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Bridging Strategic Human Capital and Employee Entrepreneurship Research: A Labor Market Frictions Approach

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Research summary: *Strategic human capital research sits at the intersection of strategy and employee mobility research. Employee entrepreneurship research sits at the intersection of entrepreneurship and employee mobility research. We demonstrate how a shared focus on labor market frictions connects these two complementary but largely disparate literatures through their mutual emphasis on employee mobility. Our examination of the impact of various labor market frictions on employee mobility to competitor firms and employee transitions to entrepreneurship suggests that the outcomes of some frictions are divergent across the two literatures, the outcomes of some are aligned, and the outcomes of some are ambiguous. The complex interplay of labor market frictions provides opportunities for future research specifically exploring the intersection of the strategic human capital and employee entrepreneurship literatures.*

Managerial summary: *Our research suggests that some factors that prevent employees from leaving their employers to join competitor companies may also keep those employees from leaving to start new companies. Other factors that prevent employees from leaving their employers, however, may actually encourage employees to leave to start new companies. We identify areas for future research to help us understand better when companies' efforts to hold on to their workers are effective at preventing both movement to competitor companies as well as to entrepreneurship.* Copyright © 2017 Strategic Management Society.

The strategic human capital literature is largely focused on explaining heterogeneity in performance based on differences in firms' abilities to leverage valuable human capital (Barney, 1991; Barney & Wright, 1998; Castanias & Helfat, 1991). Accordingly, the strategic human capital literature brings from its strategy roots a focus on firm performance heterogeneity and from its human capital roots a focus on employee mobility.[1] In this literature, mobility is viewed primarily as a threat to firms because it represents the loss of valuable human capital that might be important for firm capabilities and performance (Coff, 1997). Thus, the strategic human capital literature has emphasized the critical role of labor market frictions in constraining mobility of human capital and, therefore, facilitating sustained human capital-based competitive advantages (Campbell, Coff, & Kryscynski, 2012; Chadwick, 2017).

Keywords: competitive advantage; entrepreneur; resource-based view; spin-offs; human resource management; human capital

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[1] For a recent review of the expansive literature on employee mobility, please see Mawdsley and Somaya (2016).

In contrast, the employee entrepreneurship literature brings from its entrepreneurship roots a focus on understanding the formation of new ventures and the economic outcomes of innovation; and from its roots on the agency of individual entrepreneurs, it brings a focus on mobility choices of potential founders. As such, the employee entrepreneurship literature is largely focused on understanding the conditions that cause employees to leave employment in order to found their own firms and the economic and personal consequences of those entrepreneurial actions. In this literature, mobility is viewed primarily as a positive outcome because it is associated with greater economic returns for the individual entrepreneurs (Campbell, 2013; Hamilton, 2000; Hellmann, 2007), enhanced performance of newly created firms (Agarwal, Echambadi, Franco, & Sarkar, 2004; Chatterji, 2009; Franco & Filson, 2006; Klepper, 2009; Sakakibara & Balasubramanian, 2015), and flows of knowledge and innovations that benefit markets and geographic regions as a whole (Agarwal, Audretsch, & Sarkar, 2010; Almeida & Kogut, 1999; Berchicci, King, & Tucci, 2011; Chatterji, Glaeser, & Kerr, 2014; Gambardella & Giarratana, 2010). From this perspective, employee entrepreneurship research has focused on how various labor market frictions may increase or decrease the propensity of potential entrepreneurs to leave their jobs and found new firms.

We visually depict the relationships among these literatures in Figure 1. Strategic human capital scholarship exists at the intersection of the strategy and employee mobility literatures, while employee entrepreneurship scholarship exists at the intersection of the entrepreneurship and employee mobility literatures. We highlight that strategic human capital scholarship and employee entrepreneurship scholarship both draw on the market friction logic embedded in the employee mobility literature, but focus on different objectives and outcomes of interest. Accordingly, we see an opportunity to link these two theoretical conversations through the language and logic of labor market frictions and, in so doing, to explore the intersection between strategic human capital and employee entrepreneurship research.

