The Price of Uncertainty: How Founders in the UAE and Ethiopia Make Business Decision Under Risk and Uncertainty

Founders in both Addis Ababa and Dubai deal with the same types of entrepreneurial challenges: finding funding, getting into a marketplace, and expanding their operation (Team Shega, 2024; Yacoub, 2023). However, the institutional settings in which they conduct their businesses yet the institutional settings in which they operate differ fundamentally in their stability and predictability. In the UAE there is a fixed exchange rate tied to the U.S. dollar, regularity and predictability in the regulatory process, and relatively stable macroeconomic institutions (Nagraj, 2024). Ethiopia on the other hand abandoned its fixed exchange rate for a floating exchange rate in 2024 and has been subject to sudden and unpredictable policy changes (Daba Finance, 2024; International Monetary Fund [IMF], 2024).

If we accept that the structural aspects of entrepreneurial decision-making are comparable across countries, what does this difference in institutional context tell us about the ways in which actual entrepreneurially-related decision-making takes place?

To answer this we have to distinguish between two different conceptual formulations of uncertainty: **Risk and Genuine Uncertainty**. Risk refers to uncertainty regarding specific future events where the underlying distribution of those future events can be estimated based on historical experience (Knight, 1921, Part III, Ch. VIII). Genuine uncertainty refers to cases in which the distribution of events cannot be determined because the conditions under which those previous events occurred are themselves changing (Knight, 1921). A substantial amount of research in entrepreneurship studies represents all types of uncertainty as the former type, representing entrepreneurs as risk tolerant individuals who seek to optimize based upon estimations of event probabilities. This study seeks to determine if the latter type of uncertainty exists empirically, and if so, how it affects entrepreneurial thinking.

The comparisons of the UAE and Ethiopia serve our purpose here since they allow us to isolate the empirical existence of this question. The UAE's fixed exchange rate and predictable regulatory processes provide a level of calculability. The floating exchange rate in Ethiopia and institutional discontinuities provide a lack of such. Thus, if genuine uncertainty exists anywhere in this study it would likely exist in Ethiopia. As stated by one of the founders interviewed for this study regarding the transition from a fixed to a floating exchange rate for the currency, "the change was simply unforeseen", which indicates a failure or reduction in calculability rather than a typical market fluctuation.

Therefore, this study asks: How does institutional instability affect the way entrepreneurs think strategically when they do not have enough information to make forecasts, and how will they adapt their thought process when the environment prevents them from making any forecasts at all? I propose that when institutional environments produce true Knightian uncertainty, entrepreneurs will move away from using forecasting information and will rely instead on relationship information. Further, entrepreneurs will focus on preserving capital rather than committing capital. The next section of this paper will examine founder interview data from Ethiopia to test if true uncertainty exists empirically and to see if it influences entrepreneurial thinking patterns.

Section 2: Literature Review

Frank Knight's (1921) distinction between risk and uncertainty anchors this study. Risk describes outcomes whose probability distribution can be estimated from experience; genuine uncertainty describes outcomes whose distribution is unknowable because the conditions generating them are themselves changing. The implication for entrepreneurs is significant: when probabilities are calculable, forecasting is rational; when they are not, judgment and intuition are not failures of rationality but its only remaining form. Yet entrepreneurship research largely treats all uncertainty as calculable risk, reducing entrepreneurial behaviour to variation in individual risk tolerance. The open question is whether calculability is instead a variable feature of the environment.

If calculability varies, its source requires explanation. Douglass North's (1990) institutional economics supplies one: institutions reduce uncertainty in exchange by providing stable rules that make historical patterns reliable guides to the future. When institutions hold, calculable risk remains possible; when they fail, the effect is not merely more risk but a qualitative shift toward genuine uncertainty, since the past ceases to predict the future. A currency fixed for decades permits forecasting; the same currency floated after decades of fixity does not, because the underlying probability distribution has been rewritten. North therefore explains where Knightian uncertainty originates; Knight explains what founders do once they confront it.

