



Satisfaction guaranteed? Life satisfaction, institutional factors, and self-employment



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ABSTRACT

There has been a recent growing interest in the relationship between self-employment and life satisfaction. Using an institutional theory lens, in a multilevel model we test the association between shared prosperity and business freedom on life satisfaction reported by self-employed. Specifically, with increasing shared prosperity, self-employed individuals report higher life satisfaction. Furthermore, in countries with higher shared prosperity and greater business freedom, self-employed report a higher life satisfaction. We discuss the implications of our findings and provide future research directions into the link between life satisfaction, institutional factors, and self-employment.

1. Introduction

The relationship between entrepreneurship and life satisfaction, which is a key component to individual well-being (Pavot et al., 1991), has become a topic of increasing scholarly interest (Coad and Binder, 2014). Based on the hedonic perspective of well-being (Ryan and Deci, 2001), well-being consists primarily of subjective happiness, and individual perceptions of subjective well-being are comprised of the presence of positive affect, the absence of negative affect, and overall life satisfaction (Diener et al., 1999). To that end, a substantial amount of literature has been devoted to the relationship between life satisfaction, as a component of subjective well-being, and self-employment. While there has been some evidence suggesting that self-employment can have detrimental effects on life satisfaction, primarily as a result of the increased level of work-family conflict that individuals who are self-employed experience (Ford et al., 2007; Parasuraman and Simmers, 2001), evidence generally supports the notion that individuals who engage in self-employment realize benefits with regards to their life satisfaction (Kolvereid, 1996). Evidence suggests that individuals who are self-employed experience higher levels of job satisfaction and that self-employment is positively correlated with life satisfaction as well (Andersson, 2008). Furthermore, recent research has shown that individuals who move from occupational employment to self-employment experience an increase in life satisfaction as a result of the transition (Binder and Coad, 2013, 2016), and that entrepreneurial success can also result in an increase in life satisfaction (Przepiorka, 2017). Finally, individuals who decide to pursue self-employment and entrepreneurial endeavors later in life have been shown to have substantially higher life satisfaction than those who are occupationally employed (Kautonen et al., 2017).

However, although an impressive body of research has examined the relationship between self-employment and life satisfaction from the perspective of the individual, there remains a relative paucity of research regarding how broader, institutional factors (e.g. political and legal structures) might influence this relationship. Although a variety of institutional factors could influence life

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satisfaction we focus on the two—a proxy for improvement in income inequality [shared prosperity] and challenges to business activities [business freedom]. The choice of these two moderators is based on extant literature on income inequality, economic freedom, and life satisfaction, which suggests that self-employed individuals in contexts where shared prosperity is increasing and business freedom is greater may report a higher life satisfaction (Graafland and Lous, 2017; Hall and Lawson, 2014; Kešeljević, 2016).

To test our theoretical questions, we examine a multi-country sample from the European Social Survey Round 7 (2014), merged with World Bank Indicators 2014 data (for the measure of shared prosperity) and Heritage Foundation 2014 data (for the measure of business freedom). Based upon our analysis we find that self-employed individuals report higher life satisfaction. Moreover, the relationship between self-employment and life satisfaction is stronger for individuals in countries with higher shared prosperity. Additionally, we find evidence to support a three-way interaction wherein greater business freedom enhances the moderating influence of shared prosperity on the relationship between self-employment and life satisfaction.

In completing this study, we make two contributions. First, we extend the growing stream of research regarding the relationship between self-employment and life satisfaction. By incorporating an institutional theory perspective, we attempt to examine how country-level factors can play a role in the level of life satisfaction that individuals who are self-employed experience. Second, we build on previous research regarding the relationship between individuals' occupations and well-being (Cuyper et al., 2008; Wright and Bonett, 2007) and research on self-employed individuals experiencing higher levels of work and job satisfaction (Bradley and Roberts, 2004). Our results support recent findings suggesting that self-employment has a positive association with overall life satisfaction in a large, multi-country sample (Binder and Coad, 2013; Coad and Binder, 2014). In the pages that follow, we first describe the theoretical foundation of our model and present our hypotheses. We then follow up with a description of our research method, the results, and a discussion of our findings.

