Experience and Entrepreneurship: A Career Transitions Perspective.

Chris Rider

GEORGETOWN
UNIVERSITY

McDonough
SCHOOL of BUSINESS

Peter Thompson

Georgia Tech | Scheller College of Business

Olenka Kacperczyk

MIT MANAGEMENT
SLOAN SCHOOL

Joacim Tåg

RESEARCH INSTITUTE OF
INDUSTRIAL ECONOMICS

ILR Review Special Issue Conference

"Labor Market and HR Management Implications of Entrepreneurship"

National Academy of Sciences

October 14, 2016

Motivation.

Many individuals acquire experience at organizations before pursuing entrepreneurship.

- Freeman (1986); Bhide (2000); Shane (2003); Burton, Sørensen & Beckman (2002); Audia & Rider (2005); Klepper (2005); Åstebro & Thompson (2011); Kacperczyk (2012; 2013); Tåg, Åstebro & Thompson (2013); Sørensen & Sharkey (2014); Burton, Sørensen & Dobrev (2016)

Modern careers typically span multiple employers.

- Arthur & Rousseau (1996); Bidwell & Briscoe (2010); Bidwell & Mollick (2015); Bidwell, et al. (2015); Rider & Tan (2015)

Career Choices: (1) entrepreneurship, (2) remain with employer, (3) change employers

Tension.

1. **Entrepreneurial entry (*motivated by expected returns*) should increase with experience.**

   - Dunkelberg, et al. (1987); Burton, et al. (2000); Agarwal, et al. (2004); Franco & Filson (2006); Fairlie & Robb (2007); Chatterji (2008); Simons & Roberts (2008); Dencker, et al. (2009); Sørensen & Phillips (2011)

2. **But, employment experience indicates greater ability (or preference) for organizational employment.**

   - Akerlof and Main (1981); Hall (1982); Jovanovic (1982); Miller (1984); Fairlie (2002); Sørensen (2007); Elfenbein, Hamilton & Zenger (2010)
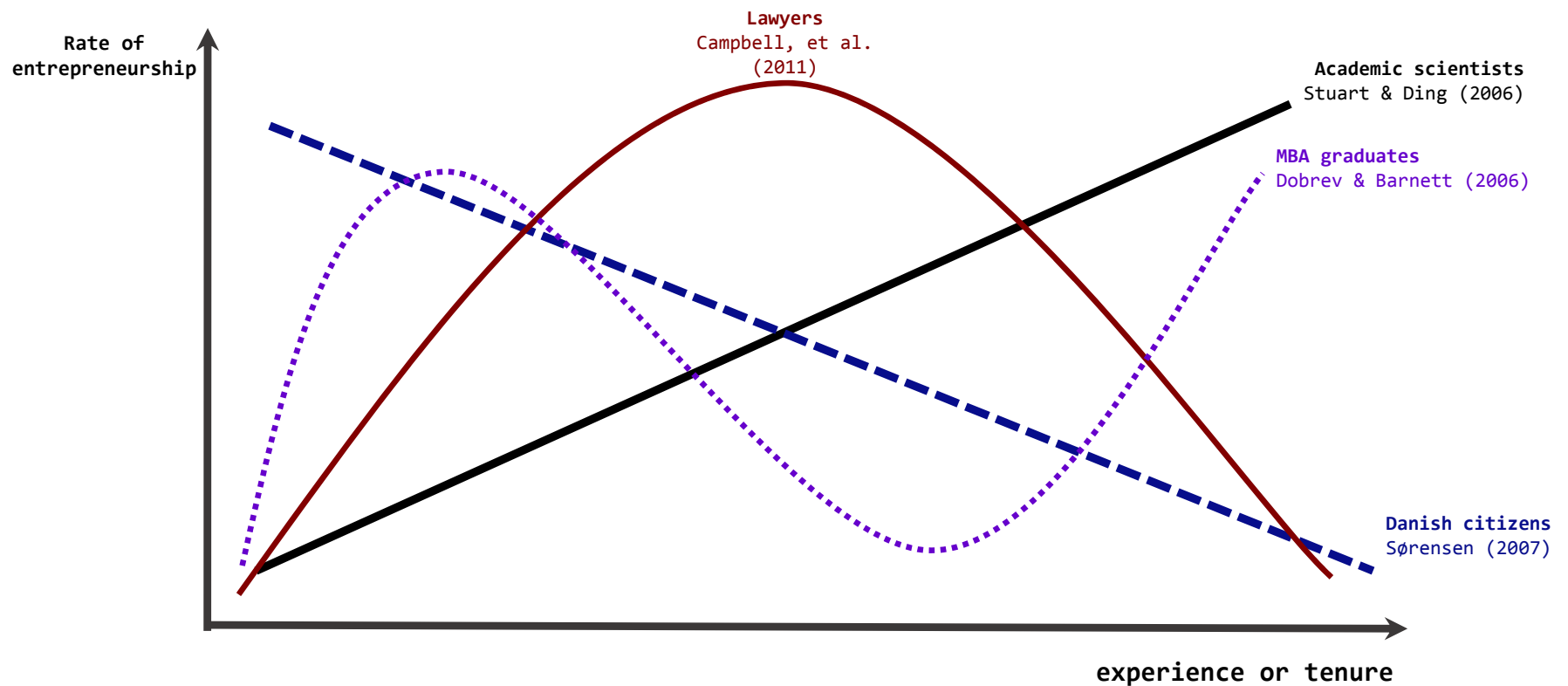
Research question.

