

Too much at stake? Entrepreneurial Wealth Concentration and Firm Performance*

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Abstract

Using detailed Danish registry data, we study how entrepreneurial wealth concentration—the share of an entrepreneur’s wealth invested in the firm—affects performance. We exploit the *marital divorce of a minority shareholder* as an exogenous source of variation in the majority shareholder’s concentration. Divorce generates a negative income shock that induces the minority shareholder to sell their stake to the majority shareholder, increasing concentration independently of firm fundamentals. Consistent with the hypothesis that higher concentration induces more conservative risk-taking, we find that following a minority shareholder’s divorce, both the mean and variance of firm performance—measured by ROE, sales, and employment—as well as the probability of default, decline. Counterfactual calculations suggest that the growth costs of entrepreneurial wealth concentration are substantial.

Keywords: Entrepreneurship, diversification, idiosyncratic risk, firm performance.

JEL Codes: D23, G32, L25, L26, O16

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