2. Self-employment and life satisfaction

Organizational research has long been interested in the interplay between work and life satisfaction. Characterized as an individual's assessment of their overall quality and satisfaction with life according to their chosen criteria (Diener et al., 1985), life satisfaction has long been considered a hallmark component of subjective well-being and individual happiness (Pavot and Diener, 1993; Pavot et al., 1991). The relationship between work and life satisfaction has also been an area of interest to management scholars (Adams et al., 1996). Research in organizational contexts has indicated that job satisfaction is associated with life satisfaction (Lindfors et al., 2007), and that work-life balance can produce substantial increases in individual life satisfaction (Bonebright et al., 2000). Furthermore, evidence suggests that individuals who are dissatisfied with their work or who suffer from work-related burnout are more likely to have lower life satisfaction and be more susceptible to depression (Hakanen and Schaufeli, 2012).

Within the context of self-employment, research into the occupation-life satisfaction relationship has uncovered interesting results. It is important to note that although recent evidence largely supports the positive association between self-employment and life satisfaction (Kolvereid, 1996), some prior studies suggest that there could be some negative relationships between self-employment and life satisfaction, most notably as a result of increased work-family conflict (Ford et al., 2007). Despite routinely reporting lower levels of income, individuals who engage in self-employment consistently report higher levels of satisfaction (Carter, 2011). Moreover, recent evidence suggests that individuals who move from occupational employment to self-employment can experience substantial increases in life satisfaction for an extended period of time (up to two years) after the transition (Binder and Coad, 2013). Based upon the hedonic perspective of well-being, life satisfaction refers to an individual's perceived quality of life according to their own determined criteria (Shin and Johnson, 1978). It is important to note that individuals determine life satisfaction by comparing their circumstances with what they believe to be an appropriate standard, and as such life satisfaction is subjective in nature and not decided by external factors (Diener et al., 1985). From this perspective, self-employment could afford individuals the opportunity to experience higher levels of life satisfaction through a number of channels. Self-employment affords individuals a greater level of autonomy in determining what exactly their job entails, as well as greater independence to act upon their decisions, which can have positive effects on satisfaction (Coad and Binder, 2014). Additionally, self-employed individuals often have higher levels of perceived self-efficacy which can also result in increased levels of satisfaction and reduced risks of depression (Bradley and Roberts, 2004). Moreover, work engagement is often higher for those who are self-employed (Gorgievski et al., 2010), and this increase in work engagement can result in higher levels individual satisfaction (Schaufeli et al., 2008).

While self-employed individuals might experience higher levels of life satisfaction in general, it is likely that this relationship might not be homogeneous across all contexts. From an institutional theory perspective (Zucker, 1987), it is possible that country-level political and legal systems and regulations could influence the relationship between self-employment and life satisfaction. Indeed prior evidence has shown that political and legal institutions can influence individual level perceptions and traits such as trust and social capital (Rothstein and Stolle, 2003, 2008). Although there are numerous country-level factors that could potentially influence the relationship between, for the purposes of this study we focus on two factors that can directly contribute to economic freedom, a factor that has been shown to greatly influence subjective well-being (Gehring, 2013), namely shared prosperity and business freedom. The moderators are rooted in recent studies on income inequality, economic freedom and life satisfaction (Graafland and Lous, 2017; Hall and Lawson, 2014; Kešeljević, 2016). We discuss these moderators below.

Related to economic freedom, it has been suggested freedom is perhaps one of the most influential determinants of subjective well-being (Inglehart et al., 2008). Based upon this perspective, recent evidence has validated the link between economic freedom at the national level and individual perceptions of subjective well-being (Gehring, 2013). Economic freedom relates to the relative ability of individuals to acquire and control their own personal wealth and property, free from the influence of other individuals or institutions (Gwartney et al., 1996). The link between economic freedom and subjective well-being can be justified in terms of both a

psychological as well as an economic perspective. From a psychological perspective, economic freedom enables individuals to pursue their own personal self-interest, thereby maximizing subjective well-being (Frey and Stutzer, 2010). From an economic perspective, economic freedom allows individuals to “exploit greater selection of beneficial consumer choices that enable them to live longer, healthier lives, (and) attain higher levels of human capital to empower them for exploiting a greater set of potentially profitable productive activities” (Stroup, 2007:54). Therefore, institutional factors that increase economic freedom should be positively related to life satisfaction. Indeed, prior research indicates that economic freedom is positively associated with quality of life (Ovaska and Takashima, 2006) and subjective well-being (Belasen and Hafer, 2012; Gropper et al., 2011). In the context of self-employed, business freedom would be analogous to economic freedom.

