



Why the self-employed are happier: Evidence from 25 European countries

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ABSTRACT

Using survey data from 25 European countries, we can show that in most of the countries the self-employed are more satisfied with their jobs than employees. This paper aims to discuss the reasons why this is the case. The results show that part of the differences in job satisfaction between employees and self-employed individuals are due to creativity and autonomy in self-employment. This suggests that our results are in line with procedural utility theory (Benz & Frey, 2004, 2008). In other words, especially self-employed individuals seem to derive utility from the way outcomes are achieved.

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1. Introduction

It is an established fact that self-employed individuals are, on average, more satisfied with their jobs than paid employees (see, e.g., Bianchi, 2012; Blanchflower, 2000; Blanchflower & Oswald, 1998). Bianchi (2012) suggests that non-pecuniary dimensions of job satisfaction, especially independence, have an impact on utility differences between both groups. Procedural utility theory (Benz & Frey, 2004, 2008) is closely connected with these findings because it describes that individuals do not derive satisfaction purely by outcomes, but also by the way outcomes are achieved.

Most of the literature about procedural utility relies on differences in job satisfaction between paid employees and the self-employed. In their international analysis, Benz and Frey (2004) focus on the effects of autonomy, which completely describes differences in satisfaction with the job between paid employees and self-employed individuals in Western and Eastern Europe as well as in North America. Being subject to hierarchical decision-making as inverse measure of independence is the main predictor of procedural utility in Benz and Frey (2008). In both papers, the results advert to the importance of procedural utility. Fuchs-Schündeln (2009) adverts to heterogeneity in procedural utility among different types of individuals. The author also concludes that economists still are in a very early stage of analyzing the importance of procedural utility theory. Block and Koellinger (2009) differ from the above mentioned analyses in that the authors refer to entrepreneurs instead of self-employed individuals. Precisely, the authors examine the importance of creativity and independence in satisfaction with the start-up and find that “entrepreneurship can be an attractive career

opportunity for individuals who strongly value independence and creativity” (Block & Koellinger, 2009 p.205).

This paper aims to deliver new evidence about procedural utility by application of round 5 of the European Social Survey (ESS). We utilize data collected in the year 2010 which include a large number of observations. Our data consist of 14,879 employees and 1,984 self-employed individuals aged between 18 and 65 in 25 European countries. The questionnaire includes information on satisfaction in the main job and asks individuals about the subjective evaluation of the importance of autonomy as well as creativity which are dimensions of procedural utility theory. With respect to previous literature describing procedural utility (Benz & Frey, 2004; Block & Koellinger, 2009) a major difference is the calculation of an indicator which combines both aspects rather than purely using creativity or autonomy as predictors. This variable is expected to describe utility obtained from the way outcomes are achieved – i.e. procedural utility – more precisely than pure application of autonomy or creativity. A further enhancement to Schneck (2012) is the examination of single countries to conclude about heterogeneity across countries.

2. Data

We utilize the European Social Survey (ESS) in order to revisit the theory of procedural utility. Specifically, we apply round 5 (integrated file, edition 2.0) which was surveyed in the year 2010. The ESS includes information on satisfaction in the job, employment status, as well as subjective importance of independence and creativity. In brief, the data is adequate for our analysis. The variables of main interest are satisfaction with the main job, where zero means extremely dissatisfied and ten means extremely satisfied.¹

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¹ In Benz and Frey (2004), job satisfaction is coded from one (completely dissatisfied) to seven (completely satisfied).

The indicators for procedural utility differ somewhat from the ones applied in Benz and Frey (2004). Our measures refer to:

- Thinking up new ideas and being creative is important to her/him. She/he likes to do things in her/his own original way. In the following referred to as creativity.
- It is important to her/him to make her/his own decisions about what she/he does. She/he likes to be free and not depend on others.² Henceforth abbreviated as autonomy.

Original data is based on a Likert-scale from one to six, whereas value one indicates “very much like me” and value six means “Not like me at all”. In the following analysis, we recode this information with the result that value one describes “Not like me at all” and value six corresponds to “Very much like me”. This variable, then, presents an ordinal indicator for procedural utility, whereas higher values imply higher identification with autonomy or creativity. In addition, we also generate the mean of the combination of autonomy and creativity as follows: $\overline{autocreat} = \frac{(\text{autonomy} + \text{creativity})}{2}$. Table 1 displays means and standard deviations of the main variables of interest.

The Table reveals positive relationships between job satisfaction and our measures of autonomy, creativity, and $\overline{autocreat}$. This suggests that individuals with a high taste for autonomy are more satisfied in their job. We also calculated pairwise correlation coefficients for the self-employed and for the paid employees separately (see Table 2). The highly significant and positive relationship is observed for both subgroups as well. This implies that self-employed as well as paid employees seem to be more satisfied in their jobs when autonomy or creativity is high. The effects, however, are slightly larger for the self-employed.