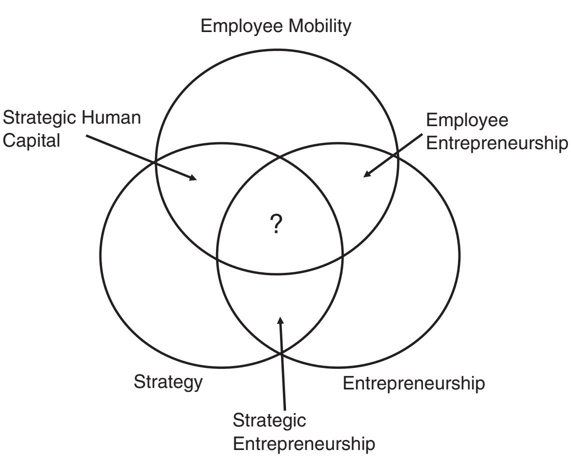

Figure 1. Visualizing intersections in extant literature.

In this article, we provide a short overview and summary of labor market friction logic and briefly review how each friction manifests in the strategic human capital and employee entrepreneurship literatures. Our review suggests that in some instances, the outcomes of these frictions diverge across literatures, in other instances, they align across literatures, and in other instances, the extent of alignment or divergence is unclear or ambiguous. We then identify opportunities for future research explicitly focused on the intersection of the strategic human capital and employee entrepreneurship literatures.

Labor Market Frictions

Market frictions are imperfections in product or factor markets that inhibit perfect competition (Mahoney & Qian, 2013). Economic theory suggests that in perfectly competitive markets, economic rents are unattainable. By preventing perfectly competitive market outcomes, market frictions can facilitate rent creation and rent capture by market participants. In both the strategic human capital and employee entrepreneurship literatures, understanding how market frictions in labor markets impact the mobility of employees into and out of firms is a key concern.

A common theme across strategic human capital theory is that labor market frictions that constrain voluntary employee mobility are necessary for firms to capture value from employees. Valuable human capital can be very difficult to obtain or imitate and yet may be particularly important for achieving a competitive advantage (Barney, 1991; Castanias & Helfat, 1991). Unlike other strategic resources and capabilities that the firm can build, borrow, and/or buy in the market, human capital is embedded in individuals with agency (Coff, 1997). These individuals can choose to leave their employers for any number of reasons and for any number of alternative destinations and when

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they do, they take their valuable human capital and relationships with them (Carnahan & Somaya, 2013; Dokko & Rosenkopf, 2010; Raffiee, 2017; Somaya, Williamson, & Lorinkova, 2008). This threat of voluntary employee mobility, which is not present in other strategic factor markets, is one source of the managerial dilemmas that firms face when dealing with this unique firm resource (Coff, 1997).

Similarly, employee entrepreneurship research explores how labor market frictions impact the decisions of employees to leave employment to start a new venture. The employee entrepreneurship literature generally views entrepreneurship as a career choice (Douglas & Shepherd, 2000): potential entrepreneurs consider their opportunities (Sorensen & Sharkey, 2014) and their opportunity costs (Amit, Muller, & Cockburn, 1995) and then choose to become an entrepreneur and stay an entrepreneur (Gimeno, Folta, Cooper, & Woo, 1997) as long as that choice enhances the entrepreneur's utility. Therefore, labor market frictions that limit the utility of employees at their current employer or constrain the ability of employees to gain utility from founding a new firm fundamentally shape the career choices of potential employee entrepreneurs.

In their exploration of the role of market frictions in driving the dominant theoretical perspectives found in the strategy literature, Mahoney and Qian (2013) categorize market frictions and provide insights into how market frictions shape rent creation and appropriation. We adapt the logic and framing of Mahoney and Qian (2013) to explore how key labor market frictions impact outcomes in both strategic human capital and employee entrepreneurship research. Because employees are themselves strategic actors with agency, the market frictions that impact labor markets are often more nuanced and varied and the consequences more complicated than for market frictions in other strategic factor markets. We also emphasize that the outcomes in labor markets may differ from those in other strategic factor markets because employees can potentially start their own new firms, an outcome not available in other markets.

Table 1 contains our review of the strategic human capital and employee entrepreneurship research that explicitly or implicitly leverages labor market friction logic to explain constraints on employee mobility. The table provides a broad (but by no means complete) review of the labor market frictions common to the literatures on mobility and employee entrepreneurship. Each row describes a friction, provides references to research in both literatures, and provides a high-level assessment of the effect of that particular friction in the extant literature. The last column indicates the extent to which the employee mobility and employee entrepreneurship outcomes discussed in these literatures appear aligned or divergent, based on our review. Next, we briefly discuss each row of Table 1. We group the frictions according to whether their impact on employee mobility and employee entrepreneurship is divergent, aligned, or ambiguous. Again, we stress that this is an incomplete list of labor market frictions designed to identify opportunities for future research.

