WHY DO SMALL FIRMS PRODUCE THE ENTREPRENEURS? (SUMMARY)

Simon C. Parker
Durham University, sparker@ivey.uwo.ca
SUMMARY

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Principal Topic

Individuals do not randomly become entrepreneurs. Many individual-specific factors are known to affect this occupational choice (Parker, 2004). But there is growing awareness that firm-specific factors also affect the decision to become an entrepreneur. Despite a historical emphasis in the literature on transitions from unemployment to self-employment, it is former employees who found most new firms. Certain characteristics of the firms they leave appear to be associated with these transitions. The contribution of the current article is to analyse the relationship between new venture creation and a particularly salient characteristic of incumbent firms: their size.

In this article I study a representative sample of venture starts, spanning all industry sectors and sizes; and I consider three rival theories that might explain the facts. One proposes that it is easier for small firms than large firms to transmit pro-entrepreneurship capabilities or attitudes (for example, via role models) to their workers. We call this the ‘transmission’ theory of entrepreneurship and firm size. The second theory is based on the idea of self-selection, whereby individuals with particular characteristics are more likely to choose to work for small firms and to engage in entrepreneurship at different stages of their lives. The form of self-selection studied here is based on risk preferences. The third theory argues that peripheral workers who become frustrated by blocked mobility in small firms and are excluded from large firms in the primary labour market are more likely to try self-employment as a last resort.

Method

I derive from the theories a set of testable hypotheses. To test them, we use the first 13 waves of the British Household Panel Survey (BHPS) spanning the period 1991-2003 and perform a random-effects panel data econometric analysis.

Results and Implications

There is little support for the transmission or blocked mobility theories of firm size and entrepreneurship. In contrast, the selection theory receives stronger support from the data, and is the most promising conceptual approach for understanding how incumbent firms affect the entrepreneurial entry process. This has limited implications for governments wishing to actively promote entrepreneurship, as risk attitudes are largely fixed.

CONTACT: Simon C Parker; s.c.parker@durham.ac.uk; (T): +44 191 334 6351; Durham Business School, Durham DH1 3LB, U.K.