How does an individual's likelihood of engaging in entrepreneurship change as they accumulate experience at established organizations?
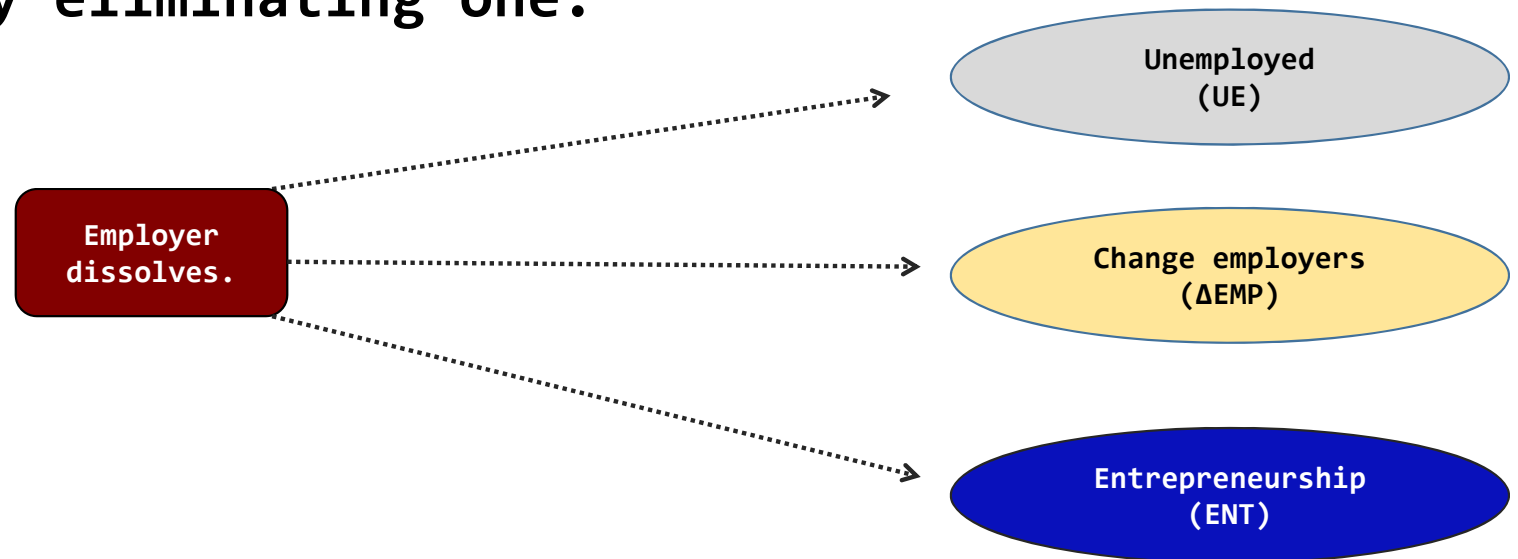
e.g., Parker (2004: 70-72; 2009: 115-117)

Note unconventional delivery → empirical observation, replication, formal model.

A clean test?

Faced with four choices (UE, ENT, EMP, ΔEMPs), simplify by eliminating one.

Single empirical setting,

- 1,426 lawyers displaced by 6 dissolutions in 2008-09. 1,248 located.

- 43 attorneys found a new firm, join a new firm, or enter self-employment

Idiosyncratic context?