Related to income inequality, shared prosperity refers to the relative per capita income growth of a country's poorest 40% of working individuals, and has been shown to be an important factor with regards to the mitigation of poverty on a national level (Basu, 2013). In nations with greater shared prosperity, the income gap between the poorest and wealthiest individuals is deemed to be shrinking, thereby reducing income inequality. This reduction in income inequality could be positively related to economic freedom, and thereby have positive associations with life satisfaction. In fact, evidence suggests that individuals who live in countries with lower levels of income inequality experience greater levels of happiness (Oishi et al., 2011), and as such it is possible that shared prosperity could enhance the relationship between self-employment and life satisfaction. Furthermore, business freedom, or the ability of an individual to start and run a venture without interference from the state, has been shown to influence the entrepreneurial process (McMullen et al., 2008). Greater levels of business freedom could reduce the difficulties and obstacles individuals experience throughout the process of starting and developing their new ventures, increasing economic freedom and reducing the stress that they experience as a result which could increase overall life satisfaction (Hayes and Weathington, 2007). Based upon this reasoning, in this study we examine the following research questions: propose the following

Question 1: *Is self-employment positively associated with life satisfaction?*

Question 2: *Does shared prosperity positively moderate the relationship between self-employment and life satisfaction?*

Question 3: *Does business freedom enhance the moderating influence that shared prosperity has on the relationship between self-employment and life satisfaction?*

2.1. Data and methods

To assess the influence of institutional factors on self-employment and life satisfaction association, we use a sample from the European Social Survey Round 7 conducted in 2014, World Development Indicators in 2014 (Shared Prosperity), and Heritage Foundation Data in 2014 (Business Freedom). After merging the three datasets and based on case-wise deletion, our sample includes 22,624 participants from 17 countries. The countries represented are Austria (1225 respondents), Belgium (1369), Czech Republic (1250), Denmark (1250), Estonia (1277), Finland (1806), France (1572), United Kingdom (1667), Hungary (1061), Ireland (1555), Latvia (1499), Netherlands (1617), Norway (1174), Poland (1063), Portugal (902), Sweden (1528), and Slovenia (809). Additional detail on this study are available at <http://www.europeansocialsurvey.org/data/download.html?r=7>.

Self-employment is coded as 1 for participants who reported they were self-employed, and 0 for those who reported they were employees. All other participants were coded missing. To measure satisfaction with life, the question asked the respondent: ‘All things considered, how satisfied are you with your life as a whole nowadays?’ (0 = extremely dissatisfied and 10 = extremely satisfied) (Blanchflower and Oswald, 2008; Layard et al., 2008).

The measure of shared prosperity¹ is a 2014 purchasing power parity adjusted measure from the World Bank Development Indicator 2014 data. The measure is operationalized as the “annualized consumption or income growth of the bottom 40 per cent and related indicators for 95 countries circa 2009–2014”. The measure of business freedom² is from the 2014 Heritage Foundation data, and it is an index of 13-factors associated with starting a business (4-factors), obtaining license (3-factors), closing a business (3-factors), and getting electricity (3-factors).

Additionally, we controlled for age, sex, education level (categorical variable), household income (categorical variable), subjective general health (from 1-very good to 5-very bad), marital status, self-reported height (in centimeters), and self-reported weight (kilograms). Based on a multilevel specification, we also include the two-digit industry (NACE codes) effects and country effects. Table 1 presents the sample descriptives.

We specify a multilevel model with country at level-3, industries at level-2, and the individual respondents at level-1. We use the *mixed* routine in Stata 15³ for our analyses. As presented in Table 2, satisfaction with life [Q1] was positively associated with self-employment (Model 2). With increasing shared prosperity, self-employed report a higher life satisfaction (Model 3 and Fig. 1(a), Q2 is supported). In countries with increasing shared prosperity and with a higher business freedom, self-employed report a higher level of life satisfaction (Model 4 and Fig. 1(b), Q3 is supported).

¹ Details of operationalization available at: <http://www.worldbank.org/en/topic/poverty/brief/global-database-of-shared-prosperity>.

² Details of operationalization available at: <http://www.heritage.org/index/book/methodology#regulatory-efficiency>.

³ While instructions for analysis from the ESS, require use of sample weighting, in a multilevel specification the weights are only applied at level-1, plausibly resulting in biased estimates. Nevertheless, using weighting variable *pspwght* in the multilevel model our inferences are consistent with the main inferences.

Table 1
Sample descriptives (study 1, ESS sample).