Divergent Labor Market Frictions

Human capital specificity. A primary market friction explored in the employee mobility literature is co-specialized human capital. Two assets are co-specialized if they each create more value when combined with the other (Teece, 1986). In the context of human capital, co-specialized human capital arises when the worker invests in knowledge, skills, and abilities that are uniquely valuable in the context of the firm's idiosyncratic resources and capabilities (Becker, 1964; Molloy & Barney, 2015). Co-specialized human capital is useful for the firm because it underlies many of the firm's competitive capabilities (Mahoney & Kor, 2015), but also because it limits the employees' outside options. Other firms are less likely to benefit from the employees' highly co-specialized skills and, accordingly, may not compensate employees for those skills (Becker, 1964; Wang & Barney, 2006), therefore reducing the likelihood of employees moving to other firms (e.g., Coff & Raffiee, 2015; Marx et al., 2009; Morris et al., 2017; Wang et al., 2009). The limited external market for specific human capital constrains the mobility of employees with firm-specific human capital. This reduces employee mobility to established firms, limiting the ability of employees to leverage external offers to bid up their compensation. In turn, this potentially supports firms' capture of human capital rents by allowing the employer to retain a valuable employee at a discount.

In contrast, the employee entrepreneurship literature largely suggests that asset specificity of

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Table 1
Common Labor Market Frictions and Their Impacts on Employee Mobility and Employee Entrepreneurship

Labor market friction	Description	Impact on		Alignment?
		Employee mobility	Employee entrepreneurship	
Firm specificity and complementary assets	Demand-side friction arising when the worker invests in knowledge, skills and abilities that are uniquely valuable in the context of the firm's idiosyncratic resource and capability bundles.	***Negative*** (Becker, 1964; Coff & Raffiee, 2015; Mahoney & Kor, 2015; Marx, Strumsky, & Fleming, 2009; Morris, Alvarez, Barney, & Molloy, 2017; Wang & Barney, 2006; Wang, He, & Mahoney, 2009)	***Positive*** (Campbell, Ganco, Franco, & Agarwal, 2012; Carnahan, 2017; Franco & Filson, 2006)	Divergent
Social complexity	Demand-side friction caused when employee value stems from shared routines among socially complex teams.	***Negative*** (Campbell, Saxton, & Bannerjee, 2014; Groysberg & Lee, 2009; Groysberg, Lee, & Nanda, 2008; Madsen, Mosakowski, & Zaheer, 2003)	***Positive*** (Agarwal, Campbell, Franco, & Ganco, 2016; Dahl & Sorenson, 2012; Phillips, 2002; Wezel, Cattani, & Pennings, 2006)	Divergent
Information asymmetry/ Causal ambiguity	Demand-side friction arising when it is difficult for outside observers to observe and discern the quality of employees, leading to causal ambiguity and a lemons problem.	***Negative*** (Blyler & Coff, 2003; Ganco, 2013; Starr, Frake, & Agarwal, 2017; Stern & James, 2016)	***Positive*** (Ganco, 2013; Hayward, Shepherd, & Griffin, 2006; Lowe & Ziedonis, 2006)	Divergent
Thin markets/ Collusion	Demand-side frictions because there are a limited number of alternative employers in a market.	***Negative*** (Almeida & Kogut, 1999; Carnahan, 2017; Whittington, Owen-Smith, & Powell, 2009)	***Positive*** (Carnahan, 2017; Sorensen & Sharkey, 2014)	Divergent
Intellectual property and non-competes	Demand- and supply-side frictions based on legal protections of a firm's knowledge and intellectual property.	***Negative*** (Agarwal et al., 2009; Fallick et al., 2006; Ganco et al., 2015; Marx, 2011; Marx et al., 2009; Samila & Sorenson, 2011; Yeganegi et al., 2016; Younge & Marx, 2016)	***Negative*** (Agarwal et al., 2009; Anton & Yao, 1995; Buenstorf et al., 2016; Hellmann, 2007; Starr, Balasubramanian, & Sakakibara et al., 2017; Starr, Frake et al., 2017)	Aligned
Future opportunities with employer	Supply-side friction arising from credible future opportunities available at employer.	***Negative*** (Bidwell & Mollick, 2015; Carnahan et al., 2012; Hoisl, 2007)	***Negative*** (Carnahan et al., 2012; Cassiman & Ueda, 2006; Kacperczyk, 2013; Sorensen & Sharkey, 2014)	Aligned

