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Connecting Labor Market Institutions, Corporate Demography, and Human Resource Management Practices

Abstract

With the growing attention to entrepreneurship as an engine of job creation and economic development, it is important for social scientists who are broadly interested in labor market and employment topics to focus attention on new firms and the policies and practices that surround them. The authors argue that the next generation of scholarship should pay particular attention to labor market institutions, the ecosystem of existing employers, and the human resource management practices that provide the strategic context for entrepreneurs and shape the career opportunities for workers. Remarkable variation occurs across space and time in the prevalence and performance of entrepreneurs. There are also many open questions as to the antecedents and consequences of entrepreneurship, for entrepreneurs, their communities, and their employees. The availability of new administrative data across many countries will allow for comparative cross-national studies and will provide opportunities to bring qualitative and mixed-method approaches to entrepreneurial labor market studies. This introduction and the articles in this special issue offer a path forward.

Keywords

entrepreneurship, employment, labor markets

Disciplines

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Comments

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INTRODUCTION TO A SPECIAL ISSUE ON ENTREPRENEURSHIP AND EMPLOYMENT: CONNECTING LABOR MARKET INSTITUTIONS, CORPORATE DEMOGRAPHY, AND HUMAN RESOURCE MANAGEMENT PRACTICES

M. DIANE BURTON, ROBERT W. FAIRLIE, AND DONALD SIEGEL*

With the growing attention to entrepreneurship as an engine of job creation and economic development, it is important for social scientists who are broadly interested in labor market and employment topics to focus attention on new firms and the policies and practices that surround them. The authors argue that the next generation of scholarship should pay particular attention to labor market institutions, the ecosystem of existing employers, and the human resource management practices that provide the strategic context for entrepreneurs and shape the career opportunities for workers. Remarkable variation occurs across space and time in the prevalence and performance of entrepreneurs. There are also many open questions as to the antecedents and consequences of entrepreneurship, for entrepreneurs, their communities, and their employees. The availability of new administrative data across many countries will allow for comparative cross-national studies and will provide opportunities to bring qualitative and mixed-method approaches to entrepreneurial labor market studies. This introduction and the articles in this special issue offer a path forward.

Three key questions have animated entrepreneurial studies over the past three decades: Who becomes an entrepreneur? Who succeeds as an entrepreneur? And more generally: What are the antecedents and

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consequences of entrepreneurial success? While early studies sought to understand the distinctive individual traits of entrepreneurs, more recent studies emphasize the broader context that supports and enables the work of entrepreneurial actors and the outcomes of their efforts (Autio et al. 2014). Entrepreneurship scholars have largely ignored employment-related topics, and employment scholars have largely ignored entrepreneurship-related topics. In this special issue, therefore, we focus on the intersection of entrepreneurship and labor market studies by bringing together research from labor economics, management, sociology, finance, strategy, and public policy. The special issue provides a rich set of interdisciplinary and cross-national articles on entrepreneurship and its implications for the management of people, employment relations, and labor market dynamics.

An important goal for this special issue was to demonstrate how scholars of labor markets and human resource management could advance the entrepreneurship literature using tools from industrial relations research. One key development we observed was the availability of matched employer–employee data in various nations, which could be used to conduct rigorous empirical analyses. We hoped that availability of these data would enable and encourage studies of entrepreneurship as a labor market process. We saw opportunities to connect ideas and methods from labor economics to insights from regional studies, organization theory, and economic sociology. Finally, we wanted to sketch out the analytic and policy opportunities for a potential next generation of entrepreneurial labor market studies within the tradition of the *ILR Review* that integrates the rigor of empirical economics with comparative industrial relations theory.

