

Entrepreneurial Success and the Competition for Talent

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Introduction: A large body of literature has studied the success and failure of entrepreneurial ventures.

¹ The role of the workers in the success of firms has been noted.² Yet, understanding how new firms compete to attract and retain talented workers that then lead to entrepreneurial success is a crucial understudied question because its systematic study requires data on new and old firms, workers across both types of firms, and outcomes.³

We propose a firm survey to supplement our existing, large employee-employer matched dataset that has potential to answer this question and others. In contrast to most research on entrepreneurial ventures, we have detailed information about the workers, as well as outcome measures such as survival and revenue. This proposal seeks to survey the firms in our data to provide the missing firm side data that will enable not only study of the individuals making entrepreneurial choices, but the firms they create. Further, by collecting data from a wide range of firms that are linked to the population of workers and firms in an industry allows us to examine market level and general equilibrium implications rather than treating each new venture in isolation.

While perhaps not the first industry to come to mind when one seeks an entrepreneurial setting, residential real estate is indeed an excellent laboratory to study entrepreneurship. First, and foremost, it is an industry characterized by significant entrepreneurship. Approximately 1 out of 4 workers in the industry at some point in their career found a firm and employ others. The rate of firm founding, success, and failure combined with data availability due to the regulated nature of the industry and market institutions that effectively collect comprehensive data, one can study both surviving and exiting firms. Second, it is a unique setting as a data laboratory. Because of the nature of the data, we observe detailed performance of workers regardless of their firm or entrepreneurial choices. This feature allows detailed, careful, study of new ventures' attempts to attract a quality workforce. Finally, it is a particularly human capital intensive industry, and thus, one in which it is particularly important to understand the labor market strategies, interactions, and implications of new ventures.

Existing data and work: In this joint project, our current data is a firm level panel dataset, from 1995 to 2012, formed to study both the firms and the individuals who found and manage them. Because of the richness of the data, the firm outcomes that can be studied include revenues, growth, labor productivity, market share, survival and employment (many outcomes of interest to scholars, the industry, the entrepreneurs as well as policymakers). The data are derived from housing transaction data mapped to workers involved in the transaction, those workers matched to government licensing data, census and geospatial data, an original survey of a stratified random sample of agents, and tax and deed records. These data combine to give us a uniquely detailed view of the performance and interactions of firms, new ventures and workers.

¹ Parker 2009, Haltiwanger, Jarmin, Kulick, Miranda in Haltiwanger, Hurst, Miranda, and Schoar, eds, Forthcoming.

² e.g., Prescott and Visscher 1980.

³ Goetz, Hyatt, McEntarfer and Sandusky in Haltiwanger, et al., eds., Forthcoming.

Proposal: Despite the strengths of the data we currently have, we lack many details on the small business and new ventures that comprise the majority of firms in the industry. We plan to gather data on firm costs, employee recruitment methods, firm characteristics relevant to employee attraction, compensation structures, productive investments and assets, as well as market innovations. These data will give us detail on the competition for talent and let us include outcomes measures of profit and total factor productivity. To gather these data that will allow us to connect their efforts to attract and retain workers to their entrepreneurial success, we propose a survey of these real estate firms. As we develop further the firm-level study, it is clear that the proposed firm-level survey will significantly enhance the depth of our research as well as the scope of the questions we can answer. Because of the nature of the industry, we expect to gather this data by surveying the current or former entrepreneur directly. This approach allows us to gather data about both successful and defunct ventures, and link the data back to the venture and the workers of that venture. By surveying entrepreneurs about specific ventures, we can leverage the investigators experience surveying a very similar group - the workers and eventual entrepreneurs.

Analysis: The gathered firm surveys will be linked with other firm information and the panel of workers in the industry. This detailed panel, as well as the ability to observe and survey failed firms provides us with the tools to address a number of identification concerns. First, the observed firm failures allows us to avoid selection issues. We can identify features of successful ventures distinct from features of ventures. Second, leveraging the worker panel, we can identify which features attract talented workers, and which features lead a venture to improve beyond the sum of its employees. Finally, we can observe the switching behavior of workers to both new and established ventures. We can use this to confirm that firm choices actually serve to attract talented workers even when those choices are being made by established firms.

Budget: We estimate a cost of \$50 per completed firm survey.⁴ With a goal of approximately 400 completed surveys for this phase, and response rates of about 50% on similar firm-manager phone surveys, we plan to sample and attempt to contact 800 firms or 20% of the population of firms with employees in our linked dataset. Ancillary costs, such as travel, will be covered by the co-PIs institutional research funds.

Further research: In addition to the current study focusing on how new firms compete for workers, our research agenda will extend the use of the survey responses into future entrepreneurship research. Our setting and long term panel are uniquely positioned to understand entrepreneurial firm dynamics over the 17 years of our data including the dynamic impacts of industry booms and busts. Further, the nature of our data allows us to track thousands of spin-offs, from a variety of different types of firms as well as many generations of spawns. Finally, our data allows examination of how entrants with new business models (non-brokerage entities, discount, online brokerages, fee for service and employment models) disrupt the industry, incumbents and further entrepreneurship.

⁴ This is consistent with an estimate of what a survey firm would charge from our knowledge of other studies' costs, and equivalent to expected cost of about 3 hours of research associate time to collect ourselves (@\$16/hr+employment taxes).