Self-employment is measured by a dummy variable, where value one means self-employment and zero describes paid employment. Our empirical methodology is similar to the one applied in Benz and Frey (2004) and Schneck (2012). We account for the ordinal nature of the job satisfaction variable via an ordered logit model. The set of control variables is standard in studies on (job) satisfaction and procedural utility. It includes gender, partner, household's net income, age (squared), working time (squared), and education (ISCED codes). Information about generation and coding can be found online (<http://ess.nsd.uib.no/ess/round5/>) in the freely available survey documentation files and in the fieldwork documents.³ The corresponding descriptive statistics can be found in Table A1. Another similarity with Benz and Frey (2004), and Block and Koellinger (2009), and Schneck (2012) is that we compare the effects of the dummy variable describing self-employment across specifications in order to conclude about the impact of procedural utility in self-employment. In this line we conduct the baseline ordered logit regression without controlling for procedural utility. Then, we extend the baseline specification by i) autonomy, ii) creativity, iii) autonomy as well as creativity, and finally by iv) $\overline{autocreat}$. Autonomy and creativity are significantly correlated, but problems regarding multicollinearity seem not to be evident (see Table 1). Also the country-specific examination does not provide any signs for such a problem because the highest pairwise correlation equals 0.446 in Ireland.⁴

3. Results

Table 3 presents the average job satisfaction for employees and for the self-employed in columns 2 and 3.⁵ In most of the countries, self-

Table 1
Pairwise correlation.

	Mean (std. deviation)	Job satisfaction	Autonomy	Creativity	$\overline{autocreat}$
Job satisfaction	7.363 (1.935)	1.000			
Autonomy ^a	4.844 (1.063)	0.0635***	1.000		
Creativity ^a	4.518 (1.191)	0.103***	0.298***	1.000	
$\overline{autocreat}$	4.681 (0.909)	0.105***	0.780***	0.830***	1.000
Number of observations	16,863				

^a 1 “Not like me at all”; 6 “Very much like me”.

*** p < 0.01, ** p < 0.05, * p < 0.1.

employed individuals are more satisfied with their job than employees. This result is basically in line with the literature (see, e.g., Bianchi, 2012; Blanchflower, 2000; Blanchflower & Oswald, 1998). Exceptions are Greece and Bulgaria where employees are, on average, 0.210 and 0.038 points more satisfied than the self-employed. This difference, however, is only small in magnitude and t-tests suggest no significance. The self-employed, in turn, are, on average, significantly more satisfied in Western Europe, Eastern Europe, and in other countries.⁶

Columns 4 to 8 in Table 3 show the results for the ordered logit model with job satisfaction as dependent variable. All displayed coefficients are to interpret when holding the control variables constant. At first, we discuss the results of the baseline specification in column 4. The dummy variable for self-employment is significantly positive in Western Europe, Eastern Europe, and the other countries. The results for Western as well as for Eastern Europe and Cyprus are also in line with the ones presented in Benz and Frey (2004). This indicates that the self-employed are, on average, more satisfied with their jobs in these regions even after controlling for a variety of variables including working hours and household income. This general conclusion only holds at first glance because the country-specific examination reveals that the coefficient for self-employment is significantly positive only in 15 of 25 countries. Also note that the examination by country reveals that, ceteris paribus, the self-employed in Greece, Norway, Bulgaria, and Ukraine are insignificantly less satisfied than their employed counterparts. These findings suggest that there is some degree of heterogeneity across countries and that examination for each country separately might yield deeper insights than consideration of aggregate regions as in Schneck (2012) or Benz and Frey (2004).

In column 5 of Table 3, the baseline regression is enhanced by the indicator for autonomy. The coefficients for the dummy variable for self-employment decrease in size in the aggregate regions (also see Schneck, 2012), which implies that autonomy explains part of the higher job satisfaction for the self-employed. This is to interpret as evidence in favor of procedural utility theory. Autonomy, however, only explains part of the higher job satisfaction of the self-employed because the dummy variable describing self-employment remains significantly positive for Western and Eastern Europe as well as other regions. In Benz and Frey (2004) the autonomy indicator fully explains differences in job satisfaction between employees and self-employed individuals because the coefficient of self-employment becomes insignificant after inclusion of the corresponding indicator in Western and Eastern Europe.

² See Appendix A6, Variables and questions, ESS5-2010 ed. 2.0 on <http://ess.nsd.uib.no/ess/round5/> (01.05.2012); questions Ha and Hk.

³ More detailed ISCED codes are available in the original data, which are aggregated to six classes here.

⁴ Results are not presented here (available upon request).

⁵ Note that there are only few observations in some countries. Less than 50 self-employed are observed in Croatia, Hungary, the Russian Federation, Slovenia, and Ukraine.

⁶ Note that Italy and Portugal are examined in Benz and Frey (2004), but cannot be considered here.

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