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Understanding the size and profitability of firms: The role of a biological factor

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Abstract

In a large sample of entrepreneurs, 2D:4D (second-to-fourth digit) ratio and managerial performance are studied. Entrepreneurs with lower ratio manage larger firms, manage larger firms when acquire control and experience faster average growth. Firms run by high prenatal testosterone entrepreneurs have lower profitability as measured by return on assets and return on sales. Prenatal testosterone is correlated with elicited measures of entrepreneurial skills, like work effort and optimism and the latter are correlated with firm size. This evidence suggests entrepreneurial ability has a biological component and is consistent with models of the size distribution of firms based on entrepreneurial ability.

JEL Classification: L26, L21, L25, D22

Keywords: Firm size distribution, Entrepreneurial success, Digit ratio

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