THE QUALITY OF LABOR MARKET AND ENTREPRENEURIAL ENTRY DECISIONS (SUMMARY)

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SUMMARY

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Principal Topic

Lucas (1978) predicts that a higher educated population will lead to have lower numbers of early-stage entrepreneurs and established firms in a country. This is empirically confirmed by Van Praag and Van Stel (2013) and Millán et al. (2014). However, the Lucas analysis is static and does not capture the dynamic process of entrepreneurs’ engagement in various stages of venture creation (i.e., nascent, early-stage, establishment). Our paper aims to look at this process and examine how the quality of labor market at the country-level affects entrepreneurial decisions of individuals. On the entrepreneurship supply side, we expect that labor market with higher quality at the country level may supply more entrepreneurs that possess the right cognitive skills and learning capabilities, thereby allowing them to discover and exploit entrepreneurial opportunities (Audretsch & Thurik, 2004). On the entrepreneurship demand side, qualified individuals may increase the demand for customized new products and services as consumers (Millan et al., 2014). This creates new business opportunities and demand for entrepreneurs in a society. Hence, labor market with high quality will stimulate knowledgeable individuals to start businesses, predominantly in the form of opportunity-driven entrepreneurship.

Method

Our empirical analysis is based on annual individual-level data of 46 countries that participated in the Adult Population Survey (APS) carried out as part of the GEM project from 2005 to 2011. We collected the aggregate-level information on labor market quality from World Bank Development Indicators, World Competitiveness Yearbook and the Heritage Foundation website, and linked it to the GEM individual-level database. Labor market quality is measured in terms of the percentage of labor with tertiary education, the presence of skilled immigrants and labor mobility. Using the multi-level regression models, we estimate the relationship between the quality of labor market and entrepreneurial decisions of individuals, i.e. early-stage entrepreneurs and type of entrepreneurs.

Results and Implications

Results show that the higher percentage of labor with tertiary education, the presence of skilled immigrants and more flexibility in labor mobility increases the likelihood of individuals’ decision to become early-stage entrepreneurs. Furthermore, both high number of labor with tertiary education and the presence of skilled immigrants particularly increase the likelihood of individuals to start opportunity-based businesses. Implications for policy-makers are discussed.

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