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THE ROLE OF OCCUPATIONAL ENVIRONMENTS FOR ENTREPRENEURIAL ENTRY (SUMMARY)

Alina Rusakova  
*Friedrich-Schiller-University Jena*, alina.rusakova@uni-jena.de

Michael Fritsch  
*Friedrich-Schiller-University Jena*

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THE ROLE OF OCCUPATIONAL ENVIRONMENTS FOR ENTREPRENEURIAL ENTRY

Alina Rusakova, Friedrich-Schiller-University Jena, Germany
Michael Fritsch, Friedrich-Schiller-University Jena, Germany

Principal Topic

It is a fact that the intention to start one's own business emerges after a certain spell of paid employment. Most people who decide to become self-employed used to be employed in certain occupations beforehand. Hence, it seems that vocational and entrepreneurial choices are strongly interrelated. Particularly, working experience in certain occupations or occupation-specific labor market conditions may have an influence on the decision to become an entrepreneur. The contribution of this paper is to investigate the relationship between the characteristics of occupations, such as employment- and earnings risks as well as the occupation-specific self-employment rate, and the decision to become an entrepreneur.

Method

The individual-level data stem from a large representative survey of German households, the Socio-Economic Panel Data. Entrepreneurial entry is defined as a transition from paid- to self-employment. Occupation-specific data come from the Federal Employment Agency and the Microcensus of the Federal Statistical Office and include short- and long-term unemployment rates, levels of job openings, median wages, and self-employment rates. Occupational earnings risk was calculated as the occupation-specific variance of the residuals in Mincer wage regression. A random-effects panel data econometric analysis was performed for waves 2004—2009.

Results and Implications

Our results suggest that the transitions from dependent employment into self-employment are more likely to occur in occupations that are characterized by high levels of unemployment, but at the same time high levels of job openings. Leaving paid employment for self-employment in such occupations is less risky because one can “retreat” back to paid employment if a business venture turns out badly. Furthermore, entrepreneurs are more likely to come from occupations with high earnings risk. The transition probability is significantly higher for those who are in lower quartiles of the occupation-specific wage distribution indicating the importance of financial motivation for the decision to become an entrepreneur. Finally, occupations with relatively high self-employment rates foster individuals’ willingness to become self-employed. It appears that such occupations are more likely to provide entrepreneurial career models to people working in them or they may have rather low barriers for entry.

CONTACT: Alina Rusakova; alina.rusakova@uni-jena.de; (T): +49(0)3641-943-222; (F): +49(0)3641-943-232; Friedrich-Schiller-University; Carl-Zeiss-Str., 3, D-07743 Jena, Germany.