



# Hybrid entrepreneurship and public policy: The case of firm entry deregulation☆



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## ABSTRACT

Hybrid entrepreneurs are entrepreneurs who are simultaneously working as paid employees. Although they constitute a systematic and large part of new firm creation, their possibly distinct responsiveness to public policy is not yet studied. Arguing for the need to consider hybrid entrepreneurs in public policy, we analyze the introduction of one-stop shops for faster and simplified firm registration in Mexico. We find that hybrid entrepreneurs are more responsive to changes in entry regulation than full-time entrepreneurs. While both the best and least educated people respond to the reform, the effect is most pronounced for highly educated hybrid entrepreneurs.

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## 1. Executive summary

Around the world, a significant share of individuals who are starting a venture simultaneously have a paid employment (Minniti, 2010). These entrepreneurs are referred to as hybrid entrepreneurs (Folta et al., 2010). Compared to entrepreneurs who leave their paid job upon entering entrepreneurship, hybrid entrepreneurs tend to be better educated (Folta et al., 2010) and their businesses survive longer on average (Raffee and Feng, 2014). Despite the potential relevance of these characteristics for public policy, hybrid entrepreneurship is rather hampered or at best neglected by current policy making (Folta et al., 2010). While hybrid entrepreneurs differ substantially from full-time entrepreneurs in their socio-demographic background, there is not yet any understanding of how these differences translate into differences in responsiveness to public policy. In order to design an efficient and well-targeted entrepreneurship policy, policymakers should consider relevant heterogeneity in responses to public policy measures (Parker, 2009; Welter and Smallbone, 2011).

In this study, we focus on the responsiveness of hybrid vis-à-vis full-time entrepreneurs to the introduction of 'one-stop shops'. One-stop shops are a common type of firm entry deregulation, implemented in 96 countries as of 2013 (World Bank, 2013), and significantly reduce the time and cost of firm registration. We focus on the corresponding Mexican reform, SARE

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(Sistema de Apertura Rápida de Empresas, in English: System for Rapid Opening of Enterprises). Prior research indicates that SARE indeed triggered more entrepreneurship (e.g. Bruhn, 2011; Kaplan et al., 2011); however, there has been no analysis of potential differences between hybrid and full-time entrepreneurs. We theoretically argue that compared to full-time entrepreneurs, hybrid entrepreneurs reap comparably smaller individual benefits from entering entrepreneurship. Hybrid entrepreneurs' relatively smaller benefits translate into a higher responsiveness to the deregulation of firm entry as compared to full-time entrepreneurs (cf., Branstetter et al., 2014). Hybrid entrepreneurs' lower individual return, however, does not imply that these businesses are generally less wealth-generating. Instead, hybrid entrepreneurship might be especially attractive for businesses associated with externalities that are not individually appropriated (e.g., knowledge externalities or a positive social return to society through social entrepreneurship) or for people with very attractive employment alternatives to entrepreneurship. As some motives for entering as hybrid entrepreneur may also apply to part-time entrepreneurship, we further explore the reform's effect on part-time entrepreneurship. Using a large Mexican household panel for the years 2009–2013, we identify the impact of SARE on hybrid, full-time, and part-time entrepreneurship.

Our results indicate that hybrid entrepreneurs are more than four times as responsive to SARE as full-time entrepreneurs. Distinguishing between different levels of education reveals that SARE's impact is strongest for highly educated potential hybrid entrepreneurs who might be testing business opportunities through hybrid entrepreneurship. Our results also show a smaller but positive impact of SARE on part-time entrepreneurship. In contrast to hybrid entrepreneurs, part-time entrepreneurs appear to have lower levels of education.