Atypical firms? Lawyers?

Promotion tournament?

General vs. firm-specific HC?
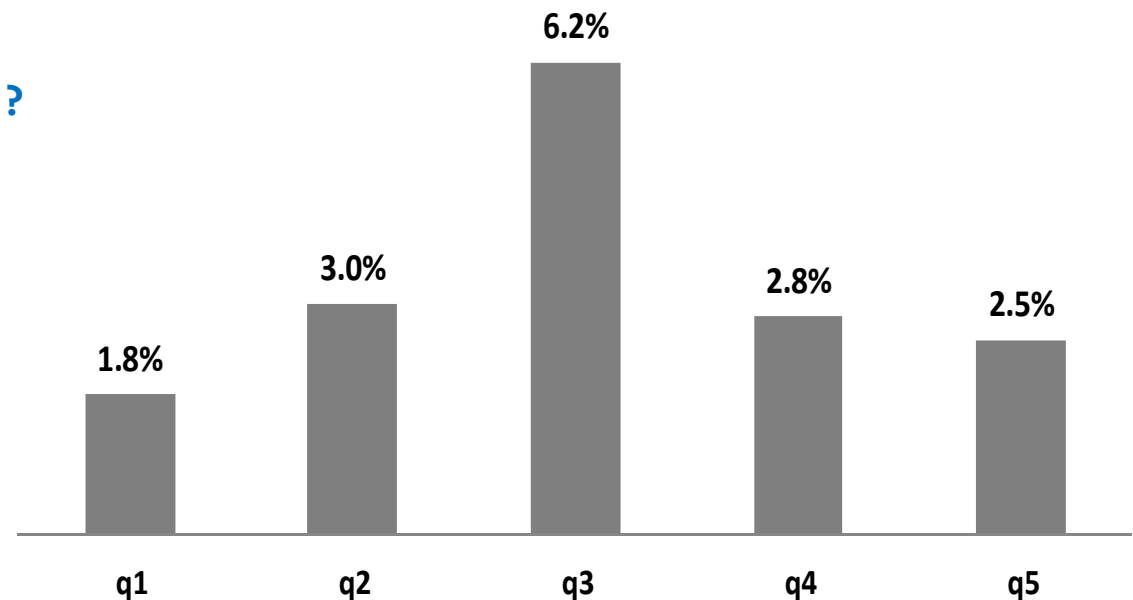
Client scale? Scope?

<u>Friction</u>: Public vs.

private info about skill?

Cond. Prob. of Entrepreneurship by Sample experience quintiles.

(n = 1,248 lawyers)

Prob. (Ent.) highest for late-stage associates.
Also in probit models w/firm, city, practice FEs & other covariates.

1.8%	3.0%	6.2%	2.8%	2.5%
q1	q2	q3	q4	q5

Swedish worker study.

Multi-industry, multi-role, population-wide study of Swedish population (~ 7M individual-year obs.), 2001-07.

Control for demographics, education, industry, age, gender, wages, position, employer size, etc.

<u>Analyses</u>: Logits of employees' transitions into:

1. Stay with employer (0), Entrepreneurship (1), Change employers (2).
2. Entrepreneurship | Change Employer = 1

Evidence of job-matching.

Low rate of entrepreneurship.

Entrepreneurs less experienced and younger than "stayers."

More experienced and older than "changers."

	Obs.	% of total
Stay w/employer	6,491,040	85.9%
Leave employer	1,062,041	14.1%
Change employers	1,028,061	*13.6%*
Entrepreneurship	33,980	*0.4%*
Individual-years	*7,553,081*	*100.0%*

Employer Tenure & *Age*
By Group and in Years

41.2	40.2	36.2
5.2	3.3	2.8
Stay w/employer	Entrepreneurship	Change employers
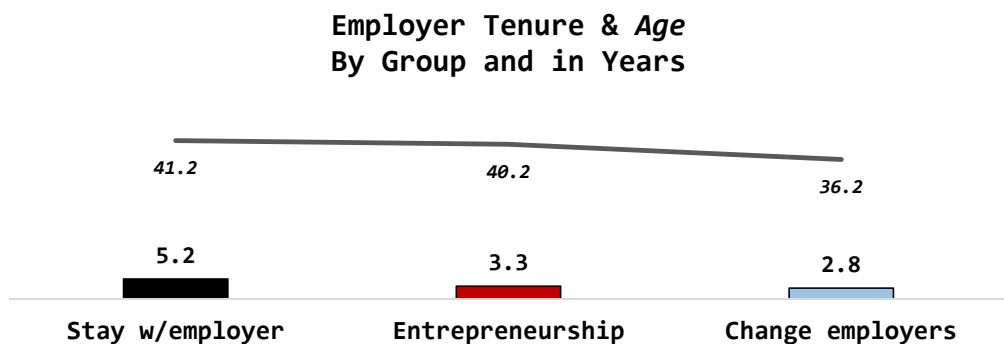
Key results.

