore likely that the liquidity constraints hold to some extent. Again, it is hard to tell, as most of our interview subjects have started their businesses without taking on debt.

Entrepreneurs have been characterized as individuals who detect and exploit opportunities, and make rapid decisions under uncertainty (Viinikainen et al, 2017). Many of the entrepreneurs in our study have proven this. These were among several of the qualities that make for good entrepreneurs. One of the qualities stated most often, was the need to be hard working and daring.

While Statistisk Sentralbyrå found that on average there were negative returns on entrepreneurship (SSB, 07.05.18), our findings from this section were more in line with that of Berglann et al. (2010). We found that entrepreneurship is generously rewarded, both in terms of monetary value and non-pecuniary benefits. The “entrepreneurship puzzle”, is therefore moot in this analysis. Most of the entrepreneurs that were interviewed stated non-pecuniary benefits for becoming entrepreneurs, but pecuniary benefits did not fall short of their expectations of future earnings.

As for business entry, none of the non-wealthy entrepreneurs stated that they would have gone into this line of work earlier if they had access to more capital earlier on. This goes against wealth as being an important factor for deciding to become an entrepreneur. Most of the interview subjects stated that there were other things in life that kept them from starting earlier on.

13. Limitations and Further Research

Our research poses some limitations, which could give rise to further research on this topic.

Firstly, we are limited due to the fact that the qualitative part of the thesis is slim. We only got to see the soft data through a small scope of interviews. The results from this part of the thesis also became biased, due to the fact that we only interviewed successful entrepreneurs. Therefore, we were not able to capture the true picture of entrepreneurship in Norway. A more condensed list of interview subjects, ranging from wealthy to non-wealthy subjects and successful to non-successful businesses, would improve the results, and could give a more comprehensive and correct picture of real events and common characteristic traits.

Secondly, our research was restricted to companies being owned by no other member of the CEOs family. For further research, we believe it would be interesting to consider entrepreneurial companies where the CEO's family owns equity stakes in the company. We only considered wealth of the entrepreneur's parents/family in this analysis. Another way of assessing parental and family wealth and the effect it has on entrepreneurial activity, is to consider the monetary contribution they make through equity stakes in the company. This is an interesting question that would shed light on the matter of family wealth, liquidity constraints and entrepreneurial activity in Norway.

14. Conclusion

This paper investigated wealth's impact on entrepreneurial activity in the Norwegian market by using both quantitative and qualitative methods. Our empirical study sheds light on an important research area and opens up for further research regarding entrepreneurship and wealth.

Firstly, we overcame the difficulty of obtaining wealth measures, by using a proxy of wealth. This enabled us to separate entrepreneurs that came from wealthy families from those that did not. By investigating the uniqueness of wealth's effect on firm performance, we were able to detect relations that have not yet been exposed empirically on the Norwegian market. These findings have helped us answer the research questions we posed in this research paper.

Secondly, we investigated how wealth affected entrepreneurial performance during an economic crisis. This was investigated for the time period, 2008-2010, when the latest financial crisis marked its presence in Norway. The findings from this investigation helped us further understand the implications of wealth for entrepreneurs. Finally, through interviews with professionals that have created their own businesses, we were able to gain insight into matters we do not have prerequisites to investigate statistically.

Our results indicated that coming from a wealthy family does in fact increase entrepreneurial performance, in terms of firm performance. In addition, our empirical analysis implied that entrepreneurs that came from wealth, performed better during financial crises, than those that did not come from wealth. This implies that wealthy entrepreneurs do not only perform better during economic stable times, but also during dis-stable times, when other financial sources are limited.

The industry specific analysis displayed a clear dominance of wealthy entrepreneurs in the top three most capital-intensive industries. These findings might contribute to assumptions that entrepreneurs that come from wealth have higher assets, and therefore have an easier time entering these industries. Furthermore, within these three industries, debt maturity was higher for the

wealthy group, which could indicate that they might receive better credit conditions with longer maturity. The analysis further displayed a dominance of non-wealthy entrepreneurs in the service sector, where there usually is little capital needed to start a business. This makes it easier to start a business using ones' own savings.

Our qualitative analysis revealed that coming from wealth did not seem to be a crucial factor for business creation. Wealthy entrepreneurs might be able to draw upon family capital, but non-wealthy entrepreneurs found other ways of starting a business, either with loans or savings. This suggests that while having access to family wealth eases entry into entrepreneurship, entrepreneurs do not depend on having wealth to create successful businesses.

Furthermore, our findings suggested that the amount of risk an entrepreneur was willing to take, was based on personal characteristics rather than wealth.

Common opinions among the interview subjects, was that they understood that entrepreneurship goes hand in hand with taking risks, working hard, and being able to take action.

Conclusively, we observed that entrepreneurs that came from wealth had higher firm performance, both in normal economic states and during economic crisis. In Norway however, the government and various organizations offer financial aid and guidance making entrepreneurial activity widely accessible. This was in line with our findings from the qualitative analysis, which indicated that the economic environment in Norway is a fertile ground for entrepreneurship, regardless of wealth level.

“I’m convinced that about half of what separates the successful entrepreneurs from the non-successful ones is pure perseverance.”