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Table 1
Continued

Labor market friction	Description	Impact on		Alignment?
		Employee mobility	Employee entrepreneurship	
Mobility Costs	Supply-side friction reflecting the costs to an employee of employee mobility and employee entrepreneurship.	***Negative*** (Agarwal et al., 2009; Campbell, Ganco et al., 2012; Kuhn & Skuterud, 2004; Sorensen & Sharkey, 2014; Whittington et al., 2009)	***Negative*** (Agarwal et al., 2009) ***Positive*** (Campbell, Ganco et al., 2012; Raffiee & Feng, 2014; Sorensen & Sharkey, 2014)	Possibly divergent
Heterogeneous Employee Ability	Demand-side friction arising from thinner markets for low and high ability employees.	***Negative*** (Campbell, Ganco et al., 2012; Carnahan et al., 2012) ***Positive*** (Chatterji et al., 2016; Di Lorenzo & Almeida, 2017; Ganco et al., 2015; Palomeras & Melero, 2010)	***Positive*** (Campbell, Ganco et al., 2012; Carnahan et al., 2012; Chatterji et al., 2016; Dahl & Sorenson, 2012; Elfenbein et al., 2010; Sorensen & Sharkey, 2014)	Possibly divergent

human capital may increase, rather than decrease, the likelihood of employee entrepreneurship. While other established firms may not be willing to compensate outside employees for their highly firm-specific human capital, employees can potentially leave their focal firms, start new firms, and recreate the relevant co-specialized assets at the new ventures. This mechanism is consistent with the findings of Franco and Filson (2006), Campbell, Ganco et al. (2012), and Carnahan (2017), which demonstrate that while investments in firm-specific human capital may limit the likelihood of turnover overall, employees with high levels of firm-specific human capital are more likely to pursue entrepreneurship when they do choose to leave their current employers.

Social complexity. Coff (1997) highlights that firm-specific human capital is often manifest in the tacit knowledge embedded in social relationships and social culture. In other words, when employees are entrenched in a specific social structure, they are able to create more value than in alternative social structures. While the tacit knowledge of socially complex relationships is relationship specific and not necessarily firm specific, being embedded in a socially complex team makes it harder for alternate employers to transfer the value created by that team into their organization (Groysberg & Lee, 2009; Groysberg et al., 2008). The team members would all need to move together and adapt their shared routines to the new context (Marx & Timmermans, 2017; Selby & Mayer, 2013), which is potentially costly because the new employees' routines may disrupt existing routines (Campbell et al., 2014), and incumbent firms may resist adopting new routines (Madsen et al., 2003). As a consequence, production that occurs in socially complex teams reduces the threat of mobility, allowing firms to retain knowledge embedded in team members at a discount (Grant, 1996).

This constraint, however, may be less important when starting a *de novo* organization. First, employee entrepreneurs are typically higher performing employees (Campbell, Ganco et al., 2012; Klepper & Thompson, 2010) and are, thus, better able to rally teammates to move with them (Agarwal et al., 2016; Dahl & Sorenson, 2012) and take advantage of the collectively held knowledge of the team (Phillips, 2002; Wezel et al., 2006). Second, entrepreneurs start from a blank slate when

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designing social structure and organizational culture (Burton, Sørensen, & Beckman, 2002), thus the risk of conflicting routines between the moving team and incumbent employees, which devalues the socially embedded knowledge, is mitigated (Campbell et al., 2014). Therefore, relative to a team-embedded employee moving to an established firm, employee entrepreneurs may be better able to move with a team and transfer their socially complex knowledge, and they are better able to create value from that knowledge in a new organization.

