



# The role of hybrid entrepreneurship in explaining multiple job holders' earnings structure



Matthias Schulz<sup>a,b,\*</sup>, Diemo Urbig<sup>a,b,c</sup>, Vivien Procher<sup>a,b,d</sup>

<sup>a</sup> Jackstädt Center of Entrepreneurship and Innovation Research, 42119 Wuppertal, Germany

<sup>b</sup> Schumpeter School of Business and Economics, 42119 Wuppertal, Germany

<sup>c</sup> Institute for Development Strategies, Indiana University, Bloomington, IN 47405, USA

<sup>d</sup> RWI - Leibniz-Institut für Wirtschaftsforschung, 45128 Essen, Germany

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## ABSTRACT

Despite the high prevalence of hybrid entrepreneurs among multiple job holders, research on hybrid entrepreneurship and multiple job holding has largely evolved independently from each other. We take a first step for a fruitful exchange between both research streams by building on hybrid entrepreneurship theories to explain why multiple job holders frequently have higher hourly earnings in their second job compared to their main job. Consistent with these entrepreneurship theories, our empirical analysis, based on the British Household Panel Survey (1991–2008), demonstrates that engaging in self-employment as second job significantly increases the probability of having higher average earnings in this second job, compared to being paid employed in both occupations. Furthermore, we explore the roles of gender and household composition in explaining multiple job holders' earnings structure.

## 1. Introduction

Evidence from the European Labor Force Survey indicates that self-employment is much more prevalent among multiple job holders than among single job holders: For example, among second-job occupations in 2013, the share of self-employment amounts to 26% in France, 38% in the UK, and 56% in Italy. In contrast, the corresponding share among first-job occupations amounts to only 11% in France, 14% in the UK, and 23% in Italy (Eurostat, 2014). Despite the high prevalence of self-employment among multiple job holders, theories on self-employment are rarely acknowledged in the literature on multiple job holding and vice versa.

Empirical evidence shows that a high share of multiple job holders may have higher average earnings (averaged over hours) in their second job rather than in their main job, ranging from 25% (Kimmel and Smith Conway, 2001), over 48% (Paxson and Sicherman, 1996), to 70% (Wu et al., 2009). This phenomenon cannot be explained by theories on multiple job holding related to hours-constrained main jobs (Paxson and Sicherman, 1996). Other multiple job holding theories attempt to explain this using non-pecuniary benefits from the primary job and benefits, such as flexibility, from the portfolio of multiple jobs (Kimmel and Smith Conway, 2001). Furthermore, Wu et al. (2009) propose that multiple job holders engaging in self-employment as a second job (so-called hybrid entrepreneurs) might have higher second-job earnings; however, they neither provide a theoretical argument nor do they test this proposition empirically. Thus, none of the alternative explanations isolate the particular mechanism and, in particular with respect to the role of self-employment (Wu et al., 2009), there is no clear-cut empirical evidence explaining higher second job earnings.

\* Corresponding author at: Jackstädt Center of Entrepreneurship and Innovation Research, 42119 Wuppertal, Germany.  
E-mail address: [mschulz@uni-wuppertal.de](mailto:mschulz@uni-wuppertal.de) (M. Schulz).

We advance this research, first, by extending Paxson and Sicherman (1996)'s analysis for a more recent dataset and using more advanced methods, as well as by stressing the need for additional theories to explain higher second job earnings. Second, we highlight previously neglected entrepreneurship theories proposing specific mechanisms that explain higher second job earnings. Third, while entrepreneurship research demonstrates that hybrid entrepreneurs differ from full-time entrepreneurs with respect to their demographic characteristics, entrepreneurial outcomes, and responses to public policy (Folta et al., 2010; Raffiee and Feng, 2014; Schulz et al., 2016; Thorgren et al., 2016), we theoretically and empirically demonstrate that hybrid entrepreneurs are also distinct from multiple job holders who have two paid employment positions.

## 2. Hybrid entrepreneurship and its consequences for observed earnings structures

There are multiple theories explaining the emergence of individual-level multiple job holding, in general, and hybrid entrepreneurship, in particular. In the literature on multiple job holding, one reason for holding two jobs relates to an hours constraint in the main job, which leads individuals who desire to work more, to take on a second, lower-paid, job (Paxson and Sicherman, 1996). If the second job was better paid, individuals would give up their main job and fully switch to the second job (Wu et al., 2009). This argument, independent of whether or not the second job is self-employment, implies lower second-job earnings (Paxson and Sicherman).