	N	Mean	sd	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1 Satisfied with life	22,624	7.0673	2.1510	1														
2 Self-employed	22,624	0.1127	0.3162	0.0401*	1													
3 Shared Prosperity	22,624	42.8623	13.2173	0.2891*	0.0057	1												
4 Business Freedom	22,624	85.1727	7.7465	0.2085*	-0.0079	0.5258*	1											
5 Age	22,624	51.0546	17.0350	-0.0519	0.0695*	-0.0371*	0.0194*	1										
6 Sex (1-male; 2-female)	22,624	1.5183	0.4997	-0.0207	-0.1103	-0.0586*	-0.0247*	0.0011	1									
7 Education level	22,624	405.1859	346.7397	0.1003	-0.0044	0.0806	0.0940*	-0.1170*	0.0099	1								
8 Household Income	22,624	5.3797	2.7746	0.2335	0.0170	0.0169	0.0797*	-0.1884*	-0.0838*	0.2095*	1							
9 Subjective general health	22,624	2.1902	0.8919	-0.3536	-0.0208*	-0.1968*	-0.0924*	0.3435*	0.0532*	-0.1432*	-0.2407*	1						
10 Civil Union	22,624	0.0118	0.1078	0.0294*	-0.0013	0.0604*	0.0133*	-0.0457*	-0.0163*	0.0153*	0.0622*	-0.0242*	1					
11 Legally separated	22,624	0.0072	0.0848	-0.0429	0.0075	0.0061	0.0005	-0.0008	0.0083	0.0105	-0.0601*	0.0028	-0.0093	1				
12 Divorced/Civil union dissolved	22,624	0.1156	0.3197	-0.0861*	0.0037	0.0165*	0.0118	0.0907*	0.0469*	-0.0001	-0.1354*	0.0503*	-0.0394*	-0.0309*	1			
13 Widowed/Civil partner died	22,624	0.0872	0.2821	-0.0835*	-0.005	-0.0996*	-0.0415*	0.3808*	0.1361*	-0.0822*	-0.2410*	0.1922*	-0.0337*	-0.0264*	-0.1117*	1		
14 Never married or in a legal civil union	22,624	0.2604	0.4389	-0.0002	-0.0579	0.1029	0.0485*	-0.4984*	-0.0498*	0.0385*	-0.0918*	-0.1514*	-0.0647*	-0.0507*	-0.2145*	-0.1834*	1	
15 Height	22,624	170.7645	9.7149	0.0964*	0.0756*	0.1330*	0.0995*	-0.1882*	-0.6451*	0.0797*	0.1908*	-0.1724*	0.0427*	-0.0107*	-0.0290*	-0.1838*	0.1145*	1
16 Weight	22,624	75.8401	15.5179	-0.0032	0.0598	0.0118	0.0376*	0.0570*	-0.4494*	-0.0236*	0.0617*	0.0860*	0.002	-0.008	-0.0071	-0.0452*	-0.0627*	0.5194*

Notes.

Case-wise deletion.

Industry and country dummies included but not reported for brevity.

* p < 0.05 (two-tailed).

Table 2
Multilevel model estimates (Study 2, ESS sample).

