

A transition to entrepreneurship from paid employment in the period of economic crisis: Will this lead to positive career outcomes?

Abstract

This paper aims to reveal the implication of transitions from paid employment to entrepreneurship during the period of economic crises. We integrate insight from the career and time perspective in entrepreneurship to reveal the career implication of switching to self-from paid employment by considering the timing, sequence, and duration in our analysis. We employ entropy balancing to examine the overtime changes in job satisfaction, life satisfaction, and income, as the subjective and objective measures of career success, on samples of paid employed individuals who switch to self-employment during 1998 Asian financial crisis in Indonesia and the 2008 global financial crisis in the United Kingdom. Our findings show that in both countries, those who do not survive in self-employment are mostly switching back to paid employment or experiencing downward mobility in their career. In addition, our study reveals that transitions to self-employment give no gains to the individuals. The job and life satisfaction of paid employed who switch to self-employment are relatively similar to those who remain in paid employment, while their income are significantly lower, except in Indonesia, where those who switch to self-employment have relatively similar incomes compared to similar individuals who remain in paid employment.

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Introduction

One of the most observable patterns during economic crises is the rise of entry to entrepreneurship by individuals previously worked as paid employees. These patterns can be seen in some major crises, such as the 2008 global financial crises in Spain (Congregado et al., 2010) and in the United Kingdom (Myant et al., 2016), during the 1997 Asian financial crisis (Manning, 2000), and at the period of economic disaster following the hurricane Katrina (Zissimopoulos & Karoly, 2010). During the crises, many business organizations have to perform a retrenchment strategy, or even have to discontinue their operations. This makes employment opportunities become scarce, thus making self-employment become a viable option for work.

Even though transitions to self-employment might prevent the individuals from unemployment, however, extant studies have warned that it might also have some undesirable consequences. Studies find that the survival rate in self-employment is relatively low, particularly for those who were driven by necessity motives (Millán et al., 2014; Rocha et al., 2015). Moreover, for the transitions that take place during the crisis, the risk of failures are found as almost double (Devece et al., 2016). In terms of income, individuals who switch from paid to self-employment have a significant reduction in their income (Kautonen et al., 2017), and if they move back to paid-employment, it would give them much less incomes than those consistently working as paid employees (Mahieu et al., 2019). Whereas concerning job and life satisfaction, those who are driven by necessity motives are found to be not happier with their job and their lives after the transitions (Binder & Coad, 2013, 2016).

Without neglecting prior studies' contributions in explaining the outcomes of entry to entrepreneurship, most of these studies have not given much attention to the long-term implications of transitions to entrepreneurship, particularly on transitions that take place during the crisis. It remains unknown whether the low financial return and the low job and life satisfaction that are observed on the individuals who make transitions to entrepreneurship are temporal, or may turn into more positive outcomes in the long term, particularly on those who persist in self-employment in the post-crisis period. In addition, the studies have not paid much attention to the individuals' subsequent job choices since they apparently assumed the transition as an end state. In reality, the transition to entrepreneurship might be followed by subsequent job changes, such as re-entry to paid employment or even to unemployment.

In this paper, we aim to reveal the short and long term implication of transition to entrepreneurship during economic crises by using insight from the career (Burton et al., 2016) and the time (Lévesque & Stephan, 2020) perspectives in entrepreneurship. The career perspective does not view a transition as end state, but as a sequence of job changes that forms a career pattern of an individual. While the time perspective distinguishes the causal from the temporal effects on a study's object (Aguinis & Bakker, 2020). We explain the consequences of transitions to entrepreneurship by consider the timing, sequence, and duration. These are the three operationalization of time, which together may differently affect the patterns and career outcomes of individuals transitioning to self-employment. We study the timing of entry to entrepreneurship by focusing on the 1998 Asian financial crisis and the 2008 global financial crisis as the two major economic crises since World War 2. We use longitudinal data from Indonesia, the country which was worst affected by the Asian financial