WHY ONE SIZE DOES NOT FIT ALL: EXPLAINING JOB CREATION BY START-UP SIZE IN THE USA (SUMMARY)

Andrew Burke
Cranfield University, UK

Amama Shabbir
Cranfield University, UK, amama.shabbir@cranfield.ac.uk

Recommended Citation
Burke, Andrew and Shabbir, Amama (2008) "WHY ONE SIZE DOES NOT FIT ALL: EXPLAINING JOB CREATION BY START-UP SIZE IN THE USA (SUMMARY)," Frontiers of Entrepreneurship Research: Vol. 28: Iss. 18, Article 6.
Available at: http://digitalknowledge.babson.edu/fer/vol28/iss18/6

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SUMMARY
WHY ONE SIZE DOES NOT FIT ALL:
EXPLAINING JOB CREATION BY START-UP SIZE IN THE USA

Andrew Burke, Cranfield University, UK
Amama Shabbir, Cranfield University, UK

Principal Topic

The business start-up literature tends to estimate the determinants of start-up using a “one size fits all” single equation. By implication, this approach assumes that the sign, significance and magnitude of the impact of factors affecting new business start up are the same across different firm size categories. This paper outlines why the determinants of job creation by new business start-ups are likely to vary by firm size.

Methods

Using regression analysis on a pooled cross section (by state) and time series data set on US establishment births covering thirteen years (1989-2003) we investigate the determinants of small venture start ups for five employment size categories ranging from 0-4 to 100-499 employees.

Results and Implications

Our results indicate that the smallest business start-ups are driven by: unemployment push effects, negatively affected by wages and are stimulated by the amount of venture capital under management. By contrast larger ventures are influenced by corporate and income tax rates and by new investments undertaken by venture capitalists. Our analysis suggests that the factors emphasised in labour economics provide a good account of micro firm start-up while these are replaced by those emphasised in industrial and financial economics in the case of larger start-ups.

These findings are important for our understanding of the entrepreneurial economy and the policies seeking to promote it. Larger small firm start-ups are not only economically more significant in terms of creating jobs in the short term, but many studies have shown that this effect persists longer as survival rates are also higher for larger start-ups. Further, our methodological approach also helps understand how the business start-up sector is affected differently by factors that to date have been interpreted to have a uniform influence. This implies that any attempt to manipulate firm start-up by policy measures would need to address these differences, as the causes of market failure may not be uniform across start-up size category.

CONTACT: Amama Shabbir; amama.shabbir@cranfield.ac.uk; (T): +44(0)1234 751122; (F): +44(0)1234 752136; Cranfield University, Bedford, MK43 0AL, UK.