



Topic

“Regional Human Capital Mobility and the Labour Force of New Firms”

Goals

Understanding the importance of human capital for young firms and the role of the region as a source of key human resources.

Competencies

- Conceptualize regional ecosystems as talent pools for young, entrepreneurial firms.
- Understand the value of affiliation-based hiring for young firms and startups.
- Understand and assess the impact of affiliation-based hiring on firm location, wages, and performance.

Contents

- New firm founders often locate their firms close to their home region in order to access talent pools for which they have significant personal experience.
- Founders tap their prior employment to facilitate employee mobilization and post-hiring integration.
- Shared experience by new firm founders and employees in the same parent organization is a key driver of young firm performance, leading to the further strengthening of regional entrepreneurial ecosystems.

Applications

The location of new firms is heavily influenced by knowledge that founders have about the skills, or human capital, of prospective hires based on the networks they have established during their prior work experience. While the literature has increasingly recognised entrepreneurial experience and managerial experience as key components of human capital in new firms, a primary hiring source for new firms are the employees of their founder’s prior employer, as well as the employees of nearby firms in the same industry. These pools of workers are a key component of regional entrepreneurial ecosystems.

Founders tap their prior employment affiliations to facilitate fulfilling relational and resource goals. A shared context enables higher trust, better knowledge integration, reduced monitoring costs, and greater social cohesion and cultural fit.

Young ventures perform better when hiring founders' former proximal employment ties in nascent stages, leading to higher profitability, sales levels, and survival rates among ventures that hire from founders' past affiliations. Correspondingly, employees who share a prior employment history with a startup's founder(s) receive a wage premium relative to their otherwise similar colleagues.

Startups in the same industry as their founder's prior employer are more likely to locate in their founder's home region (thereby enhancing the local entrepreneurial ecosystem), to hire workers from the prior employer and other firms in the home region of their founders, to employ these workers longer, and to perform better than other new firms. However, the effects on performance, as well as the relational wage premium, tend to decline over time—as other forms of human capital become more important.

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Biographical note (max. 200 words)

Rui Baptista is Full Professor in the Engineering and Management Department of Instituto Superior Técnico (IST), University of Lisbon. From 2012-15 Rui was Full Professor and Chair in International Entrepreneurship at Brunel Business School, Brunel University London. Previous academic posts include the Department of Social and Decision Sciences, Carnegie Mellon University, the Paul H. O'Neill School of Public and Environmental Affairs, Indiana University Bloomington, and the Max Planck Institute of Economics, Jena. Rui was Head of the Department of Engineering and Management of IST from 2015-2020 and President of the Centre for Management Studies (CEGIST) from 2010-2012.

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Rui holds a Ph.D. from London Business School. His research and teaching interests are in entrepreneurship and innovation, and their relationship with industry dynamics, labor markets, and regional development. He has published in, among others: *Journal of Business Venturing*; *Research Policy*; *Technological Forecasting and Social Change*; *Regional Studies*; *European Economic Review*; *International Journal of Industrial Organization*; *Journal of Evolutionary Economics*; and *Annals of Regional Science*.



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