

# Pecuniary and non-pecuniary aspects of self-employment survival

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Received 17 September 2004; received in revised form 9 March 2005; accepted 27 March 2006

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## Abstract

We examine the factors that determine self-employment duration in Britain, paying particular attention to self-reported job satisfaction variables and non-pecuniary aspects of self-employment. Based on spell data from the British Household Panel Study, we estimate single-risk and competing-risks hazard models, separately for males and females. Our results show that job satisfaction is indeed a strong predictor of self-employment exit, even after controlling for standard economic and demographic variables. When five domain job satisfaction measures are used, we find that pay, job security and initiative are the three aspects of self-employment most valued by the self-employed themselves. Gender differences regarding the determinants of self-employment survival and exit destination states are also evident.

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*JEL classification:* J23; J28; J60

*Keywords:* Self-employment; Survival; Job satisfaction

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## 1. Introduction

Compared to the plethora of studies examining self-employment entry, relatively few studies examine the determinants of self-employment survival and exit. Noteworthy recent examples of empirical studies focusing exclusively on self-employment survival include Johansson (2001) and Taylor (1999). Johansson (2001) uses Finnish longitudinal data and finds that the young,

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the more educated, and those with previous unemployment experience face a higher risk of exiting self-employment. Based on data from the British Household Panel Survey (BHPS), Taylor (1999) finds that approximately 40% of self-employment ventures in Britain that started in 1991 did not survive their first year in business. Interestingly, a substantial proportion of self-employment spells is not terminated through bankruptcy but rather through moves to alternative employment. Taylor also highlights the importance of previous unemployment experience, whether individuals quit the previous job, and initial capital as important determinants of self-employment survival. Bates (1990) provides some of first evidence on the probability of surviving in business for a sample of male entrepreneurs in the US and finds that those who possess greater business acumen, labour market skills, and capital, are more likely to survive *ceteris paribus*.<sup>1</sup>

Failure to address entrepreneurial success and self-employment survival could cast doubts on the efficiency of government programmes designed to facilitate individuals' entry into self-employment.<sup>2</sup> The design and implementation of such programmes is informed by numerous empirical studies that examine mostly the factors affecting individuals' decision to become self-employed, with relatively little information on the factors that determine entrepreneurial success and survival. High self-employment exit rates may be viewed as evidence of poor matches between entrepreneurial availability and skill requirements and can be costly, not only for the self-employed themselves but also for third parties, including banks, customers and governmental and private financial institutions. Understanding the determinants of self-employment survival could allow for a more complete response by policy makers who view entrepreneurship as the key to job creation and prosperity.

In this paper, we provide additional empirical evidence regarding the factors that determine self-employment duration in Britain, paying particular attention to non-pecuniary aspects of self-employment and self-reported job satisfaction variables. Although recent empirical work on the determinants of self-employment entry acknowledges the importance of job satisfaction for individuals' choice between salaried work and self-employment, the small number of studies examining self-employment survival focus exclusively on the role of standard economic and demographic variables. Generally, there is very little direct evidence on the correlation between self-reported satisfaction measures and self-employment duration. This is in sharp contrast to the empirical literature on labour turnover and mobility, where a growing number of studies examine the role of job satisfaction and non-pecuniary aspects of a job as strong predictors of quits (see for example, Akerlof, Rose, & Yellen, 1988; Clark, Georgellis, & Sanfey, 1998). More recently, Clark (2001), using employment spell data from the BHPS (omitting self-employment spells), finds that overall job satisfaction is indeed a powerful predictor of separations and quits, even after controlling for wages, demographic and other job variables. Interestingly, Clark (2001) also finds that job security and pay are the two job attributes most valued by workers.

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<sup>1</sup> Although not focusing exclusively on self-employment survival, a number of studies highlight important factors that affect an individual's probability of remaining self-employed. See for example, Holtz-Eakin, Joulfaian, and Rosen (1994), Schiller and Crewson (1997), and Carrasco (1999).

<sup>2</sup> In recent years OECD countries have experienced an increase in the number of self-employed workers and the number of government programmes designed to spur entrepreneurship. Examples of such programmes include the US Small Business Administration's loan program, the Unemployed Entrepreneurs Program in France, the Enterprise Allowance Scheme in Britain, and the *Überbrückungsgeld* (bridging allowance) and AGF (Labour Promotion Act) programs in Germany.

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