A related literature examines how entrepreneurs act once uncertainty is present. McMullen and Shepherd (2006) argue that entrepreneurial action depends on both perceived uncertainty and willingness to bear it. Alvarez and Barney (2007) distinguish discovery-based entrepreneurship, which

relies on forecasting, from creation-based entrepreneurship, which proceeds through iterative action when forecasting is not possible, suggesting the environment may determine which logic is rational. Simon's (1955) bounded rationality adds a mechanism: when information is costly or unobtainable, satisficing replaces optimisation. Sarasvathy (2001) extends this into effectual reasoning, in which entrepreneurs facing unknowable outcomes reason from available means rather than predicted ends. This literature, however, largely treats discovery, creation, satisficing, and effectuation as stable entrepreneurial traits. This paper tests whether environment, rather than disposition, determines which logic is rational for a given founder.

Institutional-voids research offers a further mechanism specific to Ethiopia. Mair and Marti (2009), studying rural Bangladesh, show that where formal institutions are unreliable, entrepreneurs substitute informal networks and relationships for what markets and regulation ordinarily provide. In this paper, I examine whether a comparable substitution occurs in Ethiopia: whether relationship-based information becomes necessary, not merely preferred, once price stability, contract enforcement, and regulatory predictability cease to be trustworthy.

What remains unresolved is whether founders in different institutional contexts reason differently by choice or by necessity: whether observed differences reflect stable preferences that would persist regardless of environment, or a genuine collapse of calculability that makes one form of reasoning irrational and another the only option remaining. I address that question empirically, examining decision-making in Ethiopia, where institutional instability plausibly generates Knightian uncertainty, and in the UAE, where the institutional setting is stable. Testing it requires a research design capable of capturing how founders themselves describe and reason through uncertainty, a task taken up in the following section.

Section 3: Methodology

This study uses a qualitative, semi-structured design. I collected data from four founders, two in Ethiopia and two in the UAE, across real estate sales and marketing, agricultural machinery manufacturing, genomic data analysis, and yacht-building and chartering. Participants were recruited through my social network and LinkedIn, so the sample combines purposive and convenience sampling. Participants had to hold a direct decision-making role and be able to recall at least one significant

decision made under uncertainty about its outcome. Three interviews took place by video call in August 2026 and lasted approximately 19 to 45 minutes.

Each followed the same five-question protocol, with follow-up probes: a decision made without enough information to judge the odds of success, how the information gap was handled, the role of the local currency and regulatory environment, hindsight, and advice to other founders. The fourth participant answered the same questions in writing through an online form, so those answers were not probed. Calls were transcribed automatically and participants were told the study's framing before answering, which may have shaped their accounts. Neither participants nor their companies are named.

The data were analysed thematically, following Braun and Clarke (2006), around cross-cutting themes: type of uncertainty, nature of response, information sources, planning horizon, and role of relationships.

Section 4: Findings

4.1 The Institutional Shock

On 29 July 2024 Ethiopia's central bank moved from a managed exchange rate to a market-determined one, and the official rate went from 57.48 to 74.73 birr to the dollar in a single day (Daba Finance, 2024). The founder of a real estate sales and marketing firm in Addis Ababa, which works with a large local developer, said that "it wasn't just a normal type of devaluation" but a shift of the whole economy to a free-market exchange system, "for the very first time I can say in history." He compared it to a driver of twenty years being told that "all of a sudden the government tells us to drive on the right side." The comparison places the difficulty in the rules changing, not merely in the size of a price movement.

The direction of travel had been signposted, but not its timing. The government's 2020 reform agenda described a "gradual" move towards a market-based exchange rate (Federal Democratic Republic of Ethiopia [FDRE], 2020), and by March 2024 the parallel-market premium had risen above 100% (International Monetary Fund [IMF], 2024). Yet the same founder recalled the rate reaching about 100 a week later and "close to 160" two years on. A stated direction gave no basis for estimating that speed.

4.2 Why the Uncertainty Was Genuine

For the real estate firm, the shock travelled through its customers. Clients who still owed payments on their properties were "very anxious" and "didn't know what the devaluation meant for them"; if they stopped paying, "the construction cash would dry up" and projects would stall. Offering discounts or incentives was, the founder said, "a kind of decision that we couldn't make because it was unforeseen."