As a whole, this special issue opens a conversation about future studies of entrepreneurship as a labor market and policy topic. The seven empirical papers are creative studies set in different countries and contexts that are rigorous across a range of disciplinary traditions. In addition, a technical research note describes newly available US administrative data from the Census Bureau that we hope will catalyze additional research. The articles in this special issue contribute in several ways to the idea of a next generation of entrepreneurship studies informed by labor market economics and industrial relations theory. First, several of the articles take advantage of policy shocks or contextual variation to make strong inferences about entrepreneurial behavior and outcomes. The findings highlight the importance of formal labor market institutions that powerfully influence entrepreneurial action and outcomes. These findings reinforce the core insights of labor market economics and animate them in new ways to explain how legacy labor market institutions manifest in entrepreneurial careers. Second, most of the articles construe entrepreneurship as a career choice and examine individual entry into entrepreneurship and/or subsequent firm performance as a function of prior employment choices. This approach recognizes and extends John Freeman's (1986) insight that people are organizational

products and that the existing landscape of employers and employment opportunities conditions entrepreneurial action.

In this introduction, we argue that two key factors are central to understanding entrepreneurship from a labor market perspective: institutions and firm characteristics. In particular, we seek to anchor our understandings of entrepreneurship in the context of labor market institutions and firm human resource management practices. Labor market institutions, such as wage-setting policies, social insurance provisions, employment security, and the enforcement of restrictive covenants, all shape the attractiveness of becoming an entrepreneur or working for an entrepreneur. Similarly, the practices of existing employers in terms of wages, advancement opportunities, training and development investments, and so forth also influence employee career trajectories. The interesting variations in both—across space and time—offer a fertile landscape for developing new theory and empirical insights into the antecedents and consequences of entrepreneurship and entrepreneurial employment. Researchers are beginning to examine specific entrepreneurial employment-related topics, such as when entrepreneurial firms hire their first employees (Fairlie and Miranda 2017) and the wages (Burton, Dahl, and Sorenson 2018) and the benefits (Litwin and Phan 2013) they provide. But many unexplored topics and many opportunities can expand our current understandings. The articles in this special issue provide examples of how incorporating institutional and firm characteristics extend the scope of entrepreneurship research and yield new insight. We conclude by proposing a research agenda that builds on the articles in this special issue and continues to advance our understanding of how labor market institutions and established firms interact within a broader legal and regulatory ecosystem to foster (or undermine) new firm formation and survival and to encourage (or discourage) the creation of high-quality jobs.

Institutions and Entrepreneurship

The idea that entrepreneurs create jobs, reduce unemployment, and stimulate economies has captured the imagination of policymakers around the globe. A great deal of research in economics has long suggested that this policy linkage has empirical merit (Audretsch 2007). For example, a well-developed body of research has shown that small firms account for substantial job growth in modern economies (Birch 1979, 1987; Davis, Haltiwanger, and Schuh 1996; Neumark, Wall, and Zhang 2011). Although early studies rarely isolated the effects of entrepreneurial activity from the growth of more established small firms, Haltiwanger, Jarmin, and Miranda (2013) recently demonstrated that young firms—those recently founded—essentially account for all job creation in the United States. Ouimet and Zarutskie (2014) reported that as many as one in five employees works in a firm that has been in existence for fewer than five years. Most other

countries appear to exhibit similar patterns (Malchow-Moller, Schjerning, and Sørensen 2011; Ayyagari, Demirguc-Kunt, and Maksimovic 2014; de Wit and de Kok 2014; Lawless 2014; Anyadike-Danes et al. 2015), lending credence to the idea that entrepreneurial firms are engines for job creation.

Similarly, entrepreneurial firms are often depicted as drivers of new industries, product and process innovations, and overall regional economic development and job growth (Acs and Audretsch 1988; Wennekers and Thurik 1999; Azoulay and Lerner 2013). Moreover, the level of entrepreneurship varies substantially across regions (Armington and Acs 2002; Sorenson 2017). Regional-level research has been particularly effective in demonstrating the importance of local institutions, firms, and industry clusters in shaping entrepreneurial activity (Sorenson 2017). An important example is research on the role of universities in facilitating entrepreneurship and innovation (Owen-Smith, Riccaboni, Pammolli, and Powell 2002). Audretsch and co-authors (Audretsch and Feldman 1996; Audretsch and Stephan 1996) hypothesized that universities constitute an important source of knowledge spillovers through such mechanisms as patenting and start-up creation. Others have focused on the role of property-based institutions located on or near universities, such as science/technology parks and incubators/accelerators, in the creation of new jobs and firms (Phan, Siegel, and Wright 2005). Still others are assessing the impact of student-based ventures, located on or near campus, which have emerged as a potential source of innovation and job growth (Wright, Siegel, and Mustar 2017).