Furthermore, non-pecuniary benefits in the first job or human capital spillover across the two occupations might be other reasons for multiple job holding (Panos et al., 2014). For example, a university professor might use the status of his profession to engage in a second, higher-paid job as consultant (Kimmel and Smith Conway, 2001). While this motive for multiple job holding is discussed rather generally in multiple job holding research, entrepreneurship research can help isolate the mechanisms of how heterogeneity between self-employment and paid employment may lead to simultaneously engaging in both of these occupations.

Specifically, three of the mechanisms for hybrid entrepreneurship can explain higher average earnings in the second job if this second job constitutes the self-employment activity. First, if leaving paid employment entails sunk costs, e.g., losing certain pension schemes, then prospective entrepreneurs might still keep a lower-paid job during a testing phase (Folta et al., 2010). Second, if earnings are risky in self-employment but risk-free in paid employment, risk-averse individuals might combine both occupations but require a risk-premium in self-employment, resulting in higher average earnings (Parker, 1996). Third, if marginal earnings are constant in paid employment and decreasing in self-employment, earnings-maximizing individuals might combine both (Lévesque and Schade, 2005). As in this occupation-combining optimum the marginal return to self-employment equals the marginal return to paid employment, a combination of both implies higher average earnings in self-employment. Thus, these three entrepreneurship theories allow and, in the case of the latter two mechanisms, even suggest, higher second job earnings. Due to the high frequency of hybrid entrepreneurs among multiple job holders, these entrepreneurship theories may, in fact, be decisive for the observed structure of multiple job holders' earnings.

## 3. Method

We test our theorizing on the role of self-employment on multiple job holders' earnings with yearly data from the British Household Panel Survey (BHPS) from 1991 to 2008, for employees aged between 18 and 65.

In a first step, we extend Paxson and Sicherman (1996)'s analysis of multiple job holders' earnings. We employ a random-effects (instead of Paxson and Sicherman's pooled) multinomial logit model, with the occupation in time  $t$  in relation to occupation in  $t-1$  as dependent variable. Focusing on paid employees in  $t-1$ , there are four<sup>1</sup> possible outcomes in  $t$ : Work in same job as in  $t-1$  (reference group), take second job in  $t$  with average earnings lower than in main job, take second job in  $t$  with average earnings higher than in main job, switch to new job in  $t$ . As explanatory variables, we include both Paxson and Sicherman's desire to work more and the desire to work less.<sup>2</sup> Then, to test our theorizing, we additionally include the desire to start a business (only available for years 1998–2008).<sup>3</sup> To better identify the causal effects of these desires on subsequent changes in occupation, we build on changes in reported desires; reflected in dummy variables turning one if a desire is reported in  $t-1$  but not in  $t-2$ . To validate that the effect of the desire to start a business (in  $t-1$ ) on later earnings indeed rests on an actual later engagement in self-employment (in  $t$ ), we subsequently split the outcome of higher second job earnings into the cases of paid employment versus self-employment as the second job (in  $t$ ). We use age, tenure, their respective squares, and schooling as individual-level control variables (cf., Paxson and Sicherman, 1996). In addition, we include region and wave dummies. As there is evidence that rather robust differences in labor supply decisions between men and women (Altonji and Blank, 1999) also translate into differences in multiple job holding rates in the UK (Panos et al., 2014) and as Paxson and Sicherman's analysis focuses on men only, we test the extent to which the theorizing also applies to women.

As earnings in self-employment might be comparably low during the first year and as entrepreneurial action might not immediately follow the emergence of entrepreneurial intent, our analyses focusing on those who just entered self-employment and whose intent formed a year before might be excessively conservative. Therefore, in a second step, we test whether our theorizing holds for hybrid entrepreneurship, independent of whether individuals just started or have been self-employed for a longer time. The

<sup>1</sup> Due to their focus on working hours, Paxson and Sicherman (1996) further differentiate between "switching into new job with more working hours" and "switching into new job with less working hours". We do not follow them, because we focus on the earnings structure of multiple job holders.

<sup>2</sup> Thus, we follow Paxson and Sicherman (1996) by using a directional measurement of hours constraints: "Thinking about the hours you work, assuming that you would be paid the same amount per hour, would you prefer to (work fewer hours/work more hours/continue the same hours)?"

<sup>3</sup> "Tell me whether you would like this to happen to you in the next twelve months: Would you like to...start up your own business (a new business)? (Yes/No)"

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