Variables	(1)	(2)	(3)	(4)
	DV = Satisfied with life			
Self-employed [H1]		0.165 ^{***} (0.0429)	0.596 ^{***} (0.153)	−4.771 ^{**} (1.741)
Shared Prosperity			0.0372 ^{***} (0.00164)	−0.204 ^{***} (0.0182)
Self-employed × Shared Prosperity [Q2]			−0.0101 ^{**} (0.00340)	0.0841 [*] (0.0415)
Business Freedom				−0.101 ^{***} (0.00941)
Self-employed × Business Freedom				0.0684 ^{**} (0.0214)
Shared Prosperity × Business Freedom				0.00285 ^{***} (0.000218)
Self-employed × Shared Prosperity × Business Freedom [Q3]				−0.00121 [†] (0.000494)
Age	0.0112 ^{***} (0.000986)	0.0110 ^{***} (0.000988)	0.0101 ^{***} (0.000984)	0.00998 ^{**} (0.000980)
Sex (1-male; 2-female)	0.131 ^{***} (0.0365)	0.138 ^{***} (0.0366)	0.144 ^{***} (0.0360)	0.134 ^{***} (0.0356)
Education level	9.83e-05 ^{**} (3.81e-05)	9.58e-05 [†] (3.81e-05)	8.23e-05 [†] (3.78e-05)	7.62e-05 [†] (3.77e-05)
Household Income	0.108 ^{***} (0.00536)	0.107 ^{***} (0.00537)	0.110 ^{***} (0.00531)	0.107 ^{***} (0.00528)
Subjective general health	−0.720 ^{***} (0.0159)	−0.718 ^{***} (0.0159)	−0.695 ^{***} (0.0159)	−0.695 ^{***} (0.0158)
Civil Union	0.0976 (0.118)	0.100 (0.118)	0.0159 (0.117)	0.0334 (0.117)
Legally separated	−0.995 ^{***} (0.149)	−0.998 ^{***} (0.149)	−1.004 ^{***} (0.149)	−1.001 ^{***} (0.148)
Divorced/Civil union dissolved	−0.457 ^{***} (0.0420)	−0.459 ^{***} (0.0420)	−0.472 ^{***} (0.0418)	−0.474 ^{***} (0.0417)
Widowed/Civil partner died	−0.0978 ⁺ (0.0508)	−0.0947 ⁺ (0.0507)	−0.0734 (0.0505)	−0.0790 (0.0504)
Never married or in a legal civil union	−0.132 ^{***} (0.0356)	−0.129 ^{***} (0.0356)	−0.159 ^{***} (0.0355)	−0.160 ^{***} (0.0354)
Height of respondent (cm)	0.00352 ⁺ (0.00195)	0.00334 ⁺ (0.00195)	0.00201 (0.00194)	0.000990 (0.00194)
Weight of respondent (kg)	0.000996 (0.000990)	0.000973 (0.000989)	0.00118 (0.000985)	0.000965 (0.000982)
Constant	6.682 ^{***} (0.365)	6.699 ^{***} (0.365)	5.317 ^{***} (0.365)	13.99 ^{***} (0.854)
Level 2 grouping	NACE 2-digit industry	NACE 2-digit industry	NACE 2-digit industry	NACE 2-digit industry
Level 3 grouping	Country	Country	Country	Country
Observations	22,624	22,624	22,624	22,624
Number of groups	88	88	88	88
Chi-square	3518	3536	4267	4751
df	12	13	15	19
p	0	0	0	0

Standard errors in parentheses.

* $p < .05$.

** $p < .01$.

*** $p < .001$.

+ $p < .1$.

3. Discussion

Satisfaction, a non-pecuniary benefit from self-employment, has been of extensive focus in entrepreneurship research. We replicate prior works on self-employment and life satisfaction, and extend this foundation to include potential country-level institutional influences on this relationship. Our results provide support for the positive relationship between self-employment and life satisfaction. Furthermore, we find that this relationship is strengthened by country-level shared prosperity. Finally, our results suggest that the influence that shared prosperity has on the relationship between self-employment and life satisfaction is enhanced by the level of business freedom present within a specific country.

Interestingly, although our findings are in line with recent research regarding the association between self-employment and life