These facts—that entrepreneurship matters for both employment and innovation—have led to an explosion of interest in understanding who becomes an entrepreneur and who succeeds as an entrepreneur. After three decades of intensive study, a consensus has emerged that differences in personality, gender, family background, and family stage are associated with different entrepreneurial propensities. Men show greater tendencies toward entrepreneurship than do women; married people have higher entry rates than do single people; people from entrepreneurial families are more likely to enter and to succeed as entrepreneurs; and successful entrepreneurs are middle-aged as opposed to young (Aldrich and Cliff 2003; Fairlie and Robb 2007a, 2007b; Sørensen 2007; Parker 2008; Nicolauo and Shane 2009; Jennings and Brush 2013; Yang and Aldrich 2014; Azoulay, Jones, Kim, and Miranda 2019). But of note is how much these patterns vary over time and across countries and in ways that suggest the broader context is likely to matter more than individual characteristics for shaping entrepreneurial activity and performance (e.g., Thomas and Mueller 2000). Indeed, a critical question for individual-level studies is how, and how much, context is taken into account. It is possible, even likely, that ignoring context leads to an overestimation of individual effects. For example, Robb and Watson (2012) debunked the myth that female entrepreneurs are less successful than are male entrepreneurs by controlling for contextual factors.

Given the importance of entrepreneurship to regional economies, entrepreneurship scholars have long sought to explain the substantial cross-national variation in rates and types of entrepreneurship (e.g., Baumol 1990). Most of this work has shown that formal institutions, such as intellectual property protections, rule of law, and fluid capital markets, are important institutional precursors to entrepreneurial activity (Hall and Jones 1999; Lerner 2009; Bjørnskov and Foss 2013), although cultural differences are also widely understood to be relevant (Autio, Pathak, and Wennberg 2013). There has been extensive research, but less consensus, on the role of tax codes (Cullen and Gordon 2007; Bruce and Deskins 2012). These kinds of inquiries stem from a belief that policy and regulatory choices have important consequences for entrepreneurial outcomes. The overall approach to formal institutions has tended to emphasize how they shape individual incentives (van Praag and Versloot 2007), with little attention to who succeeds as an entrepreneur or to collective action and collective welfare. Yet, as we know from studies of immigrant entrepreneurs, ethnic ties and community connections are critical to fueling and fostering successful venturing (Saxenian 2007).

With two notable exceptions, entrepreneurship scholars have expressed little interest in labor market institutions. One exception is a small and important literature on institutional features, such as social welfare benefits, health insurance, and retirement provisions (Hombert, Schoar, Sraer, and Thesmar 2017; Gottlieb, Townsend, and Xu 2018). But note that this research is framed as trying to understand individual wealth and liquidity constraints (Evans and Jovanovic 1989; Holtz-Eakin, Joulfaian, and Rosen 1994), as opposed to broader institutional variation across time and space in how benefits are contingent upon employment status and how that might shape entrepreneurial action from a cultural perspective as well as an economic perspective.

A second important exception is the growing interest in how non-compete policies restrict employee mobility (Marx 2011; Ganco, Ziedonis, and Agarwal 2014) and affect the founding and survival rates of new firms (Starr, Balasubramanian, and Sakakibara 2018). Although still nascent, this literature explicitly links labor market policies, firm behavior, and individual behavior and entrepreneurship. It is notable because it shows why these kinds of institutional labor policy differences are likely to shape the attractiveness of entrepreneurial pursuits; the types of entrepreneurial firms that are founded; the nature of entrepreneurial jobs; and the ways in which economic value is created, captured, and distributed (Dilli, Elert, and Hermann 2018). Two articles in this special issue, a study of occupational licensing regulations (Albert, Galperin, and Kacperczyk 2019) and a study of intellectual property rights (Åstebro, Braguinsky, Braunerhjelm, and Broström 2019), provide further evidence of how labor market policies and institutions affect entrepreneurship.

