SELF-EMPLOYED BUT LOOKING: A LABOR MARKET EXPERIMENT (SUMMARY)

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SUMMARY

SELF-EMPLOYED BUT LOOKING:
A LABOR MARKET EXPERIMENT

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Principal Topic

Standard theories of occupational choice assume that the employment opportunities for entrepreneurs and wage workers with otherwise similar qualifications are equal (Amit et al., 1995; Douglas and Shepherd, 2002; Evans and Leighton, 1989; Hamilton, 2000; Kihlstrom and Laffont, 1979; Kolvereid, 1996; Kolvereid and Isaksen, 2006; Lucas, 1978; van Praag and van Ophem, 1995). We examine whether having previously been self-employed can in itself be a negative signal on the job market. To the best of our knowledge, this study is the first to test the equal-employment-opportunity assumption directly.

Method

Our paper reports the results of a field experiment (Harrison and List, 2004) that was designed to examine the premise that entrepreneurs have access to the same job opportunities as comparable peers who have spent their previous careers in paid employment. Over a period of a year (2011-2012), we mailed pairs of constructed CVs (N = 98) in response to UK job ads that differed substantively only in that one individual’s experience was acquired as an employee, whereas the other had performed the same tasks in a personally owned business.

Results and Implications

Our results show that entrepreneurs face difficulties in switching back to traditional employment. Entrepreneurs systematically receive fewer responses than non-entrepreneurs in the observed part of the UK labor market. Thus, it appears that the earnings differential is partially explained by the fact that entrepreneurs do not have access to the reference jobs in practice.

Our result suggests that the choice to become an entrepreneur can result in an involuntary lock-in, a factor that should be taken into account in planning one’s future career. The result also suggests that a significant share of companies deliberately choose not to hire former entrepreneurs. This preference could reflect previous negative experiences they had with hiring entrepreneurs, but it could also reflect discrimination, which could hurt the innovative capacity of companies in the long run. In any case, our result provides a new perspective on why entrepreneurs remain self-employed (Bruce and Schuetze, 2004; Hamilton, 2000) by demonstrating that the commonly assumed outside options are not necessarily available to them.

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