Our theoretical and empirical analyses suggest that potential hybrid entrepreneurs differ from potential full-time entrepreneurs not only in their socio-demographic background, but also in their response to a public policy like firm entry deregulation. Reviewing existing policy instruments on their accessibility for hybrid entrepreneurs as well as designing instruments which specifically target these entrepreneurs' needs could enable the testing of business opportunities through hybrid entrepreneurship, which would not be explored through full-time entrepreneurship. Therefore, policy could better exploit a country's full potential of entrepreneurial activity by explicitly considering hybrid entrepreneurship. We further believe that differences in the responsiveness between hybrid and full-time entrepreneurs might also apply to other behaviors such as exit from entrepreneurship and the way these businesses are run. Our analyses suggest interesting further avenues to studying hybrid vis-à-vis full-time (or part-time) entrepreneurship.

## 2. Introduction

Entrepreneurs starting a venture while still employed by others – hybrid entrepreneurship – is a wide spread phenomenon (Folta et al., 2010). In many countries and regardless a country's economic development, many people starting a venture simultaneously hold other jobs (Minniti, 2010). While hybrid entrepreneurs are either actively discouraged or, at best, neglected under current policy making (Folta et al., 2010), we see four reasons why these hybrid entrepreneurs should receive attention. First, among new entrants in high-tech industries, which receive particular attention by policymakers, the share of hybrid entrepreneurs is estimated to be 58% in Sweden (Folta et al., 2010). Even when focusing on the narrow group of R&D-pursuing high-tech start-ups, their share is found to be 42% in Germany (Bretz et al., 2015). Second, as hybrid entrepreneurs are often better educated than full-time entrepreneurs, their business ideas might be expected to result in more high-growth ventures (Folta et al., 2010). Third, businesses started through hybrid rather than full-time entrepreneurship survive longer on average (Raffee and Feng, 2014). Fourth, regardless of whether or not hybrid entrepreneurs generate greater economic impact than full-time entrepreneurs, their relevance also emerges from their potential to evolve into valuable full-time businesses that otherwise would not have existed (Folta et al., 2010; Raffee and Feng, 2014).

Despite the prevalence of hybrid entrepreneurship and their potential role in triggering valuable businesses, previous research on entrepreneurship policy either neglected entry by hybrid entrepreneurs or did not distinguish hybrid from full-time entrepreneurship (e.g., Bruhn, 2011; Kaplan et al., 2011; Branstetter et al., 2014). Neglecting those who do not invest all their time in entrepreneurship, however, leads to a severe underestimation of firm creation (Dennis, 1997), which can hamper the proper development and assessment of related entrepreneurship policies. Treating hybrid and full-time entrepreneurs alike might likewise misguide policy-making. As the determinants of hybrid entrepreneurship are shown to differ substantially from the determinants of full-time entrepreneurship (Folta et al., 2010; Raffee and Feng, 2014), policies designed for full-time entrepreneurs might not appropriately address the needs of hybrid entrepreneurs. To fully leverage a society's entrepreneurial potential, policymakers might need to develop specific instruments addressing hybrid entrepreneurship. However, before policymakers develop such instruments, policy evaluations should investigate whether and how hybrid entrepreneurs respond to current policy instruments relative to full-time entrepreneurs.

To demonstrate the differential effects of entrepreneurship policy on hybrid and full-time entrepreneurs, we focus on firm entry deregulation. Specifically, we analyze the impact of the introduction of *one-stop shops*, a reform strongly encouraged by the World Bank and OECD, that is adopted by a total of 96 countries as of 2013 (World Bank, 2013). The effects of such reforms on the emergence of new firms is the subject of substantial research (Amici et al., 2015; Branstetter et al., 2014; Bruhn, 2011; Bruhn and McKenzie, 2013; Kaplan et al., 2011); however, the possibly distinct response of hybrid entrepreneurs is not yet addressed. Using Mexican household panel data, we evaluate the impact of the Mexican “System for Rapid Opening of Enterprises” (SARE) policy reform. The program's staggered implementation across municipalities enables prior research to demonstrate its causal effect on firm creation (Bruhn, 2011; Kaplan et al., 2011). Following these studies, we explore the effect

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