Firm Distributions, Employment Opportunity Structure, and Entrepreneurship

Although the decision to become an entrepreneur or to join a start-up as an employee typically is conceptualized as an individual choice, it is necessarily influenced by the availability of other employment opportunities and the actions of employing firms (Sørensen and Sharkey 2014). First, most people enter entrepreneurship from prior employment (Klepper and Sleeper 2005; Sørensen and Fassiotto 2011), and the landscape of existing employers varies in the extent to which they retain talent or spawn entrepreneurial competitors (Burton, Sørensen, and Beckman 2002; Gompers, Lerner, and Scharfstein 2005; Kacperczyk 2012). Local conditions profoundly shape propensities for job-hopping and entrepreneurship (Fallick, Fleischman, and Rebitzer 2006; Freedman 2008), particularly because people are reluctant to relocate (Dahl and Sorenson 2012). More broadly, we know that labor market tightness and looseness affect wage offers and advancement opportunities (Kahn 2010).

Second, considerable evidence demonstrates that human resource management practices vary across firms and industries (Osterman 1987, 1994; Baron, Burton, and Hannan 1999; Van Reenen and Bloom 2007), and that this variation affects firm performance and survival (MacDuffie 1995; Bartel 2004) as well as employee productivity and tenure (Batt 2002; Ichniowski and Shaw 2009). Empirical evidence, such as Saxenian's (1994) canonical comparison of Boston and Silicon Valley, also shows that some of this variation is regional.

Finally, we know that most entrepreneurial firms fail and that their former employees experience a spell of involuntary unemployment (Haltiwanger et al. 2013). The stigma of unemployment may partially explain the propensity to enter entrepreneurship from unemployment. Thurik, Carree, van Stel, and Audretsch (2008) suggested that people may be attempting to mask their unemployment spell as they seek alternative employment, or they may have exhausted alternatives and become self-employed as a last resort. All of this reinforces the idea that the demography of employers in a region (in terms of age and size) coupled with incumbent firm actions—such as layoffs, restructurings, expansions, mergers, relocations, and firm-level human resource management characteristics such as wage dispersion and career ladders—will powerfully shape the opportunity structure as well as the pool of potential entrepreneurs and entrepreneurial employees. Yet, relatively little empirical research, beyond the articles in this special issue and a few others (e.g., Sørensen and Sorenson 2007; Kacperczyk and Marx 2016; Burton et al. 2018), explicitly examines these connections.

Implications and Overview of Special Issue Articles

Our brief review underscores the opportunities to re-engage studies of institutions, organizations, and policy to build a more fully specified understanding of how the macro-environmental context affects entrepreneurial entry,

firm performance, and employee outcomes. We advocate in particular linking the well-developed traditions in firm-level and labor market institutional research with a range of entrepreneurial outcomes of interest. Indeed, our ability to explain who engages in entrepreneurship and to predict who succeeds as an entrepreneur will be enhanced by closer examination of institutional and corporate demographic variability. Our research agenda proposes four specific improvements to research design and analytic sensibilities: 1) more focus on the organizational context that precedes entrepreneurial entry, both corporate demography and institutional capacity; 2) attention to contextual variation in order to re-specify what may initially appear to be individual propensities, access, and persistence; 3) attention to the cumulative, distributed impacts of policy and institutions in a wider lens; and 4) increased emphasis on worker outcomes. The articles in this special issue are examples of this style of work and begin to consolidate and extend our understanding of labor market institutions, employment opportunity structures, and entrepreneurial vibrancy.

The first three articles examine labor market institutions, policy, and employment. Albert, Galperin, and Kacperczyk (2019) examine state-level variation in licensing requirements for tax preparation professionals. In contrast to most of the literature on this topic, which emphasizes the ways that costly licensing regulations dampen entrepreneurial entry and harm firm performance and survival (e.g., Kleiner and Krueger 2013), Albert and colleagues argue that in some cases the signaling benefits afforded by licensure outweigh the costs and thereby encourage new firm formation and facilitate entrepreneurial survival. They take advantage of a threatened national-level policy change that would have mandated licensure for all tax preparers. The licensing requirement was phased in over a two-year period and, although it was canceled just prior to the mandatory period, the researchers were able to observe tax preparers (both incumbents and new entrants) obtaining the license in anticipation of the regulatory change. The authors demonstrate that entrepreneurs voluntarily adopt licenses and that those who do so have enhanced survival chances.

