ENTREPRENEURIAL HUMAN CAPITAL AND THE INTERNAL ORGANIZATION OF THE FIRM (SUMMARY)

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SUMMARY

ENTREPRENEURIAL HUMAN CAPITAL AND THE INTERNAL ORGANIZATION OF THE FIRM

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Principal Topic

This paper examines not only the role played by business owner characteristics in influencing the determination of employees’ wages, but also the human capital characteristics of the employees being hired, as well as the hierarchical structure of the firm. We argue that, in young firms, the background and personal characteristics of the founders are also determinants of personnel policies, affecting the way hierarchies are structured and wages are set. Founders with higher levels of general and specific human capital are more likely to design firms focused on growth, and should hire better quality human capital.

Methods

This study uses a longitudinal matched employer-employee data from Portugal’s private sector for 1995-2003. The sample is constituted by small firms with a sole owner who is also the firm top manager. In this way we guarantee that the business owner effectively controls the way the firm is managed, in particular the definition of the firm personnel policies. We start by assessing whether there is a match between the employer and the employees in what concerns their individual characteristics. Secondly, we determine how business owner human capital influences the design of the hierarchical structure of job assignments, as well as the formation of wages. Finally, we assess if the owner’s human capital has also an influence on the determination of the firm promotion policy.

Results and Implications

Results suggest that business founders seek employees which have similar observable characteristics and there is evidence of stronger incentives and of a working internal labor market. Workers seem to be more protected from labor market fluctuations while progressing up the job ladder in firms where with higher levels of business owner general and specific human capital. Business owner education also has an effect on the internal organization of the firm, since a less compressed wage structure is associated with more educated business owners.

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