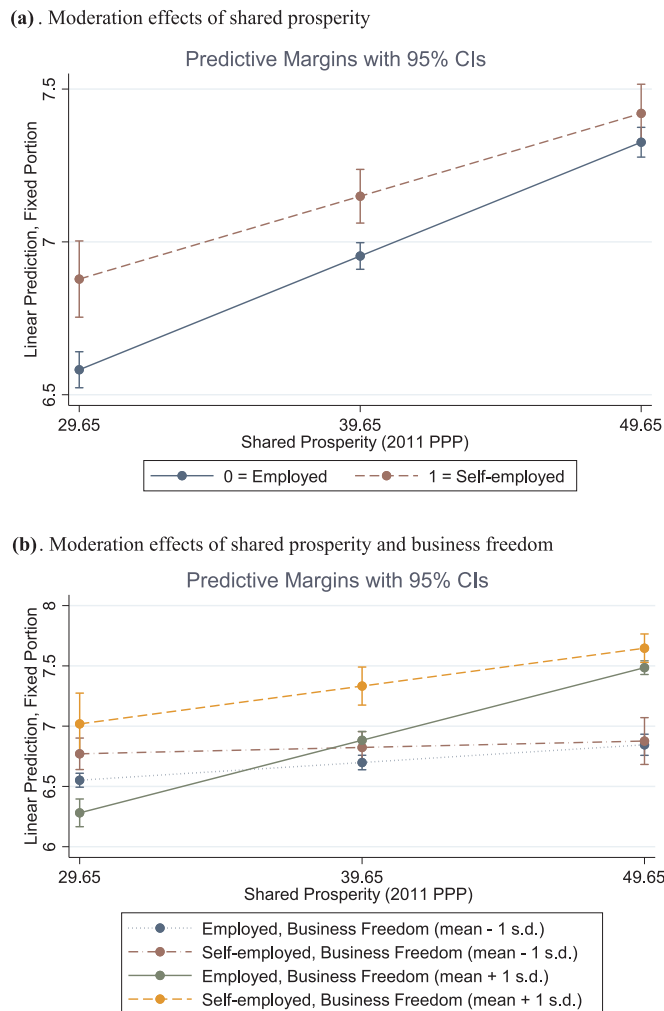


Fig. 1. Moderation Effects. (a). Moderation effects of shared prosperity. (b). Moderation effects of shared prosperity and business freedom.

satisfaction (Andersson, 2008; Binder and Coad, 2013), they somewhat contradict evidence that suggests that self-employment could be detrimental to life satisfaction, as a result of the potential for individuals who are self-employed to experience higher levels of work-family conflict (Ford et al., 2007; Parasuraman and Simmers, 2001). These seemingly contradictory findings could point to the inherent subjectivity of determining life satisfaction and well-being in general. Because these concepts rely on subjective comparisons to internally determined standards, it is possible that both results are valid. Perhaps individuals who are self-employed place a lower level of importance on work-family balance as a component to their life satisfaction, which could explain why they could experience both higher levels of work-family conflict and higher levels of life satisfaction. Conversely, it is possible that individuals who are self-employed expect to experience higher levels of work-family conflict as a result of their occupational choice, and therefore their overall life satisfaction is less likely to be diminished if they do experience such conflicts. Further research employing experimental or quasi-experimental designs could be beneficial in further detailing the nuances of the mechanisms via which self-employment influences life satisfaction.

Additionally, our results indicate the possibility that country-level institutional factors could moderate the relationship between self-employment and life satisfaction. This is important to note because it suggests that individuals who engage in self-employment might not share a homogeneous experience with regards to the processes and consequences of pursuing entrepreneurial endeavors. Individuals who engage in self-employment in countries in which there are higher levels of shared prosperity or greater levels of business freedom could experience markedly higher benefits with regards to their overall life satisfaction. These findings could help to inform government officials and policymakers as to how best to enact political and legal change in order to increase entrepreneurial activity and economic development. Future research will be needed to further understand the nuances of how country-level institutional factors might influence life satisfaction. For instance, while shared prosperity and business freedom positively moderate the association between self-employment and life satisfaction, it is possible that other institutional factors such as gender inequality and inherent racial biases could negatively moderate this relationship for women and minorities. Moreover, this research could be extended to the organizational context in order to examine how institutional factors (e.g. unionization, shared employee

ownership, healthcare benefits, etc.) might influence employee life satisfaction.

Finally, while entrepreneurs experience elevated levels of autonomy and independence, which can have positive effects on life satisfaction, evidence also suggests that individuals who are self-employed have a greater tendency to be workaholics (Gorgievski et al., 2010), and while this can be beneficial in terms of entrepreneurial performance (Gorgievski et al., 2014) it can also prove detrimental to individual satisfaction and well-being (Shimazu et al., 2010; Shimazu and Schaufeli, 2009). As a result, it is likely that the relationship between self-employment and life satisfaction is not necessarily linear in nature, and that under certain conditions self-employment could also reduce life satisfaction. Further research into the shape and boundary conditions of the relationship between self-employment and life satisfaction will be needed in order to tease out the nuances of this potentially complex association.

Our study is not without limitations. First, as previously mentioned, although we did find a positive association between self-employment and life satisfaction, potentially countervailing relationships with regards to self-employment in order to better understand how self-employment relates to overall well-being and individual happiness. Second, we are unable to open the colloquial black box on the association between self-employment and life satisfaction. A complex set of social, biological, occupational and professional factors may influence the path from self-employment to perceived life satisfaction. Therefore, additional levels of analysis would further help parse out individual vs. contextual influences. Future studies into the potential dimensions involved in determining life satisfaction, and how they might be uniformly or differentially related to self-employment, can help to further our understanding of the nuances involved in these relationships. Finally, although we employed a multi-country sample for our analyses, our sample only includes developed countries. However, as the nature and experience of self-employment is significantly different in developing countries the current findings could be extended to these contexts.

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