Information asymmetry/causal ambiguity. Asymmetric information may make it difficult for outside employers to observe and discern the quality of embedded employees, leading to causal ambiguity problems (Blyler & Coff, 2003; Polanyi, 1962; Reed & DeFillippi, 1990) and lemons problems (Salop & Salop, 1976). In other words, it may be very difficult for external firms to know whether they are hiring an employee who will be valuable in their firm. This is particularly relevant when knowledge is complex and hard to assess externally (Ganco, 2013) and when there is uncertainty on the efficacy and coverage of legal market constraints (Starr, Frake et al., 2017). When there are high levels of information asymmetries, hiring firms are less likely to poach employees and those who are actually high quality may face a lemons discount when they consider other options in the labor market, thus constraining employee mobility. When information about the value of an employee becomes less ambiguous, for example through voluntary disclosures about value creation and value appropriation strategies of the firm, the likelihood that employees will be poached increases (Stern & James, 2016).

However, information asymmetry problems in labor markets may encourage employee entrepreneurship. While external employers may not be able to observe outside employees' human capital, individuals do see and appreciate their own human capital. Thus, when external firms will not pay for outside employees' skills, these undervalued employees can potentially form a new firm and fully reap the benefits of their abilities. When entrepreneurs have private expectations about their own skills and quality that exceed the expectations of the market, they are likely to pursue entrepreneurship (Hayward et al., 2006; Lowe & Ziedonis, 2006). Similarly, while the complexity of knowledge possessed by employees (which is very hard for outside employers to see) reduces employee mobility, it is associated with an increase in employee entrepreneurship (Ganco, 2013).

Thin markets/collusion. Employee mobility is negatively related to the number of independent employers in the labor market. The fewer the number of external employers, the fewer options employees have on the external market, and employee mobility is constrained. For example, increased geographic dispersion of firms within an industry limits the mobility of employees (Almeida & Kogut, 1999; Whittington et al., 2009). Similarly, the dissolution of competitor firms in an industry is also associated with a reduction in employee mobility (Carnahan, 2017). In contrast, although dissolution of competitor firms may limit the mobility of employees to existing firms, it spurs entrepreneurship by employees of the surviving firms (Carnahan, 2017). So, similar to the frictions identified earlier, this demand-side constraint likely limits movement from firm to firm; but, by constraining the ability of employees to threaten mobility to bid up their compensation, thin markets may actually enhance the likelihood that employees will depart to start their own firms because entrepreneurship allows these individuals to circumvent this source of demand-side constraints.

Aligned Labor Market Frictions

Intellectual property and non-competes. Legal structures that prevent employees from taking knowledge from a firm reduce employee mobility. For example, when firms implement non-compete agreements to constrain the ability of an employee to leave the firm and compete with the employer (Buenstorf, Engel, Fischer, & Gueth, 2016; Starr, 2016) or threaten intellectual property enforcement to prevent an employee from using the firm's knowledge in a different context (Ganco, Ziedonis, & Agarwal, 2015), they not only inhibit the willingness of employees to move to an existing firm (Agarwal, Ganco, & Ziedonis, 2009; Fallick, Fleischman, & Rebitzer, 2006; Ganco et al., 2015; Marx, 2011; Marx et al., 2009; Samila & Sorenson, 2011; Yeganegi, Laplume, Dass, & Huynh, 2016; Younge & Marx, 2016), but they also inhibit employees from forming their own firms by preventing employee entrepreneurs from imitating important aspects of their parent firm (Anton & Yao, 1995; Yeganegi et al., 2016). Intellectual

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property protection, thus, reduces the entrepreneurial aspirations of employees (Autio & Acs, 2010) and constrains the ability of employees to become entrepreneurs (Hellmann, 2007), especially if the parent firm values the intellectual property highly (Gambardella, Ganco, & Honoré, 2014). Similarly, if they are enforceable, non-compete agreements increase the risks facing employee entrepreneurs and limit the value of the knowledge they can take with them to their new firm (Starr, Frake et al., 2017; Starr, Balasubramanian et al., 2017). Research suggests that non-competes may be effective even if they are not enforceable because they create an implicit contract for the employee that is psychically costly to break (Kryscynski & Starr, 2017). This class of frictions ultimately has aligned effects in reducing mobility to both established firms and new ventures.

