6 HOW FAST DO NEWLY FOUNDED FIRMS MATURE?

Empirical Analyses on Job Quality in Start-Ups*

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1. Introduction

Economic policy in Germany strongly stimulates the founding of new firms, not least because politicians hope that new firms may create the additional employment that is so desperately needed in Germany. In order to find out whether this is really the case and how successful new firms are, a growing empirical literature has studied the performance of new firms at various levels of aggregation. At the micro level, i.e. using data of individual firms or establishments, quite a few studies have been published in the last decade that analyze the success of newly founded firms over the years in terms of survival rates, employment growth, and other indicators of firm performance (see, e.g., Wagner, 1994; Brüderl et al., 1996; Brixy and Kohaut, 1999; Almus, 2002). From a macro perspective, using the concepts of job creation, job destruction and job turnover, a number of studies have tried to identify the extent to which new firms contribute to aggregate employment growth (see, e.g., Boeri and Cramer, 1991; Bellmann et al., 1996; Gerlach and Wagner, 1997; Turk 2002; Brixy and Grotz, 2004).

Most of this research has concentrated on the number of new jobs created, although the persistence of these jobs has also been taken in consideration. This reflects the insight that not only the quantity but also the quality of (new) jobs is important. The quality of employment has also been stressed recently by the European Commission (2001: ch. 4) and is part of its employment strategy. While it may be difficult to define and measure the characteristics

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1 International studies at the micro level include Dunne et al. (1989) for the US and Storey (1994) for the UK; macro analyses are provided, inter alia, by Davis et al. (1996) for the US and Barnes and Haskel (2002) for the UK.
which best reflect job quality, wages and working conditions as well as labor fluctuation in the plant are surely among potential indicators. Whether these indicators differ between newly founded and incumbent firms has received surprisingly little attention in empirical research so far. It would also be interesting to know whether such differences − if they exist − vanish over time once the new business matures and how fast such a convergence takes place. In other words, we do not know how long it takes until a new firm becomes an incumbent firm.

This paper seeks to overcome this research deficit by analyzing differences in wages, bargaining coverage and labor fluctuation between newly founded and other firms in Germany in the period from 1997 to 2001. It makes use of a representative sample of establishments that were founded in 1995/96 and that form part of a large-scale set of establishment data in Germany. This unique data set is described in section 2. Section 3 analyzes the determinants of labor fluctuation and traces the observed differences in labor turnover of the cohort of newly founded establishments over time. In a similar way, the wage differential of newly founded establishments is investigated in Section 4, and their bargaining coverage is compared to that of other plants. Section 5 provides some concluding remarks and suggestions for future research.

2. The Data

The data used in this study is derived from two sources that are closely interrelated and together form an employer-employee data set. The employee side of the data set is the “German Employment Statistics”, which is sometimes also called the “German Social Insurance Statistics” (see Fritsch and Brixy 2004 for details). It requires all public and private employers to report certain information about every employee who is subject to obligatory social insurance, i.e. health and unemployment insurance along with pension funds. Misreporting is legally sanctioned. The information collected is transformed into an establishment file that provides longitudinal information about the establishments and their employees and which is called “IAB Establishment Register”.2 A great advantage of this database is that it covers all establishments that employ at least one employee who is liable to social insurance. The attributes of each firm covered in this database are the number of employees, their sex, age, and qualification (four levels) as well as the wages and salaries paid and the exact duration of the engagement in days. Although these data refer to individuals, only aggregate data at the establishment level were available to us.

The employer side of our data set is given by the “IAB Establishment Panel”, a random sample of establishments from the comprehensive IAB Es-

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2 IAB is an acronym for “Institut für Arbeitsmarkt- und Berufsforschung”, which is the research institute of the German Federal Employment Agency.