-Steve Jobs

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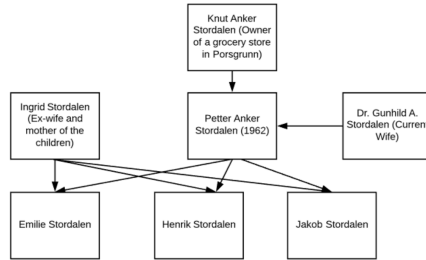
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Appendix

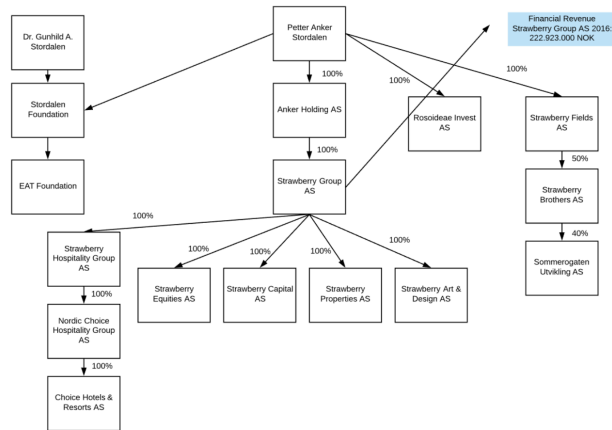
Appendix 1.0: Family and Organization Diagrams

Appendix 1.1: Stordalen (Non-Wealthy)

Stordalen Family:

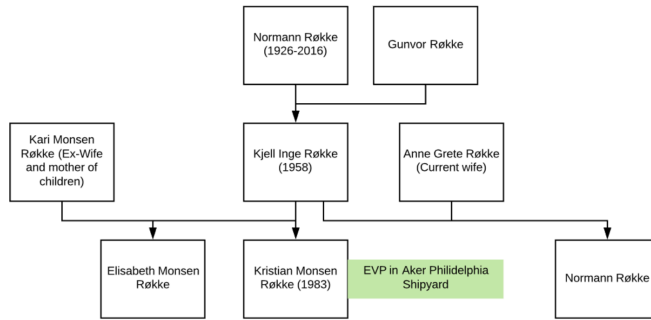


Stordalen Organization:

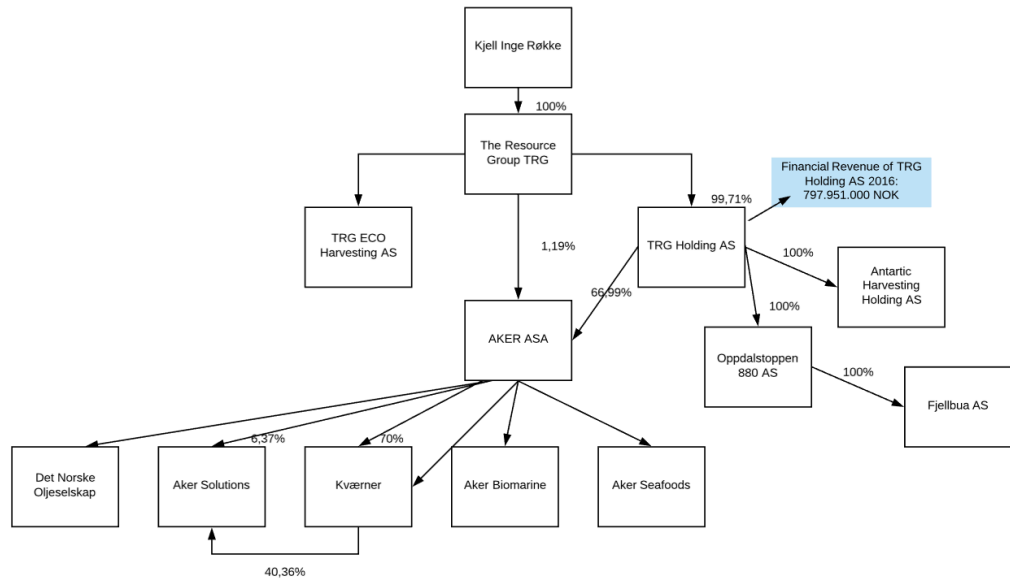


Appendix 1.2: Røkke (Non-Wealthy)

Røkke Family:

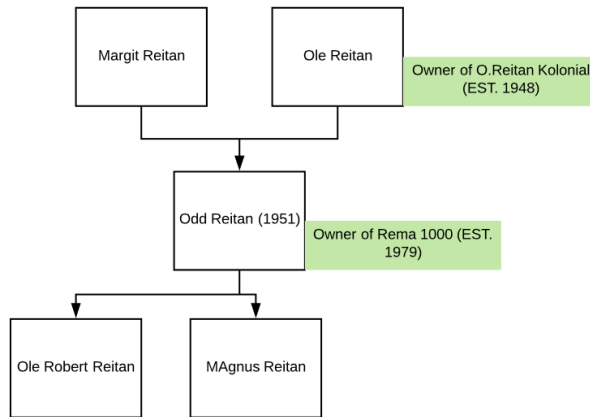


Røkke Organization:

