

# Incorporation Decisions and Job Creation in New Firms<sup>\*</sup>

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February 26, 2018

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## **Abstract:**

In this paper, we study the influences on job creation in new firms that follow from law-induced cost associated with entry as incorporation. To identify these influences empirically, we exploit a natural experiment in regulation that accompanied the German reunification shock and we take potentially endogenous choices of the legal form of organization into account. We show that an increase in the cost of incorporated entry reduces the emergence of incorporated firms in a population of new firms and raises the gap in average initial job creation between incorporated and unincorporated entrants. The latter result is driven by, in particular, reduced mass in the intermediate range of the entry size distribution among incorporated entrants compared to the one among unincorporated entrants. Our empirical findings are in line with predictions derived from a theoretical model in which legal form-specific entry size distributions result from profit expectations of entrepreneurs who observe their entrepreneurial type after entry.

**Keywords:** Firm Entry, Incorporation Decisions, Job Creation

**JEL:** L22, L26, L53, K22, J23

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<sup>\*</sup>Financial support provided by the German Research Foundation (DFG) in the context of the Priority Programme 1764 is gratefully acknowledged.

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