Experience measured as employer tenure or age.

Rate of job separation declines with experience (*not shown*).

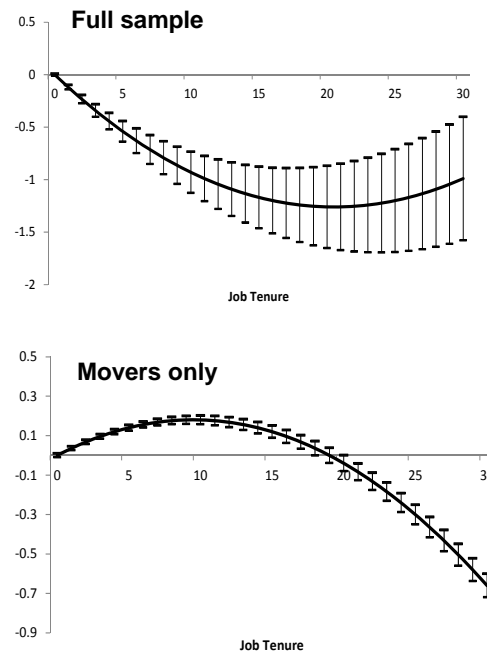Conditional on moving, inverted U-shaped relationship between EXP and ENT.

FIGURE 2. *Tenure and the relative likelihood of entrepreneurship.* Figures plot the estimated slope of the term $aT+bT^2$, where T is tenure in years and a and b are the estimated coefficients on tenure and tenured squared in the first and third columns of Table 5. 95 percent confidence intervals are shown.
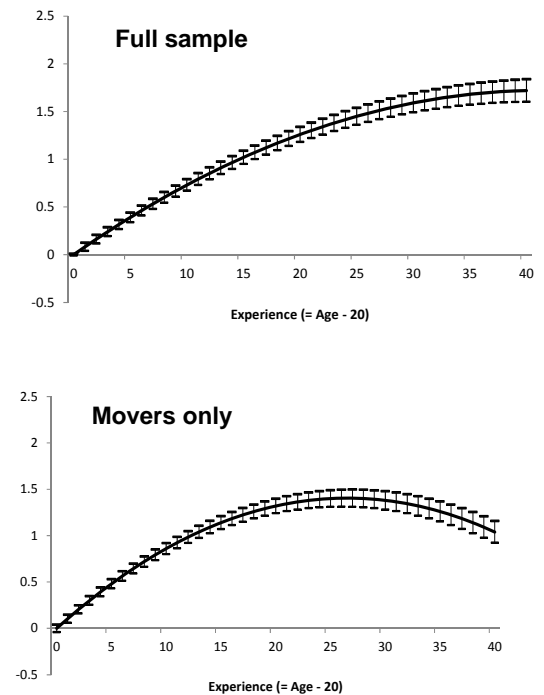

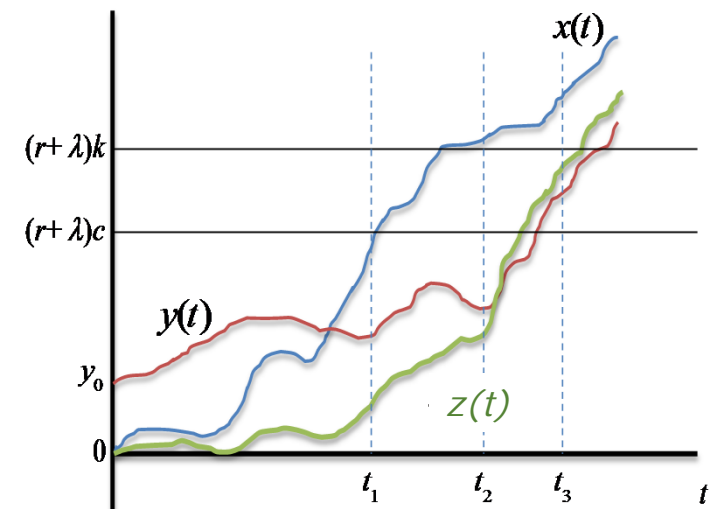**FIGURE 3**. *Experience and the relative likelihood of entrepreneurship.*

A *(not-so-formal explanation of a)* formal model.