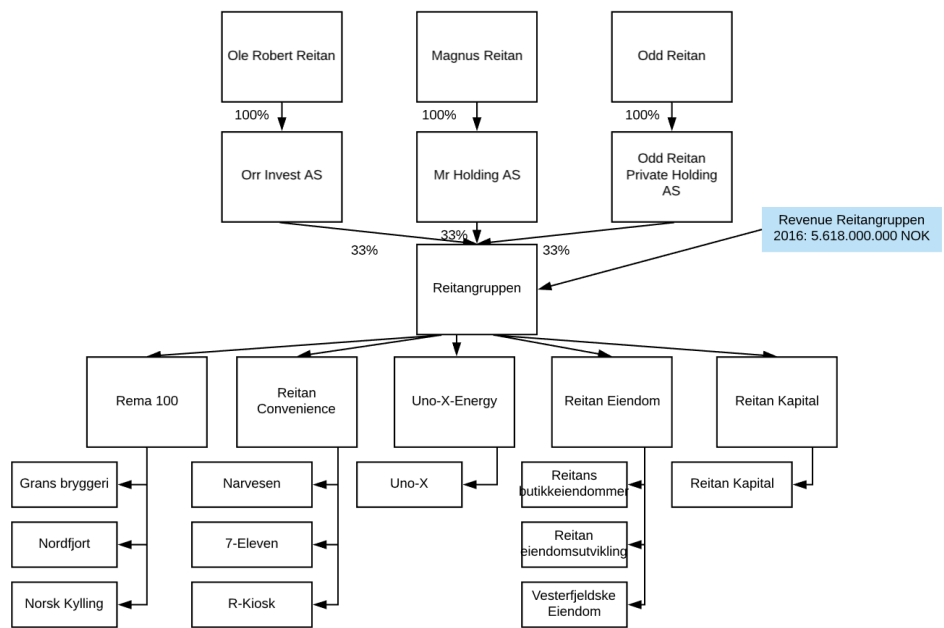


Appendix 1.3: Reitan (Non-Wealthy)

Reitan Family:

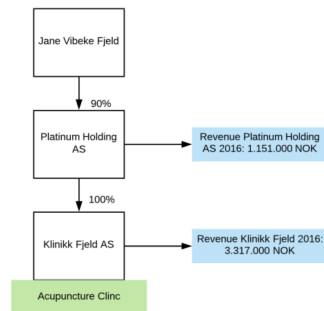


Reitan Organization:



Appendix 1.4: Fjeld (Non-Wealthy)

Klinikk Fjeld Organization:


Appendix 2.0: List of Entrepreneur Incentivized Financial Support

NAV- offers a substitute for wage lost up to 12 months while setting up business, plus for a few months after they have gotten the business up and running.

- **Innovasjon Norge-** offers an establishment grant to individuals with a unique idea. This is a loan up to 1.5 Million NOK, which is rent free for 2 years and installment free for 4 years, at which time the loan must be paid back in its entirety.
- **Norges Forskningsråd-** gives financial aid schemes for firms that want to develop products through research and development. Under this scheme we have SkatteFUNN.
- **SkatteFUNN-** provides a 20% deduction on R&D costs for internal projects. Through SkatteFUNN, small and medium-sized firms can get 20 percent of project costs as tax deductions through tax settlement. Large companies can receive 18 percent deduction of project costs. SkatteFUNN approved 13,1 billion NOK on 24 619 projects (76% of all applications) from 10 250 companies. In all, 2,928 new applications were submitted in 2014 (a 16% increase over 2013), with tax deductions totaling 1.3 billion NOK from the 7.6 billion NOK in R&D projects approved (GEM).
- **Crowdfunding-** this is a fairly new and internet-based way of collecting money. You present the product or service on a crowd-funding website, where anyone who likes your idea can provide an amount by heart and wallet. Essentially this

enables the entrepreneurs and investors to meet with out the intermediary of a banking institution. Examples of such websites are startskudd.no and startupmatcher.com.

- **Venture Capital-** VC's invest in companies in the early stage of operations but that have big growth potential. In addition to financial support they often contribute with competence and/or network through active ownership in the companies they invest in.
- **Business Angels-** resourceful individuals that can supply new established firms with capital, expertise or network. There are many such Angel Investors in Norway, who are looking for exiting projects to invest in. Networks where investors can look for potential investment objects are Connect Norway and Seed Forum International.
- **Debt From Bank Institutions-** lending money from the bank is an option for people that do not have other capital resources to draw upon, or might need in addition to other sources. *After many years with increased housing prices, many people have the opportunity lend even more money with the increased value as collateral. This is of course not risk-free. Many banks might want property, surety or assets as a security (DNB).*
- **Friends and Family-** money from friends and family may be given in form of donations or loan. It is important to think thoroughly through what you are asking your inner circle to do. Many friendships and families have experienced hardship as a consequence of involving each other in the economic projects of one another.
- **Altinn-** this is a good site to check for additional grants that are possible to obtain, depending on the sector you want to pursue. For example, if you wish to enter the sea and fish sector in Norway, HAVBRUK finances projects that contribute to sustainable, market-oriented and profitable maricultural industry.

Appendix 3.0: Distribution between men and women in selected industries.

Gender	Male	Female
<i>Multi -sector</i>	1403	205
<i>Gambling</i>	110	0
<i>Social Services</i>	4179	2489
<i>Services</i>	22147	7053
<i>Real Estate</i>	6114	651
<i>Financials</i>	3752	286
<i>Media</i>	5286	434
<i>Tourism</i>	3936	1526
<i>Transport</i>	4096	167
<i>Retail & Wholesales</i>	18026	5222
<i>Building</i>	18885	428
<i>Utilities</i>	279	8
<i>Heavy Industry</i>	2785	131
<i>Light Industry</i>	1986	539
<i>Mining & Oil</i>	248	10
<i>Fishing</i>	786	24
<i>Forestry</i>	357	10
<i>Agriculture</i>	764	246

Appendix 4.0: Full Transcription of Interviews

Appendix 4.1: Interview Subject 1

Has your father's business life affected you in becoming a self-employed man?

Of course it has. There was always a little talk about work and the things he is doing at home. He had several things going on at the same time so he liked to confer about it. This has formed me. I don't know that I would be sitting here with this occupation if it hadn't been for my father.

I was early inspired to trade stocks. I found it fascinating that I became happy or angry when the stocks swung up and down. This was the time when you had to check the stocks on text TV, so this clearly is some years ago.

Especially since he has done so well, has it made you willing to risk more?

Risk isn't really the problem. It is being wrong, that I dislike. To have been wrong in a decision I took. Losing the money isn't the worst part, it's being wrong in my decision making. Money is a driving force. But the most important is to build up something, and that what you believed in is entirely right.

What qualifications do you possess that made you believe you could make it?

