

ENTREPRENEURSHIP AS A BRIDGE TO EMPLOYMENT? EVIDENCE FROM FORMERLY INCARCERATED INDIVIDUALS

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ABSTRACT

This paper examines whether entrepreneurship is a desirable labor market choice for those who face labor market discrimination, by considering the impact entrepreneurship has on subsequent wage-employment. I argue that entrepreneurship provides advantages for those who face labor market discrimination, by sending a positive signal to employers. I focus on the formerly incarcerated population in the US, a group frequently pushed into entrepreneurship due to pervasive employer discrimination. Results from the NLSY 1997 data suggest that, compared to formerly incarcerated individuals without any entrepreneurial experience, those with entrepreneurial experience have an increased likelihood of securing wage-employment, regardless of entrepreneurial success.

INTRODUCTION

Entrepreneurship has become increasingly common as a career choice, with a significant portion of individuals starting their own business at some point in their career (Buchanan 2015). Yet, most entrepreneurial experiences are but one spell within a career trajectory, where most entrepreneurs eventually transition back into wage-employment (Burton et al. 2016). In order to fully understand the long-term impact of entrepreneurship as a career choice, recent research has examined how entrepreneurial experience affects subsequent wage-employment outcomes. Most studies have found entrepreneurs to face penalties in post-entrepreneurship employment because of concerns regarding their lack of commitment to employment (Botelho and Chang 2020), lack of fit to employment (Kaiser and Malchow-Møller 2011, Ding et al. 2020), and lack of positive credential from prior employment (Koellinger et al. 2015, Kacperczyk and Younkin 2020).

This negative impact of entrepreneurship on subsequent employment outcomes is largely grounded on an underlying assumption that individuals actively select into entrepreneurship due to individual preferences rather than the opportunity structure in the labor market. Yet, a large portion of entrepreneurship is triggered by the lack of alternative employment opportunities or labor market discrimination (Lippman et al. 2005, Sørensen and Sharkey 2014). Therefore, this paper focuses on examining the effects of entrepreneurship on subsequent wage-employment outcomes for individuals who are pushed into entrepreneurship because of labor market discrimination. I argue that entrepreneurship will help, rather than hurt, subsequent wage-employment outcomes for individuals who engage in entrepreneurship due to labor market discrimination, providing a bridge to employment opportunities for the most discriminated people in the labor market and society.

Specifically, individuals who experience discrimination in the employment market are more likely to become entrepreneurs amid a lack of other employment opportunities, rather than by personal preference (Lippman et al. 2005). Therefore, employers are less likely to penalize

such ex-entrepreneurs based on concerns over lack of fit or commitment to wage-employment. Furthermore, entrepreneurial experience can provide a positive credential or signal to employers for people from groups that are discriminated against. Employer aversion to such groups is based on the stigma or negative credentials connecting them to characteristics such as a lack of motivation, lack of skills, or untrustworthiness (Holzer et al. 2004; Grogger 1992). Therefore, entrepreneurial experience, associated with higher responsibility, self-motivation, leadership, and broader skillsets (Rider et al. 2017; Kerr, Kerr, and Xu 2018), can be a positive signal to offset the stigma. Also, because individuals who are discriminated against generally face greater entrepreneurial barriers, employers may evaluate the competency of these entrepreneurs more favorably (Kacperczyk and Younkin 2020; Ding et al. 2020).

This paper particularly focuses on a population that faces severe labor market discrimination in the United States: formerly incarcerated people. While the United States has the world's largest incarcerated population with 2.2 million people in the nation's prisons and jails as of year 2016 (Bureau of Justice Statistics 2018), formerly incarcerated people continue to face discrimination in the labor market (Petit and Western 2004, Pager 2003). In response to such labor market discrimination, recent work has found that formerly incarcerated individuals are pushed into entrepreneurship as an alternative career choice to find work and gainful income (Hwang and Phillips 2020). Thus, the formerly incarcerated population represents a group of individuals who engage in entrepreneurship due to the lack of opportunities in the wage-employment sector. Examining how entrepreneurship impacts subsequent employment outcomes for this population helps us understand the long-term effects of entrepreneurship as a career choice for a broader group of discriminated individuals.

Using data from the United States National Longitudinal Survey of Youth 1997 (NLSY97), I find that that entrepreneurship benefits formerly incarcerated individuals in their post-entrepreneurship employment outcomes, compared to formerly incarcerated individuals with no entrepreneurial experience. Specifically, formerly incarcerated entrepreneurs experience 52% less unemployment before securing employment than similar formerly incarcerated individuals without entrepreneurial experience, regardless of entrepreneurial performance. Particularly, I find that entrepreneurial experience provides the greatest benefits to formerly incarcerated individuals who are high school dropouts or racial minorities (Black and Hispanic formerly incarcerated individuals), decreasing unemployment by more than 70%. These results suggest that entrepreneurship helps formerly incarcerated people gain subsequent employment, particularly when other positive credentials are absent or when the stigma is strongest.

To probe more deeply into the mechanism, I take advantage of a quasi-experimental design of the staggered implementation of “Ban-the-Box” policy that bans employers from criminal background checks until later in the hiring process. I find that entrepreneurship benefits formerly incarcerated individuals only when “Ban-the-Box” policy is not implemented, or in other words, when employers know when a potential job applicant is formerly incarcerated. This suggests that the underlying mechanism of why formerly incarcerated individuals gain benefits from entrepreneurship is because employers consider formerly incarcerated entrepreneurs differently compared to non-formerly-incarcerated entrepreneurs. To gain more insight into the mechanism I conduct in-depth interviews with currently incarcerated individuals in Arizona State Prison Complex, formerly incarcerated entrepreneurs and employees, and employers that hire formerly incarcerated people.