Future opportunities with employer. In contrast to the assumption that in competitive labor markets there are many homogeneous employers, in actual labor markets, employers vary with respect to the opportunities available within the firm. As individual productivity and opportunities for career advancement increase within a firm, both mobility (Hoisl, 2007) and entrepreneurship (Cassiman & Ueda, 2006; Kacperczyk, 2013; Sorensen & Sharkey, 2014) are limited. Career opportunities within firms lead to higher rates of internal promotion, which are associated with increased responsibility for employees (Bidwell & Mollick, 2015) and increased utility for the employees. As employers increase the potential for promotion and increased authority within the firm, they decrease the likelihood of mobility to established firms or to new ventures. Similarly, as opportunities for advancement within a focal firm become more limited, employees will look to advance their careers by pursuing opportunities in other firms or by starting their own firms.

Ambiguous Labor Market Frictions

Mobility costs. Mobility costs can include the costs of job search, bargaining, and switching as well as the opportunity cost associated with leaving the original job. The negative effect of mobility costs on employee mobility to established firms is clear: as mobility costs increase, the likelihood of changing jobs decreases (Kuhn & Skuterud, 2004; Stevenson, 2008). Similarly, as the opportunity cost of leaving a job increases, the mobility rate decreases (Agarwal et al., 2009; Campbell, Ganco et al., 2012; Sorensen & Sharkey, 2014; Whittington et al., 2009). However, the impact of mobility costs on employee entrepreneurship is less clear. While, actual start-up costs of starting a new venture have a negative impact on entrepreneurship (Evans & Jovanovic, 1989), the impact of opportunity costs on new venture creation are less clear. Opportunity costs may negatively impact employee entrepreneurship because employees with high opportunity costs face more risk in starting a new venture (Agarwal, Campbell, Carnahan, & Choi, 2017, Agarwal et al., 2009), or they may positively impact employee entrepreneurship because employees with high opportunity costs may seek extreme rewards through entrepreneurship (Carnahan, Agarwal, & Campbell, 2012; Sorensen & Sharkey, 2014) or pursue hybrid entrepreneurship (Raffiee & Feng, 2014).

Heterogeneous employee ability. Just as differences between firms present frictions that impact employee mobility and entrepreneurship, employees themselves are not fungible, and differences between the employees create frictions in labor markets. For example, employees differ according to their ability. Studies examining the relationship between employee ability and employee mobility find mixed results. In some cases, higher ability workers are found to be more likely to join competitor firms (Chatterji, de Figueiredo, & Rawley, 2016; Di Lorenzo & Almeida, 2017; Gambardella et al., 2014; Palomeras & Melero, 2010). Other studies find that higher ability workers are less likely to leave for competitors (Campbell, Ganco et al., 2012; Carnahan, 2017). Employee ability, however, is consistently associated with higher rates of employee entrepreneurship (Campbell, Ganco et al., 2012; Carnahan et al., 2012; Chatterji et al., 2016; Dahl & Sorenson, 2012; Elfenbein, Hamilton, & Zenger, 2010; Sorensen & Sharkey, 2014).

A Pathway to Greater Convergence

Our summary of labor market frictions in both the strategic human capital and employee entrepreneurship literatures demonstrates how labor market frictions may provide a pathway for connecting and

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integrating these two streams of research. We offer two messages in conclusion: First, we suggest a potential explanation for why in some cases we observe divergence between the strategic human capital and employee entrepreneurship literature. Second, we identify avenues for future research that can more fully bring the insights from these literatures together.

Why Might These Literatures Diverge?

Scholars in the strategic human capital domain are generally interested in exploring the conditions under which firms are able to capture rents from human capital and gain a competitive advantage over their competitors. Thus, while many strategic human capital studies leverage individual-level data and invoke individual-level theories, their primary research motivation is to explain firm-level differences across established firms. This focus on established firms as the actors of interest may engender an implicit bias toward theoretical and empirical studies that examine mobility to established firms. This perspective treats employee mobility as a negative outcome that should be constrained and leads scholars to systematically ignore the implications of entrepreneurship as an employment outcome. In contrast, the employee entrepreneurship literature explores employees' decisions to found their own firms and is implicitly built on the assumption that entrepreneurship is a career choice. Thus, individuals are the actors of interest in this research, and employee mobility is seen as a positive outcome that enhances the utility of individuals, facilitates new venture performance, and drives knowledge flows and innovation.