It started when I was 19. I started out purchasing my first apartment. I bought it in speculation, and sold it, earning a lot of money. I thought to myself that this is very easy! You almost become a self-declared genius when this happens. I continued purchasing more apartments, renovated them and sold them. After some time, I thought that this is too good to be true. It won't hold in the long haul. But I soon fell back on my first interest, which was trading stocks. By then I had built up a little money, and I had my own apartment. So I started day trading. This is what I really liked. You could gain a lot and bleed a lot the same day. You have to pay attention to what is happening, and be hands on. There is a lot of research that lies behind day trading that do not rely upon blogs or brokers that give advice on stocks. I wanted to trust my own thoughts and opinions.

You started out purchasing real estate, did you get any help from home?

Yes, I got some money for my 18th birthday. I got 100 000, and had 50 000 from before. I also went to the bank to get a loan. Having this money helped getting a loan, and it probably helped that I had the last name that I have. But I wanted to do this mostly on my own, and not be so dependent on my old man.

Have you received funding at later stages in your career from your family wealth?

We have a family company where I am a co-owner. This has also made it possible that I can do what I do. Even though we have never taken out any big dividends, I have had great underlying values. I am not "cash rich", but I have always been able to get loans in the banks quite easily, because I am "value rich". This has further helped me get better loan conditions, and better credit lines. I also have to add that owning stocks over the long haul, which have doubled or tripled in value

has made it easier to loan on those values as well. I have always had access to capital, even though it is not my capital.

Do you feel less risk averse than other people?

Yes, but I do not risk all I have, so that I have nothing if things go bad. I don't think I take high risks, only 8% of my portfolio that are high-risk stocks. I think it is very fun to follow a company from the start-up age.

Did you risk all you owned when you started out purchasing apartments?

Yes, I did. I was willing to risk what I had. But at the same time, I figured that if the market would fall I would still have some money left. I was willing to lose 60-70 percent of what I had. I didn't actually see anything wrong with risking the money, I thought that the properties I bought were of good value, so I thought I got them cheap.

Did you have an opportunity to take a more active part in your father's company?

Yes, I probably could. It is two-folded. Because he has been so talented in what he does, I don't think I could have lived up to it. And I don't think that he wanted me to enter either. But we do own things in the same industry that we have bought together both privately and in the family firm. He operates in an exciting industry, but it did not trigger my interests.

Appendix 4.2: Interview Subject 2

How did you get to where you are now in your career?

During the oil rush in Norway in the 1960's . Oil isn't production. We operated in agriculture and mechanical industry, with a leading position in manufacturer of non-motorized transport equipment to all sectors. This was my father's creation. He established this company in 1941. This company was the first to introduce robotics to the welding and grinding parts of production. I told my father, that now we only have a few years ahead of us, because when the oil comes, it "har ikke lønning på kalkylen". The firm that survives in high competitive markets are

the ones that are fastest and best. 22 wheelbarrow producers in the Nordics, but I was alone for a few years. When the oil came, all industrial firms in Rogaland were wiped out. Everything had been degraded. The company of my father was one of the few that survived. I had silver spoon in the mouth and high fork in the buttocks. I had an opportunity, and if you don't take advantage of it and do what you have to, you are done.

Most of the entrepreneurial companies that have started up are of people that are not educated. It's the boys that have worked with oil, goods and services. They have talent. Now I must share a saying that I am pretty sure I have coined. There are two different kinds of people. Those that are *intelligent*, these people are good at acquiring knowledge, smart, academically strong. And then there are those with *wit*. These people are often not educated. They are not academics, but they have an extraordinary ability to improvise, organize, structures and to use their own and others knowledge.

How have your relation to debt been during your career?

I have always been very careful with liquidity. I have always been liquid. The whole business idea is to use loan. In order to get return on equity you must "gire penger". In that way, a point is to use as little as possible of your own money, and reproduce on the basis of other people's money. This has to be done with low risk. If anything were to happen, you should have liquid back up, so that you do not lose the banks money. The most important asset a businessman can acquire over time is that you are decent. Letting a company go bankrupt, and losing other people's money is not ok with me. So, we have always borrowed a lot, but we have also had a lot. We have had more legs to stand on. Three legs, one in development, one within growth and one within exit. So that you circulate are of business.

Has it been hard to get loans?

Never. This entails that you have trust. It is because we do things in an appropriate matter. If one of our projects has gone bad, we do not default. We seal the hole with funding from one of the other projects we have going on. Not everything has

had success; nearly no one has exclusively successful projects in their career. But you must be able to clean up after yourself. Not just run away when it fails, and let other people take the fall.

It has never been a problem to get loans from the banks when we have needed that. Although my dad was a respected businessman, it took time for people to see what kind of person I was. Trust is something you must build, not something you inherit.

Is your father the reason for you choosing this career path?

No, it is not. I admired my father. My family has a history of business and industry. My dad worked around the clock and was extremely skilled, but he was very technical. So I thought that if I didn't take care of the business side of operations, we wouldn't survive the oil wave that came. And now when the oil crisis came 4 years ago, we pulled out of more things. And those people whom are on the fence if the oil might come back are wrong. And if it does it will be different that what came before. Unless you are extremely flexible and fast you will not make it.

It might have helped that I came from a proper family, which was known for being so. The apple doesn't fall far from the tree. When you tell me that you are the son or daughter of this and this person, I immediately put you in a categorical box.

A child's upbringing also is important. My parents were strict, but always extremely kind.

Appendix 4.3: Interview Subject 3

How have you come to the position you are today?

I am a salesperson. I knew this from an early age. And I was good at sports; this is probably where I got my confidence. Not from academic achievements. It is important to figure out what you are good at, in order to increase confidence in one self, and to find areas you will thrive in.

