

Comments on:  
*Is It All about Who You Know?*  
*Prior Work Connections and Entrepreneurial Success*  
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The Labor Market and Human Resource Management:  
Implications for Entrepreneurship

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## Research Question.

- What factors drive firm survival and performance?
- Do employee networks matter?
- Does it matter if employees have worked together?
- Why would it?
  - They know and trust each other.
  - Information asymmetries are somewhat mitigated.
  - Workers may be a little too similar.
- Therefore: not clear if good or bad for the firm.

## Summary.

- Use data on new firms in Brazil.
- About 500K firms started in 1995-2001.
- Construct several network measures.
- Study how networks predict firm outcomes:
  - Survival.
  - Employment growth.
  - Wage growth.

## Approach.

→ Estimate

$$y_{i,t} = \alpha + \beta + \text{Network}_{i,0} + \gamma X_{i,0} + \epsilon_{i,t}$$

where controls include:

- Share of employees w/ lab mkt experience/from unemp.
- Share from same sector.
- Mean employee age/share close to retirement.
- Mean yrs. of schooling and log mean prev. wage.
- Share of female workers.
- Avg. parent firm size category.
- Initial firm size.
- Sector fixed effects.

## Results.

- Networks predict survival.
- Also predict slower growth in size.
- (Growth in wages not as clear...)
- Moreover, relationships are pretty robust.
- Results are similar w/out controls.

## Comment 1.

- Your data set is neat; I'd like to know more about it.
- For example, can we analyze why people pair up?
- What are the factors that predict networks in firms?
- You look at firm-level factors; how about individuals?
- One reason: uncover motivations to link up.

## Comment 2.

- The authors are upfront about causality.
- I think adding lots of controls helps to *suggest* causality.
- I wonder: are you undercutting your ability to discover interesting mechanisms in an attempt to get something (sorta) causal.
  - If you control for e.g. experience, you are estimating the association between networks and outcomes independent of experience.
  - But experience might be what causes the network to form.
- Broader point: if you aren't going down the causality road, why not show me more associations?

## Comment 2.

→ So, for example:

$$\begin{aligned}y_{i,t} &= \alpha + \beta + \text{Network}_{i,0} + \gamma X_{i,0} + \epsilon_{i,t} \\ \text{Network}_{i,0} &= \alpha_N + \gamma_N X_{i,0} + \mu_{i,t}\end{aligned}$$

→ One could also jointly estimate these equations.

→ You could leave it there...

→ You could posit correlation between  $\epsilon$  and  $\mu$ .

→ (Of course, excluded var's would be great...

→ ...but not obvious what they are.)



## Comment 2.

→ So, for example:

$$y_{i,t} = \alpha + \beta + \text{Network}_{i,0} + \gamma X_{i,0} + \epsilon_{i,t}$$
$$\text{Network}_{i,0} = \alpha_N + \gamma_N Z_{i,0} + \mu_{i,t}$$

→ One could also jointly estimate these equations.

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→ ...but not obvious what they are.)

### Comment 3.

- According to your results, networks are good and bad.
- They help at the start; they may hurt later on.
- If so, you might expect firms to respond.
- You could test whether they get *less* networked as they age.
- Concern: it is unclear how to interpret coeff. on initial network.

### Comment 3.

- Concern: it is unclear how to interpret coeff. on initial network.
  - An assumption (I think) is that initial network predicts being more networked later on.
  - It may also be the opposite: initially networked firms are more sophisticated and know the benefits and costs of being networked. They are less likely to be networked later on.
  - This would suggest different directions of bias of estimates.
  - E.g., if initially networked firms don't change much, coeff. is OK.
  - If initially networked firms are less networked later, the actual penalties down the line are much larger.

#### Comment 4.

- Does pairing up mean we've got similar preferences?
- Or: does it make running a business more fun?
- Does knowing my partner raises the non-pecuniary benefits?
- What would this imply for survival/performance?
- I think: lower performance and longer survival.
- That's neither good nor bad...
- ...but it may affect how we think about policies, like subsidies.