Åstebro, Braguinsky, Braunerhjelm, and Broström (2019) contrast two policy regimes that govern academic entrepreneurship: the Bayh-Dole Act of 1980 in the United States, which assigns intellectual property rights to the university, and the Professor's Privilege, which prevails in most European countries and assigns intellectual property rights to the individual inventor. In an effort to discern which approach to intellectual property rights is associated with successful academic entrepreneurship, they compare entrepreneurial entry and the returns to entrepreneurship for academic and non-academic entrepreneurs in the United States and Sweden. Åstebro et al. find, perhaps surprisingly, that the differences in overall entrepreneurship levels between the regimes are small and that, on average, academics who become entrepreneurs suffer wage loss as opposed to wage gain. As such, the authors highlight the risks associated with academic

entrepreneurship, which are not mitigated by more or less generous intellectual property rights, and contribute to a growing stream of research on academic entrepreneurs (e.g., Balven, Fenters, Siegel, and Waldman 2018).

Fackler, Fuchs, Hölscher, and Schnabel (2019) tackle a different kind of policy topic, the employment of disadvantaged workers, and provide descriptive evidence based on German matched employer–employee data that entrepreneurial firms create jobs for workers who might otherwise be excluded from the labor market. They show that disadvantaged workers, such as those who are older, foreign, unemployed or with unstable employment histories, or low qualifications, are more likely to be employed by young firms. But they also show that these workers suffer a wage penalty compared to similar counterparts who are employed by established firms. The findings suggest a trade-off: The higher level of employment growth from entrepreneurial firms may come at the price of lower-quality jobs and may exacerbate inequality.

The next four articles broadly consider career aspects of entrepreneurship (see Burton, Sørensen, and Dobrev 2016 for a recent review). Rider, Thompson, Kacperczyk, and Tåg (2019) consider three possible career choices: staying with a current employer, changing employers, or engaging in entrepreneurship. Using the legal industry as context, they first focus on the mobility decision—choosing to leave a current employer—and then on the choice of whether to move to a different employer or to engage in entrepreneurship. By framing entry into entrepreneurship as a broader labor market choice and then taking advantage of an interesting empirical event—firm failure that forces the choice—the authors begin to shed light on who chooses entrepreneurship over employment. Rider et al. then expand their inquiry to matched employer–employee data to compare voluntary and involuntary movers across multiple industries. Their empirical work in both settings suggests an inverted U-shaped relationship between experience and entrepreneurship, which they then formalize into a model that differentiates specific from general human capital accumulation and varying costs associated with entrepreneurship versus employee mobility. By carefully looking across different industries, this work illustrates a general pattern but also illustrates how the costs and benefits of career choices vary by context.

Clayton, Donegan, Feldman, Forbes, Lowe, and Polly (2019) analyze a specific context—the regional economy of North Carolina’s Research Triangle—to construct a rich data set and narrative about the interaction between incumbent employers, entrepreneurial firms born in different eras, and the careers of life scientists. They make vivid how the local opportunity structure, as defined by the base of local versus multinational employers, academic institutions, and large and small entrepreneurial firms, provides different kinds of experiences over time.

The final two articles rely on country-level administrative data. Sarada and Tocoian (2019) use matched employer–employee data from Brazil to

study how the networks of former co-workers are a resource for start-up performance. They categorize entrepreneurial firms according to the ties that current employees have through their prior employers and find that denser networks enhance the survival prospects of new firms, but slow the growth rate. Their work reveals the advantages and disadvantages to network-based early hiring. Shaw and Sørensen (2019) use matched employer–employee data from Denmark to study serial entrepreneurs. Consistent with prior literature that shows that entrepreneurial experience is associated with subsequent performance, they find that serial entrepreneurs strongly outperform novice entrepreneurs. They then carefully explore the factors that might drive these differences and identify sub-types among serial entrepreneurs who seem to be particularly successful. Both articles are in the broad tradition of considering career histories and rely on extensive empirical work to explain both main effects and variation across individuals.