After High School I left for College in America, on a soccer scholarship. I took a Bachelor's degree in Marketing and Economics. At that school I was told that if

you're ever going to get a management position in marketing you need to start in sales. After that I came home and started as a salesman. During my first year working at a company with 50 other salespersons, I was always in the top 3. So I knew I was good. I became the sales manager, sales director, CEO and so on. I remained in the company for 14 years, and helped build up a company with over 110 employees. In the later years of that position, the company sold and bought some companies. This gave me a feel for that type of business, which I found very exiting.

I teamed up with a friend that was a bit different from myself. He is a thinker, and I am more of a doer. This meant we fulfilled each other, I retrieved money from investors, and my partner, with an earlier work experience from McKinsey, did most of the paperwork. We got together the things to start our first fund, 16 years ago.

We found a market where competition was low, Private Equity. We found a good formula that helped us approach companies of interest, and to work efficiently with them throughout the period we owned stakes in them and to achieve good exits. So, this is something we have continued with. Our intent is to remain a small business, or a proper size, that today manages funds for approximately 1 billion Norwegian Kroner.

How did you fund the start of your entrepreneurial career?

We went out and collected money through shareholders to a private equity fund structure. We have never retrieved financial aid from banks and such. The first year, we worked pro bono, not taking out any management fees. With our own savings we paid for housing fees etc. the first couple of years.

Was it hard to get funding, seeing as you had no reputation to help ease the access to capital?

It is a little hard, we had never done this before and were pretty much unfamiliar with how to proceed in this line of doing business. So we approached friends and family, and people we had in our network from earlier work and social gatherings. Right when we had gotten started, two planes went into the Twin Towers in New York, resulting in a huge crisis situation for the whole world. This affected us, a

little rough patch for us. But we had a goal to gather money for a fund of 100 million Norwegian Kroners, which we were successful in doing. This was a lot of money, so we were very happy. It wasn't easy, but like all else in this life, you can't just give up. You have to give them hell.

Have you ever approach the bank for funding?

We have zero debt, and never approached the bank. All is founded and run by equity.

Do you believe that if you had been more liquid, you would have started your entrepreneurial career easier, or at an earlier point in life?

No, I already felt like I started for myself after College. Even though I was an employee, I quickly become the CEO and co-owner of the company. At the time I was there I contributed in the growth from being just one company to becoming six. I felt like I was my own boss the entire time I worked there, as I had pretty much free reins. This is one of the reasons I stayed that long in that job. I had good results and many responsibilities. The biggest owner of the company let me pursue exactly what I wanted. If he had told me what to do, I probably would have quit earlier. I would never have gone into a big company and become an employee. I am way to impatient. I do not want someone bossing me around, and to grow old in a system, where they eventually degrade you for a younger model. I want to be free.

Risks when you first started your own business?

The stakes were high. I had a family, small children and a wife that was not working, as she was at home taking care of the kids. We had no salary the first two years. But I never doubted that I eventually would succeed. I had the confidence, I worked hard and somehow I would make it work. That is one of the big problems today; too many people are too afraid to take a leap and remain too concerned with receiving their salaries every month. One of the reasons consumer financing is so big is that 70% of wage workers are broke within the first couple days after they receive their salaries. People are not good at saving their money. Many families do not have enough savings that they are able to pay for a broken

dishwasher right after it breaks. Others are very into luxury consumer goods, and take up loans in order to buy a new purse for example to impress their girlfriends. It should be required of everyone have 100.000 Kr on your savings account. Lower education also makes for less risk averse individuals. Most profiled wealthy entrepreneurs have close to no education. As long as you can make up for it with being street smart, you are able to do very well in business.

Did you expect to make more money as a self-employed man?

In my first job as a salesperson, I was very eager to make a lot of money. I wanted an apartment and other things. That job was 100% commissions based, so I was able to make a lot at a young age. 16 years ago, when I started my company, I thought that now I will make the big cash. But this would take time, and I had learnt to be patient in order to extract long-term gains, not an easy task for me. In the long run you can make good money, a lot of money. But, I will go 3-4 years with a regular salary (in management fees) before we receive any big monetary amounts. The management fees have increased, and today we earn good money every year. When we first started out, we were three co-founders. But we ended up being two, as the third was too impatient in waiting so long before the exits, and was more keen to work in M&A.

In addition, being self-employed is good for me as I am my own boss. When we do good, that is my accomplishments, and when it goes bad, you have yourself to thank. It is a self-satisfaction to work for myself. In a way you could say that I still work for someone else, the shareholders of the funds. They expect me to work and perform well. But the biggest pressure is the one I put on myself. But overall, the important thing for me is to earn enough money, so I do not have to worry about paying bills, or buying things I need or want. I strived for economic freedom.

What qualities do you embody, that made you want to pursue what you did?

I am good at reading other people, and sell things. If I believe in what I sell, you will go a long way to find anyone better at selling it than me. But, I also know my weaknesses. I am not academic. That is why I got a partner who is. I am humble enough to say that I am extremely good at some things, and extremely bad at other

things. Being able to say this comes with maturity. As a young adult you believe you can do anything. Like a polish craftsman whom is an electrician, plumber, carpenter and woodworker. But with more experience and maturity you are able to bluntly say that you are bad at some things, and that you need help.

How did you experience the financial crisis?

We were not hit as bad, as we are equity financed. But some of the companies we invest in have debt. We invest in companies that have little debt, for exactly this reason. If the rain falls, we do not want management to have to defend violated governance to the banks, and having to go find new funding. There is all over little debt in our portfolio companies. On a general basis, financial crisis results in capital drought. The market as a whole will be affected no matter what.

We expect a financial crisis to come, especially since things have been good and growing the last decade. And we are well prepared for that.

