

# ENTREPRENEURIAL BEGINNINGS: TRANSITIONS TO SELF-EMPLOYMENT AND THE CREATION OF JOBS



An Executive Summary of Working Paper 18-12

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## SUMMARY HAIKU

Entrepreneurship  
creates jobs, but few firms grow.  
Who survives and thrives?

## INTRODUCTION

The self-employed constitute a significant proportion of the labour force and create a substantial number of jobs for their employees. However, the majority of working proprietor firms never take on employees, which may reflect the preferences of the working proprietors, or that such transitions represent an important “step-change” in operations.

Taking into account the inherent risk in establishing and growing innovative start-up businesses, the data suggests the entrepreneurial spirit is alive and well in New Zealand.

## METHODOLOGY

The analysis relies on Statistics New Zealand’s Integrated Data Infrastructure (IDI) and exploits the linking of full-coverage firm- and worker-level administrative datasets with data from the 2013 Population Census. Individual-level characteristics (age, sex, and ethnicity), and monthly jobs, benefit receipt, and border movement data come from the October 2016 instance of the IDI. These data are linked through to firms on the Longitudinal Business Database (LBD) using linked employer-employee data (LEED) and the permanent enterprise number.

The period of analysis is the eleven years from 2005-2015, so that we have at least five years of prior job and benefit history available in each analysis year. The population of interest, in a given year, is restricted to individuals who were 17-74 years of age in the prior March (i.e., turning 18-75 during the year of interest), reflecting a desire to exclude the school-aged, and to include potential transitions to self-employment up to ten years after the age of eligibility for national superannuation.

## RESULTS

This research has created a general-purpose dataset to begin to understand the dynamics of entrepreneurship in New Zealand. There is potential to use this dataset for further work in this area.

There has been an absolute decline in self-employment over the last decade with working proprietor labour input falling from 28.6 percent to 21 percent of full-time equivalent labour input from 2005 to 2015.

Self-employment rates vary substantially by sex and ethnicity, with Pasifika-only and Māori-only ethnicity groups having a 9.4 percentage points (pp) and 8.1pp, respectively, lower probability of being self-employed than European-only. These differences are substantial when compared to the overall self-employment rate of 7.5%.

While partially explainable by differences in individual characteristics, such as age and migrant status, entrepreneurship gaps persist to some extent for all ethnicity groups relative to European-only, and for females relative to males. For example, the entrepreneurship gap for females represents 48% of the average working proprietor rate after controlling for individual characteristics.

These gaps arise in large part because of differential rates of entry into self-employment and, in the case of non-European-only ethnicities, higher attrition rates from self-employment after entry.

