BUILDING ORGANIZATIONS FROM SCRATCH – ENTREPRENEURS’ QUALIFICATIONS AND LABOR DEMAND IN NEWLY FOUNDED VENTURES (INTERACTIVE PAPER)

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Principal Topic

During the first years of a firm’s existence every additional worker has a strong impact on the division of labor inside the emerging venture. It is crucial that the qualification levels of new employees fit to the tasks that founders want to delegate. Although owners of small enterprises have rated labor shortages and human resource management as major obstacles, there exist few theoretical approaches and little empirical evidence on how to tackle these issues (Tansky and Heneman, 2006; Cardon and Stevens, 2004; Katz and Welbourne, 2000).

Building from scratch means starting at point zero. It is argued that in newly founded ventures the founders’ qualification has a decisive impact on the evolution of the division of labor. At first the workforce is expected to resemble the qualification of the founder and be more homogeneous. As the firm matures, staffing practices change and the workforce becomes more heterogeneous across qualification levels.

Method

A sample composed of 1,105 founders in Germany was asked questions related for instance to their educational attainment and work experience. This data was matched with the Establishment History Panel (BHP) at the Institute for Employment Research of the German Federal Employment Agency. The BHP provides reliable information about all employees liable to social security. These individuals can be broken down by occupational status and qualification levels.

Results and Implications

We find strong evidence that founders’ initial employment strategies differ by their own qualification and the qualification of their employees. Interestingly, the group of medium qualified employees appears to be the workhorse of all firms, independently of the formal qualification of the founder. However, the results show that founders’ human capital can only explain initial differences in the qualification structure of the workforce of a new firm. This implies that market selection and organizational adjustments are presumably forces that reduce variance in the organizational human capital composition that can be tracked to the formal educational background of the founder.

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