If everything fails here, what are you afraid of?

I was more concerned with this before, but now I have established a financial base. I do not fund anything with debt, so I am practically debt-free. I have cash in my bank account, for the reason mentioned above. If there is another financial crisis looming, I will be well prepared. In times of financial crisis, people with cash can make good money on investments. Thus, I regard a financial crisis as an opportunity. As an example, Warren Buffet invested heavily in good companies during the last financial crisis, while they were very underpriced. I have learnt that in downturns, things have to go up again. So investing during a crisis is good business. Let the next financial crisis come.

Appendix 4.4: Interview Subject 4

How have you come to the position you are in today?

I was raised on the countryside on a farm, far from the urban life. Although I grew up on a farm, that was never an interest of mine. I am more of a creator and a marketing person, with interests in sales and communication. I figured this out at a young age, selling fish along a road that went to Sweden. It was totally random,

I had been fishing at a local river, and on my walk home a Swedish man pulled over and asked if he could buy my fish. He paid well, and I thought, my god is it that easy? That was the start of my career in sales. I sold fish along the road during the summer, that I had fished myself. I moved to Oslo at a young age and started in a industry firm. I was there for three years, and took evening classes in marketing. After that I started in a publishing company where I became the sales manager. Later I also sat on the board for some years. After this I started in an advertising firm, as a sales manager, where I helped build the company up in both Norway and Sweden. This was an exciting time. We had several salespeople, and it is interesting to see who succeeds and who fails. The fewest succeed. It is kind of hard to explain, because it has nothing to do with intelligence, but some people have the ability to make the sales go through. While other people who actually have better preconditions and are better schooled, they just aren't able to make it as a salesman. I think this is something that you have in your spinal cord (ryggmargen). I had an easy time making the sales go through, and this increases confidence.

This is the best training I got, you learn a lot about people, sales, structure and problems at the working place. After seven years, I started in a debt-collecting firm as a marketing director. After a year I became the leader of the company in Norway, because the owner wanted the leaders to be well oriented in sales and marketing. This was a great period. I was on the board when the company did an IPO on the Luxembourg stock exchange. The owner of the company had high trust in me, so I was put on the board of both Sweden and Finland, the two largest companies of the international group. I earned good money, and good conditions. I invested in some stocks that also turned out quite profitable for me. This made me dare to start something on my own. In 1991, I took with me seven people from this company and started my own debt collecting company. We built the company to become a third party debt collecting company. In the middle 90's we started buying debt portfolios. This was mostly small monetary amounts. We saw quickly that this was good business. In 1996 we invited investors to become shareholder on the ownership side of the portfolios we bought, through a Kommandittselskap. And we financed it through Finansbanken. This went really well, and in 1996 we came by a very large portfolio. It was so large, at that time, and I approached XX,

to help with the 60 million Kroner we needed to proceed with this portfolio. At that time I had met the man a couple times, and invited him to a Vålerenga football game, a team I was on the board of. We had a meeting with XX, XX and XX. XX financed the first big transaction we had. This was groundbreaking for the company, which resulted in a profit margin of fifty percent. Approximately at the same time, I heard that Finnish state would sell its entire bank debt, due to the financial crisis. This was huge; and I thought that now it is important to be in a good position. I went to Finland and bought a private company, one of the largest collection companies. In 1999 we were in a position to purchase a portfolio of all defaulted debt in Finland that were taken over by the state. After long negotiations With XX in the lead, we were able to buy this portfolio. This was a 600 million Kroner deal. We had 50 employees, and gross income of 270 million Kroner a year.

In 2004 I sold my shares in the company for 200 million kroners, and I was free to pursue new projects. It is weird to work hard at something for so many years, and then cash out and suddenly you are out of what your life has been about the last years. Although this was an extremely good payoff, the joy was short lived.

Several people experience this. But you get a belief in yourself and the confidence to pursue other projects. Shortly after I exited the company I thought it would be interesting to build a supply chain where a bank would be part of this chain. I discussed this with XX, and he agreed on it being very interesting and we got the idea to start and to purchase a couple collection companies in order to make up a supply chain.

We established the bank in May of 2005, and opened officially in September the same year. We established XX as well, but we were not able to get a bank license. We had to start from scratch, meaning that 75% of the stock needed to be offered to the public. We did not pay close enough attention to these rules. This made the owner structure different between the bank and the holding company. The company, later renamed to XX , bought several companies over a short timespan, in order to build the company quickly. It was later sold in the autumn of 2008, for a stock value of 900 million kroner. These were dark times, due to the financial crisis, so our investors were happy that they got a nice profit from this deal. The company is still operating as before. I am now an active chairman. This isn't a

consumer bank, but a refinancing bank. We do a lot of project financing, and are good at adapting quickly in order to help our customers in the best way. The bank is doing well, we are paying out dividends and a market value of 1.1 billion Kroner, and the equity is worth 500 million Kroner. This is my baby, it is doing so well. We are 25 employees, where all are really nice.

When we sold XX to a private equity firm in 2008, I got a three years quarantine. I do not recommend anyone entering a contract where you are put in a position of quarantine, it is an inconvenience. When it was over, XX and I started up again. I actually presented my idea to start our journey once more in the speech I held in his 50th birthday party. He agreed. I took 10 phone calls, and at the end of those I had 110 million Kroners on a bank account, so there was no turning back. We built a very large company. Today the company has 2300 employees, operating in 20 countries, and a market value of 8 Billion Kroner. These are the short recaps of my career. Other than this, I started XX. This medical center had a simple concept, where customers paid a yearly fee where the customers got a yearly checkup and access to specialists. I was the chairman for 8 years until I sold out. I have always had to report my performance to colleagues or investors, which have been a good driving force. This has also been good for me, as I have done very well. It has made it a lot easier to get funding for new projects.