Our review of these two literatures suggests an important boundary condition on research in the strategic human capital tradition. Specifically, theories of how labor market frictions restrict mobility and enhance human capital-based competitive advantages may need to be limited to contexts in which entrepreneurship is not an attractive option for employees who are the source of human capital rents. If entrepreneurship is a viable and potentially attractive options for firms' employees, then strategic human capital theories need to address how entrepreneurship as a mobility destination alters assumptions about the relationship between labor market frictions, mobility, and human capital rents.

Moving Toward Convergence

We identify three key research areas that will leverage the market friction logic and deepen our understanding of the interaction between employee entrepreneurship and strategic human capital. Specifically, we call for: (a) a deeper analysis of how specific labor market frictions impact the ability of firms to capture human capital rents when employee entrepreneurship is a threat; (b) an exploration of the set of firm strategies that may constrain employee entrepreneurship; and (c) an analysis of how the matching of entrepreneurially inclined employees and employers is endogenous to the set of frictions present in a context.

Human capital rents and employee entrepreneurship. The omitted choice of employee entrepreneurship is important to a market friction logic because entrepreneurship provides a pathway for employees to navigate around labor market frictions that might otherwise limit their mobility. Even if employees cannot threaten mobility to an *existing* firm in order to bargain for higher wages, they can threaten to start a *new* firm. In some cases, the stronger the labor market frictions that reduce firm-to-firm mobility, the greater the attractiveness of entrepreneurship as a career choice. Thus, a potential consequence of leveraging labor market frictions in pursuit of human capital rents is that firms may inadvertently increase the incentives for their employees to become entrepreneurs, particularly if the affected employees are already inclined toward the rewards available through entrepreneurship. The divergent effects associated with some labor market frictions in preventing employee mobility to established firms versus preventing employee entrepreneurship, therefore, presents an upper bound on how aggressively firms can leverage labor market frictions to appropriate value from their employees.

There are also opportunities to study specific labor market frictions and examine how they shape employee mobility and employee entrepreneurship and the resulting impact on value capture by firms. Our presentation of common labor market frictions is only at a high level, and these discussions are cursory and incomplete and designed primarily to

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illustrate the potential underlying relationships. More comprehensive research is necessary to explore the specific mechanisms underpinning the role of labor market frictions in providing a competitive advantage to firms while still constraining employee entrepreneurship.

Furthermore, it remains an open question whether the potential loss of employee entrepreneurs outweighs the benefits of leveraging labor market frictions to retain non-entrepreneurially inclined employees. If these frictions allow the firm to hold on to non-entrepreneurially inclined employees at a discount but actually encourage entrepreneurially inclined employees to start their own firms, what does that mean for the overall human capital-based competitive advantage for the firm? While the mobility outcomes may diverge, it is not as clear *ex ante* whether the implications for competitive advantage also diverge. There seems a fruitful path for future research exploring entrepreneurial mobility and the human capital rents of established firms simultaneously to help us more fully understand when and how these literatures align and diverge.

Connecting employee entrepreneurship to firms' human capital approaches. In a world where employee entrepreneurship is a threat to firms' ability to capture human capital rents, firms may have to adapt new human capital management approaches to constrain the mobility of entrepreneurially inclined employees. If firms' use of labor market frictions to constrain mobility to established firms may enhance the threat of employee entrepreneurship, the next step in the logic is to ask how firms can counteract the ability and willingness of entrepreneurially inclined employees to leave to form a new venture. The strategic human capital lens highlights that firms could respond to entrepreneurship threats by leveraging supply-side frictions that decrease an employee's willingness to leave and become an entrepreneur. For example, firms may offer spin-off or intrapreneurship opportunities to employees whose mobility options with existing firms are limited, but who might otherwise become employee entrepreneurs. These opportunities create supply-side constraints, incenting employees to remain with the existing employer rather than create new competitor firms. We next briefly discuss several potential ways firms can reduce the entrepreneurship threats of employees, though there may be many more to explore in future research.

