EFFECTS OF EMPLOYEE EXIT TO STARTUPS ON THE PARENT FIRM
(SUMMARY)

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Principal Topic

We measure the effects of employee exit to startups on parent firms. While employee exit to startups has often been found to be the driving force behind the formation of industry clusters, important centers for innovative activities, little is known about the effects that such exit process have on the parent firms of the exiting employees. Information is confined to individual industries, and is not easy to generalize. Is startups’ success born at the expense of their parent firms, or are parent firms able to cope with the exit of their departing employees? In this study, we answer this and associated questions by making use of a large employer-employee matched dataset for Portugal, which allows us to estimate the effects of employee exit for different outlets (startups, progeny, incumbents) for several industries.

Method

We use “Quadros de Pessoal”, a matched employer-employee dataset that covers the entire Portuguese economy. We restrict our attention to incumbent firms born in 1996 or born before 1996 and still present in 1996, and to additional firms that were created in 1997, 1998, and 1999. We follow all firms until 2006. Throughout this time, we identify worker exits, worker hires, and firm failure. We use ordinary least squares regression to estimate the impact of different types of worker exits on firm sales; and quantile regression to analyze how the effects vary for high and low performance firms.

Results and Implications

We predict that the exit of high hierarchical level employees solves strategic conflicts within the parent firm, and hence has a positive effect on firms’ output; that exit of specialized workers to other firms within the same industry erases its profits due to increased competition; and that better firms are more able to cope with the effects of employee exit. Results are generally consistent with the hypotheses.

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