When you started the medical center and the debt collecting company, how did you fund the start-ups?

With the medical center we had 500 million of share capital. We also had a very positive landlord, who saw the importance of having a medical center at a shopping mall. This meant many more people visiting the mall. We therefore got six months free-of rent for the location. We managed to build the company with the equity we had and the yearly fees from the members. We had loans in the bank with collateral of dental chairs and equipment.

It is not easy to approach the banks, much more so than it is now. In addition we also got a bad reputation when we started out, because we offered health services that people had to pay for. They didn't like that we profited from health issues. But people were sick of the long waiting lines at their general practitioners, so

there clearly was a market for private health services, and people were willing to pay for the availability.

The debt collecting company was challenging. We were three people who established the company and one investor. It is very capital intensive to start a debt collecting company. At that time we did not have the money to fund this ourselves. This is why we built the company with “Kommandittselskap.” It is no walk in the park to go collect funding. It takes practice.

We have performed well, something that makes it easier to get funding for the next projects.

Would you have started your entrepreneurial career at an earlier age, if you had more wealth?

I doubt that very much. I think that would have been a totally different path for me. I did not come from a wealthy family; we had enough, but not a lot. This has affected me a lot. I am no big spender. I do not like to splurge money. It is very natural to me to be careful. My kids on the other hand, have a different viewpoint of this than me.

What qualities do you believe that you possess that made you believe you could succeed?

I am not an educated man. If you look at profiled entrepreneurs in Norway, you will find that many of them are not educated. There should be more research on this. Why have so few from Oslo Vest, grown up with wealth, made it as entrepreneurs?

Kjell Inge Røkke heard from his teacher that if he was able to get a drivers license he should be extremely happy. Look at him today!

Maybe it is because you cannot see the risks on par with that of an educated individual. Educated people are more concerned with the mistakes and risks that projects can become.

*Appendix 4.5: Interview Subject 5****How did you get to the position you are in now?***

I started by myself in my father's garage at the age of 24 in the glass industry. After approximately one and a half years I started renovating apartments in the evenings. This started adding up to more and more apartments. During the period from when I was 24 to when I turned 28, I had only 2 weeks continuous vacation. In those four and a half years, I put down eight years of man-labor.

I eventually found that the money generated itself quicker than I could renovate, assemble or sell. Now I have over 100 people working under me, through a glass company and an industrial company. My father was very traditional in that one should do the work yourself, as other people wouldn't do it as good. I agree with that. But if you apply the right incentives and systems, it's incredible what you can earn with having other people do work for you. I figured this out really fast. But you need to follow up on the people doing the work. And if you're not going to do it, hire someone that will.

I am very result oriented. It doesn't help to be the one that works the hardest, if you do not have the results to back that work. As in sports, you rarely hear about the guy/girl that trains the most number of hours. It's all good and well that you are serious and motivates, but you got to have the results.

It is extremely tough though, both physical and mental. You become a person that dares to try. Henrik Ibsen says that *you can think it, you can believe it and you can see it, but it doesn't matter if you don't do it*. Petter Stordalen is a great example of a doer. This is up the alley of master programs, you sit on the fence, with your vision and beliefs, but that really doesn't matter. You actually have to do something. Saying that "that's what I said" means nothing. What did you do? Many people are like that.

Long-term prospects are also important. I thought that was really boring when I was younger. Having 3,6,9 years of prospects is important.

How were you able to get funding for purchasing the apartments at the start of your career?

I convinced my dad to take a mortgage the house in order to receive the funding I needed. I started out purchasing one apartment at a time. I renovated 3 or 4 a year apartments a year.

How did you dare to do this, when you indebted your family in the process?

Well, it was to earn money. I believed it would earn me money. I also bought apartments on the West side of Oslo. This was a conscious choice, as I believed that this is the place where the market falls last, and where I would get best paid for the renovation. People there are so snobby, that they would move right in. I was 100 percent right in that assumption.

I knew of two lumbers, that did somewhat the same in Lillestrøm. They did such high quality work that there was little left in profits. What I did was simpler, I moved a kitchen, opened up rooms, set up walls to make it to a three-bedroom apartment and let the bathroom be. Maybe I painted and renewed the kitchen. I was in and out, and earned maybe 400.000 NOK. This was a lot of money for me. This was also a bonus. I still kept my wage job in the glass industry. But this I did as an extra hobby. I also moved a lot during those years, due to the tax deductibility on real estate if you live in an apartment less than a year.

Do you believe you would have started that entrepreneurial career earlier or in a bigger magnitude if you came from wealth?

No, because it cost so incredible amount of time. My father was a boxer, and it costs you so much, in terms of training and injuries and hits, in order to get that title or that money prize. You piss blood for almost two weeks after a fight. There is a lot of hardship in order to reach goals. If you come from wealth, you might not put yourself in that discomfort.

Have you taken on a lot of debt throughout your career?

Yes, a lot! It has been the smartest thing I have done. Money has decreased in value, so those people whom have dared to take on debt have earned most. In hindsight, I should have taken on even more debt, bought even more properties. It hasn't been easy. I have had meetings with customer advisers at DNB that lasted for hours, where I have to describe the financial statements, and then they

have to go to their boss in order to... no that doesn't work. Handelsbanken, before Pareto Bank, had a reputation of being a commercial bank. I used them for 3 or 4 years. But its not easy.

I have a loan exposure of 100 million NOK.

How did you experience The Financial Crisis with that amount of debt?