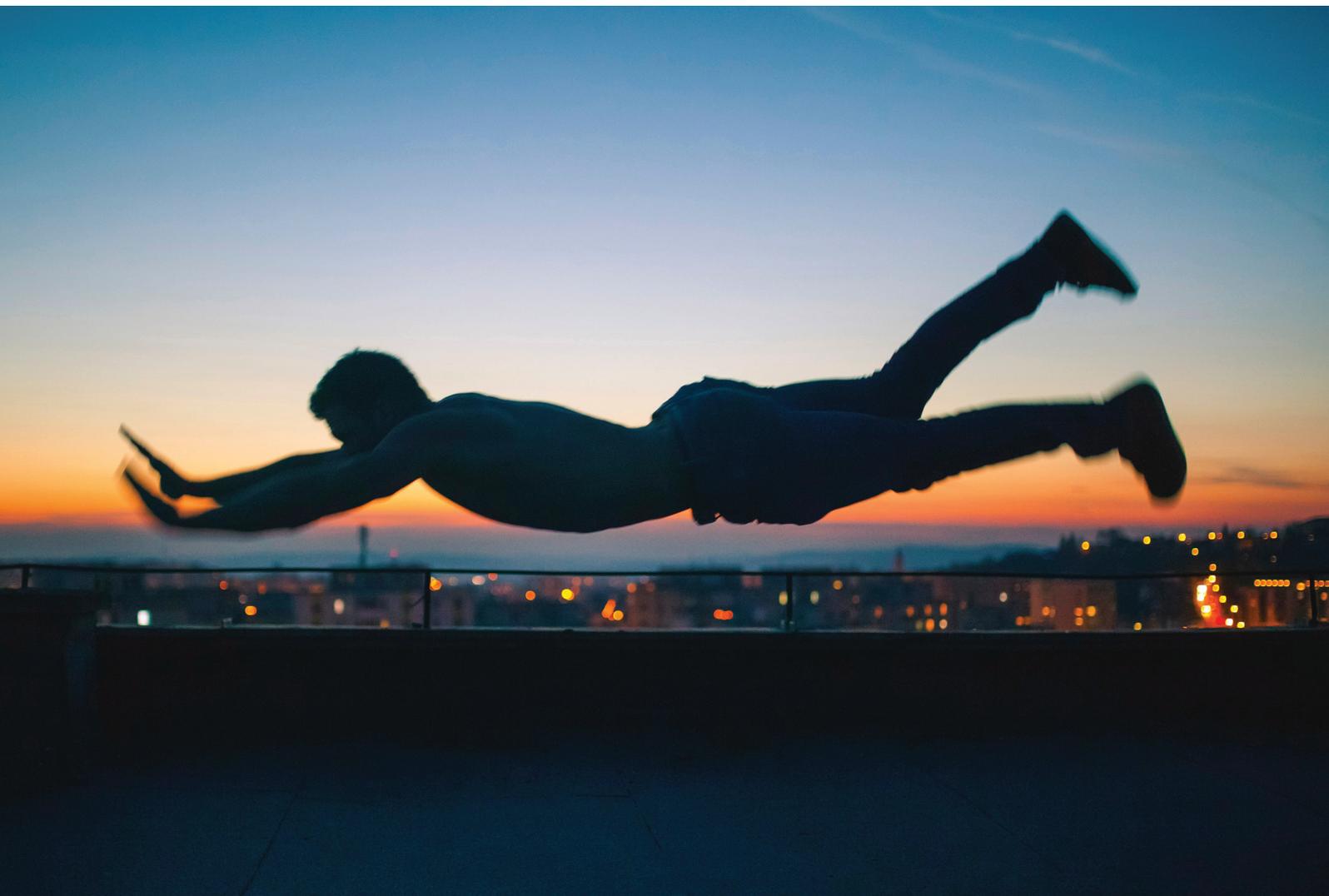
Controlling for both individual characteristics and prior labour market outcomes, the gap in the working proprietor entry rate for Pasifika-only individuals is -75% of the mean entry rate, and the five-year survival rate gap after entry is -36% of the mean survival rate. For Māori-only ethnicity individuals, the corresponding entry and survival rate gaps are -54% and -18%.

The international literature suggests that differences in access to financial capital and specific business human capital (from, e.g., parents or peers) may go some way towards explaining the residual ethnicity gaps in entrepreneurship.

Consistent with the observed ethnicity gaps, NZ-born individuals are more likely to be self-employed than immigrants (in contrast to US findings).

Individuals with better prior labour market outcomes (higher earnings; better employers; no benefit receipt), and with formal qualifications, are also more likely to become self-employed. However, individual skill and employee job creation are negatively correlated, consistent with high-skilled individuals electing self-employment simply as a preferred way of supplying their own labour services to the market.

Recent short-term negative labour market outcomes also appear to raise the probability of becoming a working proprietor, suggesting the “necessity” channel to self-employment is relevant for some individuals. In turn, this may result in short self-employment spells as individuals return to jobs as employees.





## CONCLUSION

The self-employed constitute a significant proportion of the labour force and create a substantial number of jobs for their employees.

Raw differences in the overall self-employment rate vary substantially by sex and ethnicity. In the case of ethnicity, overall entrepreneurship rates are strongly related to the dynamics of entry into self-employment and survival rates for entrants. However, controlling for attrition from self-employment, differences in long-term employment outcomes are often unrelated to ethnicity, and the employer entrepreneurship gap for females is positive.

The international literature suggests that differences in access to capital and specific business human capital (from parents or peers for example) may go some way to explaining the residual ethnicity gaps in entrepreneurship. In the latter instance, high-skilled individuals are more likely to reach management positions in firms that would allow them to, perhaps, develop the skills necessary to operate their own business successfully.

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