

Job-hopping and new firm survival

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Abstract

The paper builds on Lazear's (2005) jack-of-all-trades theory according to which individuals who invest in a balanced set of skills become entrepreneurs, while workers who specialize in a particular skill prefer to choose wage employment. Although a number of studies provide empirical support for this theory, little is known about the characteristics of this so called 'balanced' skills set. Do entrepreneurial outcomes of individuals presenting a highly varied work experiences differ from entrepreneurs with a less varied career? In particular, how do the characteristics of the entrepreneurs' job-hopping experience prior to the founding affect the growth of the new venture? It is well established that the industry and managerial pre-entry experience of the founder is beneficial. Experienced entrepreneurs are better at identifying opportunities (Shane, 2000), learning (Dencker, Gruber and Shah 2008), and have higher chances of survival (Delmar and Shane, 2003). However, only few studies examine the characteristics of the pre-entry experience. Gimeno et al. (1997) differentiate between a general pre-entry human capital (i.e. knowledge and know-how which can be useful independently of the new venture) and a specific kind of human capital (i.e. knowledge and know-how that relates directly to the new venture), Dahl and Reichstein (2007) argue that the source of pre-entry experience has a remarkable effect on the survival of the new venture. One of the issues that this paper addresses is to understand what is the right experience that enhances the new ventures' performances. Fallick, Fleischman and Reibtzler (1996) argue that frequent job-hopping facilitates the rapid reallocation of resources toward firms with the best innovations. This could be the result of the fact that especially high quality individuals who intend to become entrepreneurs are able to move to the best firms in order to accumulate the right experiences and pursue an investment in human capital (i.e. a varied set of the right experiences) that will turn out to be the more useful for the new venture's success. The data used consists of the whole population of Danish entrepreneurs (i.e. individuals who registered new businesses) in 2003 taken from the Integrated Database for Labor Market Research maintained by Statistics Denmark (IDA, from the Danish acronym). The IDA covers the whole Danish labor force and makes it possible to track annually individuals, firms, as well as the link individual-firm. The sample includes for each individual and year the identifier of the employer and its establishment (a single employer can have multiple establishments). The model used is a multinomial logit, which will account for a transition of the entrepreneur from the start-up to another employment state or unemployment. In particular, results show that the individuals who accumulate a too varied job history in terms of industries will be penalized, while entrepreneurs who move across different positions of the hierarchy present a higher chance to remain employed in the start-up they founded. This initial evidence suggests that successful jack-of-all trades are people who do not wander across industries, but those who accumulate a variety of experiences by occupying different roles in the parent organization.

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