I earned a lot of money during the financial crisis. Two reasons for this, the interest rates went down they suddenly were cut from around 7% to 3%. I thought that was really nice. And the other reason is that I bought a house (at a very nice location in Oslo) during the crisis. I got an extremely good price for that house. Handelsbanken fully financed that purchase. You can't give up. If you don't get the answer you want from that bank, you need to approach another bank. "A no isn't a no". Some banks are hungrier than others. And maybe you should be prepared to pay more.

Why did you believe you would succeed as an entrepreneur?

I figured this out in High School during a course in business administration and marketing. I found out that I wanted to start by myself, thinking that this would be the easy way. My father ran a little business in his garage, and I jumped into that. It wasn't easy at all.

No money is worth the experiences I have gained the last 15 years. If I had known then what I know now.... There are so many trying and failing situations. Olav Thon says that "those people that do not dare to fail are useless".

I started reading Kapital, and it inspired me that most of the top entrepreneurs in Norway do not come from wealth. I believe that the system, especially institutions like BI, doesn't want too many entrepreneurs. The system earns more money if there are fewer entrepreneurs. We are thought to not think like that and to not do like this.

Appendix 4.6: Interview Subject 6

How was your financial situation at the start of your entrepreneurial career.

How were you able to start your business (economically), and what has been the biggest challenge in starting and maintaining a firm?

I had clients from my previous work before I created my own firm, that kept income rolling in. In addition, I had saved up money from my previous work that I put into my firm as start-up capital. My biggest challenge was employing a secretary and implementing data equipment to get started. So I really didn't face any challenges about me starting an entrepreneurial career.

If you got loans or financial aid from the market, what type of finances did you receive, and how did you go about to get them?

No, only saved up money.

Liquidity constraints are of special interest to the thesis. Do you believe that if you had been more liquid, you would have started your entrepreneurial career easier, or at an earlier point in life?

I would not have started before. It was circumstantial. I wanted to move from Oslo back home, and to be able to work within the field that I am specialized in, I had to create my own firm.

What were your biggest risks starting out, and how have you faced them throughout your career?

That I had to quit and create my own firm. There weren't that many risks to be honest, only those mentioned. Of course, it is risky starting on your own, but when you are lucky enough that clients follow you, those risks are more or less eliminated.

How much did you earn in your last job, what do you earn now? Did you care about the expected wage when becoming an entrepreneur versus remaining a wage worker? What were you're non-pecuniary reasons for becoming an entrepreneur?

In the first year, I made less than I made in my previous job. However, after that the pieces fell into place, and I started earning more on my own than as a wage worker. As already stated, the main reason was to move back home. If I had stayed in Oslo, I would most likely have become a partner in the firm I worked for.

What characteristics do you possess, that made you believe you would succeed?

I understand and are good at communicating with my clients, in addition to having a hard work ethic.

How did the financial crisis affect you? Especially in relation to access and maintenance of credit.

I wasn't affected at all. Income was the same and so was firm growth.

Were you ever afraid of the economic consequences if you go bankrupt?

No

How many employees did you start with?

In the very beginning I had one secretary that worked part-time, and at the most I had 3 full-time employees.

How long after you started the firm did it really take off?

I made much more after 1 year than as a waged employee, but I feel that it took off from the start and had exponential growth the first 8 years. From that on it stabilized.

Do you use professional accountants (Firms under 5 mill in revenues)?

I used two different accountants.

How many hours do you averagely work a day?

Approximately 10 hours each day, or 60 hours or more per week.

If you had the chance to start your career over again, what would you do differently?

I wouldn't have done anything different, except maybe studied something else, haha.

What would you say are the top three skills needed to be a successful entrepreneur?

I only know for my profession, and in my profession you need to be good in written Norwegian, you need to be very good when it comes to interpreting the law and communicating it, but most importantly, you need to be willing and have the ability to work hard and work long hours.

Appendix 4.7: Interview Subject 7

How was your financial situation at the start of your entrepreneurial career. How were you able to start your business (economically), and what has been the biggest challenge in starting and maintaining a firm?

I'm coming from a system where I have been working for years with a good salary, so this was my security in terms of financial aid. This put me in a place where I could resign in my current job at the time, and start my own business. Liquidity was my biggest challenge since you need to pay your employees and your own wages. Thankfully, there weren't any employees, only me and my partner, therefore, it worked out very well.

If you got loans or financial aid from the market, what type of finances did you receive, and how did you go about to get them?

We didn't get any financial aid from financial institutions. We saved up and put that in the company. We applied liquidity whenever we needed it.

Liquidity constraints are of special interest to the thesis. Do you believe that if you had been more liquid, you would have started your entrepreneurial career easier, or at an earlier point in life?

No, I wouldn't because it didn't rely solely on monetary reasons, but the personal situation I was in when I started. I was in a point in life where family and living

situation was of little concern. In addition, professional network is important for this line of work, and it was big enough at the time I started.

What were your biggest risks starting out, and how have you faced them throughout your career?

The biggest risk was to get a high enough turnover to be able to live off from this business and to have a big enough portfolio of clients.

How much did you earn in your last job, what do you earn now? Did you care about the expected wage when becoming an entrepreneur versus remaining a wage worker? What were you're non-pecuniary reasons for becoming an entrepreneur?

I made approximately the same, a bit more being on my own. However, the biggest pro of being your own boss is the flexibility, both in terms of working hours and who you want to take on as clients and not having the free rider problem of other employees.

What characteristics do you possess, that made you believe you would succeed?

I am well liked, I think, and highly educated. In addition, I have a lot of experience, and my network, of course was important.

How did the financial crisis affect you? Especially in relation to access and maintenance of credit.

We didn't really experience the financial crisis, due to the fact that we didn't have debt from external financing institutions. We did however notice that our network of clients didn't expand, and since I work as a property manager, our clients did experience some difficulty with borrowing from financial institutions, but nothing really affected us. If we were affected it was only to a very small degree.