Intuition: With experience, individuals stochastically accumulate valuable general (y) and employer-specific skill (x).

Friction: Potential employers observe total skill (v = y + x) but neither (y) nor (x). So, they infer z (z = v – y), which is wage offered.

Resolution: Individual pays a business formation cost (k) to utilize (x). Potential employer pays an absorption cost (c) to utilize (x).

Skill accumulation and outsider beliefs about (v).
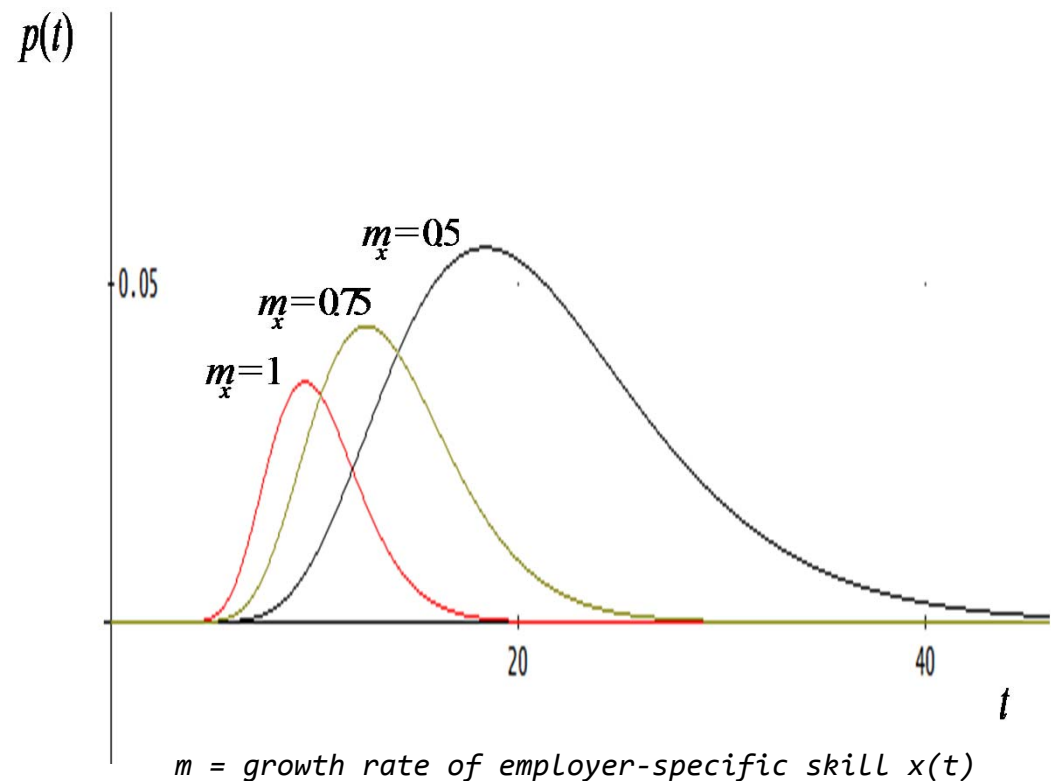

t_1: z(t) < x(t) < k → EMP

t_2: z(t) < x(t) > k → ENT

t_3: z(t) < x(t) > c → ΔEMPs

Key model implication.

Inverted U-shaped relationship between experience and the likelihood of engaging in entrepreneurship.

Prob. (ENT) as a function of work experience.

m = growth rate of employer-specific skill x(t)

Some applications.

1. Not applicable in settings where accumulated skill is 100% general or 100% employer-specific.

2. Probably most applicable to knowledge-specific industries and roles.

3. Can examine changes in experience inflection point based on variation in business formation (k) and/or employer absorption (c) costs.

Contributions.

1. **Entrepreneurial transitions within broader careers context.**

   Choice driven by business formation cost vs. cost of employers using employer-specific skills.

2. **Disentangle career preferences and transition costs by comparing voluntary vs. involuntary moves in multiple settings.**

3. **A general theory applicable across industry, role, and career stage.**

Thank you!

chris.rider@georgetown.edu