The agricultural machinery firm met the same shock at the start of its life. Its founder said the float came at the moment the firm took out its licence, and a design order that was "extremely large for a company of our scale" did not proceed; it is only going ahead two years later. Inflation then "just doubled our metal prices". He clarified that the sheet-metal components were local rather than imported, so this was domestic inflation, not an import shock, and that "it didn't just affect us, it affected the whole ecosystem." He located the uncertainty in execution: "where the uncertainty comes in is when we try to implement what we plan out... mostly takes a different way."

In both accounts, extrapolating from the recent past would have misled, because what had changed was the regime that generated past prices. That is consistent with Knight's (1921) genuine uncertainty rather than calculable risk. Because the shock was economy-wide, it also suggests that no firm was better placed than another to read it. These remain retrospective perceptions, not independent measures of unknowability.

4.3 Founder Responses in Ethiopia

The responses were not uniform. The real estate firm chose preservation: "we chose to protect what we already committed... we had to sort of focus on the existing projects rather than launching new projects because we didn't know what's coming up." With seven live projects and a large amount uncollected, it shelved new launches, including a large development whose design was largely finished, and for a year, until August 2025, offered clients no incentive or discount. The founder described this as a way to "collect and see and at the same time diagnose" new projects, and said competitors who cut prices for quick cash later struggled, an account that is secondhand and unverified. He also noted that the firm had "good cash flow" and strong bank backing, so preservation depended on financial slack as well as on uncertainty.

The machinery firm did the opposite. It spent six months on research and design for a new machine "before ever getting a single demand generated", a leap its founder described as "making the investment

without actually knowing the process clearly", with problems over parts "solved as we went along". With hindsight he would "hit demand first early on."

Both relied on relationships. The real estate firm tried "to keep the relationship with the clients and with the buyers who were so nervous about the situation." The machinery founder said "what is not uncertain is the relationship you build as a business with companies... those outlast a lot of the policies," and that "businesses don't happen in Ethiopia because they make financial sense. They happen because people have created those relationship[s]." The real estate founder said that "80 to 90%" of decisions in this period were "made based on experience."

These responses are consistent with Knightian uncertainty, but also with ordinary caution or firm circumstances: a firm with live contracts and slack could preserve, while a new manufacturer with little to protect could commit and adapt. The interviews cannot separate these explanations.

4.4 The UAE Comparison

The two UAE founders also described decisions whose odds they could not calculate, but the source of the uncertainty differed. The founder of a genomic data company had to choose the training data for its first foundation model, using a public dataset whose consent records for populations sampled in the early 1990s were inaccessible, and about which the institutions holding or distributing it disagreed. "There's no probability to assign," the founder said. The founder closed the gaps that research could close, such as licensing and provenance, and left historical consent unresolved because "the uncertainty wasn't something that we could solve with more research because the information itself is not there." Currency mattered little ("the currency variability barely affects us because we don't hold inventory"); what mattered was the governance regime, and "the distinction isn't stable versus volatile." The founder also warned that "most decisions that feel unknowable are calculable."

The yacht-building founder, who answered in writing, said "I could not calculate the real chance of success" when investing, given uncertain demand, timelines, approvals and material prices. The founder consulted engineers, captains, suppliers and yacht owners, started with existing boats, and accepted that "some uncertainty could only be understood by doing the work." The UAE's stability gave "more confidence", yet "I never felt that the decision was risk free." The advice offered was to "start in stages, protect your cash."

Three observations follow. First, genuine uncertainty was not confined to Ethiopia. Second, its sources differed: in Ethiopia it was economy-wide, shared by every firm and traceable to a change of regime, whereas in the UAE it belonged to the decision itself, arising from missing records or from unproven demand and timing. This echoes Knight's (1921) observation that uncertainty typically arises where a situation is "in a high degree unique", and suggests that an institutional shock is one route to that condition, not the only one. Third, the responses overlap: staged commitment and cash protection appear at both the real estate firm and the yacht builder, and consulting knowledgeable people appears in the yacht builder's information gathering as well as in the Ethiopian founders' emphasis on relationships. These responses therefore cannot be attributed to institutional instability alone.