Spin-off firms. In a spin-off, a parent firm creates a new venture in which they maintain substantial equity. Thus, the parent firm gives an entrepreneurially inclined employee the green light to pursue an entrepreneurial opportunity and, further, makes an initial investment in exchange for equity in the new venture. From the parent firm's perspective, it does not completely lose the valuable employee because the firm retains some of the financial benefits from the human capital of the founder. Additionally, the firm can "harvest" innovations from these ventures (Dushnitsky & Lenox, 2005) and learn about new technologies (Dushnitsky & Lenox, 2006). Firms benefit because they did not lose these employees to a competing venture or to a rival (Burrows, 2012); the founders benefit because they reap the financial rewards (Hamilton, 2000), meaning and purpose (Carnahan, Kryscynski, & Olson, 2016), autonomy (Roach & Sauermann, 2015), flexibility (Sørensen, 2007), responsibility (Elfenbein et al., 2010), and human capital development (Campbell, 2013) that can accompany entrepreneurship.

Intrapreneurship. Firms can also offer intrapreneurship opportunities to entrepreneurially inclined employees. In intrapreneurship, employees are given autonomy over and rewards from an innovative activity within the boundaries of the firm (Hellmann, 2007; Kacperczyk, 2013). Intrapreneurs typically work closely with other units of the firm and have access to the complementary assets of the parent. Again, the employer benefits by stimulating innovation and then owning the rights to those innovations. Employees with entrepreneurial inclinations benefit because they receive at least some of the benefits associated with being an entrepreneur.

Through both spin-offs and intrapreneurship, firms leverage supply-side frictions to counteract the adverse effects that demand-side frictions impose on entrepreneurially inclined employees. By receiving many of the benefits associated with entrepreneurship while remaining associated with their current employer, entrepreneurially inclined employees are less likely to seek out external entrepreneurial opportunities. While these are just two examples of how understanding the antecedents and consequences of employee entrepreneurship can shape firms' approaches to capturing human capital rents, there are rich avenues of future research exploring how firms can seek to neutralize the dilemmas associated with managing human capital that is free to leave and start new ventures.

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Labor market frictions and employer-employee matches. Much of the extant strategic human capital literature implicitly assumes that individuals are randomly assigned to firms. However, it is likely that employees sort into firms based on the intensity of the frictions they anticipate experiencing at the firm. For example, an employee with very low expected utility from entrepreneurship may be less willing to sort into a firm with high demand-side constraints than an employee with high expected utility from entrepreneurship. The entrepreneurially inclined employees may be less sensitive to demand-side frictions because they always possess a credible exit threat. As such, the intensity of demand-side frictions at a firm might shape the composition of the firm's workforce. This highlights a path through which strategic human capital researchers can more deeply examine how frictions shape the process by which employees select into firms and how employees are motivated within firms.

This logic is particularly salient at the regional level and, therefore, for policy makers. As an example, consider Silicon Valley and Route 128. Saxenian's (1996) arguments suggest that demand-side constraints in the Route 128 area are, on average, more intense than demand-side constraints in Silicon Valley, which leads to relatively greater mobility in Silicon Valley. However, if we compare employees in each region that are identical on all dimensions except for the demand-side constraints they face in their region, our logic suggests that *ceteris paribus*, employees in Route 128 may be more likely to become entrepreneurs because they face more intense demand-side constraints. However, it is difficult to make a *ceteris paribus* argument here because the higher average demand-side constraints in Route 128 reduce the ability of entrepreneurs to recruit other team members. This, in turn, reduces the average expected utility from entrepreneurship in Route 128 relative to Silicon Valley, which leads to sorting of more entrepreneurially inclined employees into Silicon Valley. So, when aggregating to the regional level, demand-side constraints and expected utility from entrepreneurship may co-vary in predictable ways. This suggests an opportunity to explore how policy makers can shape the labor market frictions within a region in order to stimulate employee entrepreneurship and attract entrepreneurially inclined individuals into the region.

Conclusion

The extant strategic human capital literature is built on a theoretical foundation that draws deeply on labor market friction logic. So, also, is the extant literature on employee entrepreneurship. However, these literatures leverage labor market friction logic in distinctly different ways, from distinctly different perspectives, and with distinctly different objectives. Nevertheless, bridging these literatures can provide a foundation for developing richer answers to a variety of research questions regarding the antecedents and consequences of human capital value capture when employee entrepreneurship is a threat. By linking these literatures through their shared focus on market frictions, researchers can contribute to the understanding of how entrepreneurial mobility has firm-level consequences, how firms' quests for human capital rents can enable or constrain employee entrepreneurship, and how managers and policy makers can shape the interaction of individuals and firms.

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