We conclude the article section with a report by Fairlie, Miranda, and Zolas (2019) that presents newly available administrative data from the U.S. Census Bureau that will allow for new kinds of empirical research related to entrepreneurship and the labor market, particularly job creation and growth.

A Call to Action for an Industrial Relations Approach to Entrepreneurial Labor Market Studies

The articles in this volume illustrate a growing interest in treating entrepreneurship as a labor market phenomenon. As we described above, recognition is growing that individual entrepreneurial propensities and new firm survival and growth depend on two broad aspects of the environment: 1) the features of local labor market institutions, such as job permanence, welfare benefits, labor and employment protections, wage-setting policies, and restrictive covenants, and 2) the composition and characteristics of existing employers, including wages, advancement opportunities, and working conditions. We contend that considering both of these features in concert to analyze variation in entrepreneurial firms is a promising path for future scholarship and one that plays to the strength of industrial relations scholars in particular.

Some promising initial steps have been taken in this direction. For example, Dilli et al. (2018) drew upon and extended the varieties of capitalism literature (Hall and Soskice 2001) and clustered countries in Europe into four types based on institutions related to finance, labor, education and training, and inter-firm relations. They then documented the relationship between the institutional types and various aspects of entrepreneurship. They found that coordinated market economies such as in Scandinavia (characterized by moderately constraining financial institutions, moderately regulated labor market institutions, combined basic and vocational education and training institutions, and strong legal institutions) are associated

with high rates of both high-tech and low-tech entrepreneurship. By contrast, liberal market economies such as the United States and the United Kingdom (with flexible financial and labor market institutions, scientifically oriented educational systems, and reliable legal institutions) have the highest rates of innovative and high-growth entrepreneurship. This work is notable for situating labor market institutions in a broader array of complementary institutions. It is also unusual in differentiating various types of entrepreneurship—high- and low-tech start-ups and those with varying growth rates (Friederike, Baker, Audretsch, and Gartner 2016). Dilli (2019) advanced this line of research by examining the complementarities between labor market institutions and entrepreneurial activity and demonstrated how specific policies interact with the overall institutional regime to enable or limit entrepreneurial activity.

Thébaud (2015) offered a compelling example of context-sensitive institutional research by studying gender and entrepreneurship. She developed a set of novel predictions about how the gender gap in entrepreneurship can be explained by institutional differences in work–family policies such as government-paid leave, investments in child care, and the availability of part-time work. She tested her predictions by analyzing the relationship between women’s entrepreneurship and various configurations of these work–family institutions in 24 OECD countries. She took advantage of the fact that these policies were not strongly correlated with one another to characterize different logics of work–family policy and found that in supportive work–family contexts women are less likely to enter entrepreneurship in general, but more likely to be engaged in growth-oriented forms of entrepreneurship. Thébaud argued that this is evidence of how labor market institutions and policies affect how women choose kinds of employment. When supportive work–family policies are lacking, women turn to entrepreneurship as a way to attain autonomy and flexibility. By contrast, when the context is supportive, the most entrepreneurially motivated women are better able to pursue their entrepreneurial aspirations. This exemplary research is the kind of comparative institutional analysis that will advance the field of entrepreneurial labor market studies.

Interest in comparative institutional research on entrepreneurship is growing (see Terjesen, Hessel, and Li [2016] for a comprehensive review and research agenda). Much of this research, however, uses cross-national comparisons to establish generalizability. We suggest paying more explicit attention to regional and national variation in labor market institutions and firm demographic distributions to better understand how they interact to shape individual and firm choices and outcomes. Even in the context of global markets that exert pressures for convergence across countries, we need to understand firm behavior as embedded in local, regional, and national institutions that intersect and filter global activity (Marginson 2016). We believe that entrepreneurship is rooted locally (Sorenson 2017) and that

important foundational work needs to be done in understanding variation in institutions and policies that shape and support entrepreneurship and employment. The articles in this special issue provide examples of how to advance this intellectual project.

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