

# Chapter 10

## The Impact of the Entrepreneur's Educational Level on the Employment Creation by New Small and Medium Enterprises

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### ABSTRACT

*This chapter examines the effects of different types of start-up rates on subsequent employment change. Longitudinal data on start-ups and employment in Portuguese regions in the period 1996–2007 is used for the analysis. The study addresses whether diverse types of new small- and medium-sized enterprise formation have heterogeneous effects on regional employment generation. It is found that, for the range considered, the seven types of start-ups led to significant and negative effects on the average variation of regional employment. It is also observed that these effects were more negative for start-ups with at least one business owner with higher education in engineering and for start-ups with at least one business owner with higher education in management. The last conclusion is that the share of highly skilled employees has a statistically significant and positive impact on the average employment change and, therefore, on regional development.*

### INTRODUCTION

Entrepreneurship is considered to be important for job creation and economic development (Audretsch, 2003). Therefore it has been gaining increased attention by scholars and policy-makers

as a relevant research topic and as a mechanism for addressing economical and labour market issues. Academic studies from authors, such as Fritsch & Mueller (2008) and Baptista et al.(2008), developed for Germany and Portugal, respectively, examine whether there is a relationship between

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new business creation and an increase in employment growth at the regional level. These studies show that the impact of new business formation on regional development is not immediate but, instead, can be delayed in time for a period of about 10 years.

For example, in Great Britain as a whole, no significant relationship between start-ups and employment creation was found in the 1980s but for the 1990s a significant positive relationship for Great Britain as a whole was found. Van Stel & Storey (2004) feel this raises questions over policies designed to raise rates of new firm formation as a strategy for employment creation. Investigations carried out in the field of entrepreneurship and regional development bring an additional relevance to the field: regional differences in entrepreneurship may explain the differences in economic performance (McQuaid, 2002).

The current paper contributes to the understanding of the relationship between new business formation and employment growth. Since there is empirical evidence that the role of entrepreneurial activity differs across the stages of economic development, in that there appears to be a U-shaped relationship between the level of development and the rate of entrepreneurship (Sternberg & Wennekers, 2005), this study aims to empirically identify and examine the main effects of several types of start-ups and business owners' different educational backgrounds in employment growth, at the regional level. It is expected that a significant share of highly qualified workers stimulates employment growth (Lofstrom, 2000), since productivity tends to rise via technological complementarities or knowledge spillovers. Alternatively, Chen & Funke (2008) state that the debate surrounding the question of how inertia of highly regulated labour and product markets has a negative impact on the creation of jobs and unemployment can contribute to explaining why the growth situation sometimes does not occur. Moreover, the firm size matters in the case of employment dynamics. SMEs are more constrained to

capital markets, so that capital is a complementary good for labor for these entities (Kölling, 2012).

These effects are analysed and compared within the period 1996 and 2007. Specifically, the following econometric estimations are developed using different segments of start-ups: all sectors; technology based; knowledge intensive; with at least one business owner with tertiary education; with no business owners with tertiary education; with at least one business owner with higher education in engineering; and with at least one business owner with higher education in management science.

Assessing the heterogeneity of businesses' (and types of business ownership) dimensions that bear the potential to generate higher positive impacts on employment growth may bring relevant contribution and implications at various levels. While in the present investigation the specific variables under analysis and main results are strongly rooted in the literature and follow valid theoretical approaches and methodologies, there is also an original contribution regarding the use of business owner educational background as variables of interest. Since the 1980s McMullan & Long (1987) have been arguing that the real promise of education will only be realised when it is strategically organised for economic development and job creation. Moreover, this potential academic contribution can be equated with a contribution for supporting eventual higher-education and regional-development policies aimed at stimulating different types of entrepreneurship and job creation.

The remainder of this study proceeds as follows: the next section presents and discusses previous theoretical and empirical approaches regarding the interplay between entrepreneurship and job creation, economic development and regional development. Section 3 provides information on the data and methodology used for the empirical analysis. Results are presented and discussed in section 4 and, finally, sections 5 and 6 conclude the article with avenues for further research.

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