With two cases per country, one unprobed written answer, and participants briefed on the study's framing, these findings are suggestive only. The genomics founder also distinguished a "genuinely uncertain" case from mere risk, in vocabulary close to the study's own. Section 5 considers what this pattern implies for the claim that the environment shapes entrepreneurial reasoning.

Section 5: Discussion

Knight's (1921) distinction predicts that where outcomes cannot be grouped into a calculable class, forecasting loses its footing and judgment takes over. The Ethiopian accounts are consistent with that prediction: one founder said the exchange-rate move "has never occurred in Ethiopia", and attributed most of his decisions to experience. But the founders described an inability to estimate, not a decision to stop forecasting, and the interviews cannot rule out that some responses reflected ordinary caution rather than epistemic necessity.

North (1990) explains where this uncertainty came from. Institutions supply the stable rules that make history informative, and when the currency regime changed, the informational value of past prices went with it. The Ethiopian data add scope: the shock was shared by every firm, so the uncertainty was systemic. The UAE data show that the North accounts for only one route to genuine uncertainty. Both UAE founders faced outcomes they could not calculate without an economy-wide shock, one over a dataset with lost consent records on which institutions disagreed, the other over a yacht project with unproven demand. Both situations were unique in Knight's sense. In these data, institutional instability

changes the source and scope of uncertainty, from decision-specific to systemic, more clearly than it changes the kind of reasoning founders use.

The responses support this. Protection of cash, learning by doing and reliance on trusted others appear on both sides, though not in every case. The machinery firm's decision to build before demand existed and the yacht builder's decision to start with existing boats both echo the effectual and creation logics of Sarasvathy (2001) and Alvarez and Barney (2007). Which response a founder chose seems to have depended on firm position: a firm with live contracts and cash could preserve, while a new manufacturer with little to protect could commit and adapt. This qualifies the view that such logics are stable traits, but does not show that the environment determines them.

Relationships need separate comments. The Ethiopian founders stressed them, which is consistent with Mair and Marti's (2009) account of informal substitutes for weak institutions. Yet the machinery founder also credited "this culture where you need to really create that relationship", so institutional gaps and culture cannot be separated here, and the yacht builder also consulted trusted experts. The machinery founder's advice to "be their friend generally" combines learning about customers' problems with a bond that outlasts policy shifts, which fits the fact that the order stalled by the float is now proceeding.

Two implications follow. Research asking who tolerates risk should also ask what kind of uncertainty is present, and whether it is shared or specific to the decision. And the genomics founder's warning that "most decisions that feel unknowable are calculable" is a reminder that these findings concern perceived uncertainty (McMullen & Shepherd, 2006), not measured unknowability. With two founders per country, differing sectors and firm circumstances, retrospective accounts, and participants briefed on the study's framing, the pattern is suggestive, not conclusive. Section 6 draws these strands together.

Section 6: Conclusion

This paper asked how institutional instability changes the reasoning entrepreneurs use when information is incomplete. In these four cases, instability changed the source and scope of uncertainty more clearly than it changed the reasoning itself. After the 2024 float, uncertainty in Ethiopia was shared by every firm and traceable to a change of regime. In the UAE it is attached to individual decisions, where missing records or unproven demand made outcomes incalculable. Founders in both countries relied on

a similar repertoire: protecting cash, learning by doing, and drawing on trusted others, with the choice among them shaped by firm circumstances as well as by environment.

The contribution is to treat Knight's (1921) boundary between risk and uncertainty as an empirical variable. Calculability depends on the situation a founder faces, and it can fail in two ways: through an institutional shock, as North (1990) would predict, or through the uniqueness of a single decision. Entrepreneurship theory should therefore ask not only who tolerates risk, but what kind of uncertainty is present and whether it is shared.

Much remains unresolved. Four retrospective accounts cannot separate environment from sector, firm age, resources or founder disposition, and they capture perceived uncertainty, not measured unknowability. Larger samples and comparison within sectors are needed. One tentative implication concerns Ethiopia. A founder who had held back new launches said "the rainy days are over" once he felt he understood how the financial side now worked, and was preparing to proceed. If that pattern holds more widely, predictable policy may matter for growth as much as access to capital. Institutions may thus shape not only what founders can do, but what they can know when they decide.

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