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## HUMAN CAPITAL SHORTAGES AND ENTREPRENEURIAL FIRM PERFORMANCE: A LONG-RUN PERSPECTIVE (INTERACTIVE PAPER)

Josh Siepel

*University of Sussex, j.siepel@sussex.ac.uk*

Gordon Murray

*University of Exeter*

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≈ INTERACTIVE PAPER ≈

## HUMAN CAPITAL SHORTAGES AND ENTREPRENEURIAL FIRM PERFORMANCE: A LONG-RUN PERSPECTIVE

*Josh Siepel, University of Sussex, UK*  
*Gordon Murray, University of Exeter, UK*

### Principal Topic

This paper considers the impact of shortfalls of human capital, as reported by managers, on long-run performance and survival. While the importance of the entrepreneur's human capital has been widely discussed in the literature (Bates 1990; Gimeno et al 1997; Davidsson and Honig 2003), there has been much less attention has been paid to other, non-entrepreneur human capital in firms. This is important because entrepreneurs' ability to recruit human capital is key for a firm to grow (Leung 2003; Leung et al 2006). If entrepreneurs are not able to access key staff, this may require changes in strategy and may impede a firm's long-term growth prospects. This paper explores the ability of firms to leverage the general and specific human capital among managers and employees in the company to generate growth (in line with Hitt et al 2001).

### Method

We use both difference-of-difference OLS models to estimate the impact of human capital shortfalls over time on subsequent employment and sales growth. We then examine both survival and growth, coding both into binary variables (for survival, alive or dead; for growth, above or below the median of growth), then use these to construct categories on which we use a multinomial logit model to examine the relative probability of a firm appearing in one of the four categories. This allows us to move beyond simple survival and growth measures to get a more holistic perspective on the performance of firms. We use a unique long-run dataset of approximately 350 UK high-technology firms, with detailed managerial data, including detailed skills data collected at founding (approximately 1992), in 1997 and 2003, and link this to detailed performance data.

### Results and Implications

Our results show that reported difficulties accessing skills in areas such as marketing are more likely to fail to grow in the long-run, even years after these skills shortages were reported. In contrast, it appears that some firms that were unable to access R&D or financial skills were more likely to seek exit.

**CONTACT:** Josh Siepel; [j.siepel@sussex.ac.uk](mailto:j.siepel@sussex.ac.uk); (T) +441273876711; SPRU, Jubilee Building, University of Sussex, Brighton, UK, BN1 9SL.