

Employee Spinouts:

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Introduction

- ▶ Firms with knowledge often have to give this knowledge to employees in order to extract useful labor from them
- ▶ In particular, R&D employees, who are working to push the frontier of the firm's knowledge, must be "brought up to speed" in order to be able to make improvements
- ▶ Employees who have learned may then choose to form firms which compete with their parents, e.g.
 - ▶ Compete directly by developing a better version of existing product / service
 - ▶ Compete by pursuing some new application of the technology before the parent is able to

My project

► Theory

- Standard endogenous growth model with quality ladders + creative destruction (Similar to Akcigit & Kerr 2017 and others based on Grossman & Helpman 1991), **plus entry by employee spinouts**
- Spinouts formed by employees who have learned the frontier technology by working as an R&D employee
- No worker-entrepreneur choice - employees who have learned can effectively sell their idea to a competitive fringe of potential entrants.

► Empirics

- Key parameter: product $\nu\xi$, where ν is the rate of learning by employees and ξ is the maximum size of an individual spinout
- Given the rest of the model, this is identified by, say, the fraction of firms which are spinouts
- However, there are many other predictions of the model