THEORY

Recent research has theorized that entrepreneurs are penalized in subsequent wage-employment outcomes relative to non-founders, because of concerns on their lack of commitment to wage-employment (Botelho and Chang 2020), lack of fit to wage-employment (Kaiser and Malchow-Møller 2011, Ding et al. 2020), and increased uncertainty related to the individual's competence (Kacperczyk and Younkin 2020). The underlying assumption here is that entrepreneurs actively choose to engage in entrepreneurship despite abundant employment opportunities because of their individual preference, such as their preference for autonomy and control (Santarelli & Vivarelli 2007), flexibility (Thebaud 2015), and “being one's own boss” (Hamilton 2000). Employers thus consider entrepreneurs as less suitable and committed to the structured and routinized nature of wage-employment (Luzzi and Sasson 2016). This is particularly true when considering that prior research has focused on high-skilled and privileged populations who are more likely to pursue entrepreneurship by choice and preference, such as STEM workers (Ding et al. 2020), software engineers (Botelho and Chang 2020), and HR and Marketing professionals (Kacperczyk and Younkin 2020).

Yet, a large proportion of entrepreneurs are pushed into entrepreneurship because of the lack of opportunities in the labor market structure rather than individual preferences (Sørensen and Sharkey 2014). Research has found that populations such as formerly incarcerated individuals (Hwang and Phillips 2020), women (Thébaud 2015), LGBTQ people (Conti et al. 2017), immigrants (Waldinger et al. 1985), and racial minorities (Walstad and Kourilsky 1998) seek entrepreneurship in the face of employer discrimination. Thus, this paper explores how the effect of entrepreneurial experience on post-entrepreneurship employment outcomes may differ for individuals pushed into entrepreneurship due to discrimination and stigmatization.

I argue that entrepreneurship will provide advantages in subsequent wage-employment outcomes for entrepreneurs who are pushed into entrepreneurship due to discrimination in the labor market. First, employers' concerns that ex-entrepreneurs lack commitment and fit to wage-employment will be mitigated for entrepreneurs from populations that experience severe employment discrimination. This negative perception is mainly driven by the assumption that entrepreneurs prefer entrepreneurship over wage-employment (Åstebro et al. 2011, Hamilton 2000). However, entrepreneurs from a population that experiences labor market discrimination are more likely to engage in entrepreneurship out of necessity rather than their (lack of) individual fit or commitment to wage-employment (Sørensen & Sharkey 2014). Thus, employers are less likely to question the fit or loyalty of entrepreneurs from discriminated populations.

Moreover, entrepreneurship will provide a positive signal to potential employers on worker quality and motivation, for those discriminated against in the labor market. Entrepreneurship signals openness and alertness to new experiences, greater desire for achievement, and a wide array of skills and experiences (Kirzner 1979, Kerr et al. 2018). As individuals from discriminated populations face discrimination and aversion from employers based on the perception of lack of competence, reliability, and motivation (Grogger 1992, Waldfogel 1994), the positive signals of entrepreneurship which entail not only competence but motivation will improve the perception employers hold for entrepreneurs from discriminated populations. Furthermore, entrepreneurship can be a more dependable signal of true ability compared to employment (Hegde and Tumlinson 2017, Levine and Rubinstein 2017), particularly for discriminated individuals who are less likely to have reliable employment track records (Sugie 2018). Therefore, compared to the comparison group of discriminated individuals without entrepreneurial experience who lack positive credentials to signal work-related skills or

responsibility, ex-entrepreneurs can use their entrepreneurial experience to signal their work-related skills and competence.

An individual's success is more likely to be attributed to their competence when evaluators perceive the task as generally harder for the individual or a group of individuals with similar characteristics (e.g., Hansen and Hall, 1985; McClure, 1998, Kacperczyk and Younkin 2018). Thus, because individuals from discriminated populations face more obstacles during entry or post-entry stage of entrepreneurship, and because they are perceived as a less natural fit for entrepreneurship, employers may evaluate such entrepreneurs more favorably. In other words, employers will attribute stronger competence and worker quality to entrepreneurs from discriminated populations, inferring their ability to overcome barriers to entrepreneurial entry.

DATA & RESEARCH DESIGN

I use the NLSY 97 data with hand-coded data on “Ban-the-Box” policy changes for all states and counties of the United States. The NLSY97 follows the lives of a representative cohort of 8,984 men and women, who were 12-18 years old when first surveyed in 1997. The restricted NLSY97 Geocode data provide identifying information on yearly state and county level residence for each survey respondent, allowing the use of a county and state-level policy shock to address the causal mechanism.

I measure entrepreneurship by examining whether a survey respondent reported their job as “self-employed”. For robustness, I use alternative measures such as incorporated self-employment and self-employment with employees. Prior incarceration is measured by whether the survey respondent served time in a correctional institution. I measure employment outcomes with the number of weeks in unemployment before securing employment and earnings from employment as yearly income from employment (income results not reported in this paper).

I conduct OLS regression models with individual, county, and year fixed effects. In addition, I exploit a quasi-natural experiment provided by an exogenous policy shock by using the staggered implementation of “Ban-the-Box” policy, a county and state-level law banning employers from conducting criminal background checks until later in the hiring process. As of 2019, the “Ban-the-Box” policy has been adopted in 35 states and 170 cities and counties in the United States for public employers. As the implementation of the “Ban-the-Box” policy prohibits employers from looking at criminal records, once the policy is implemented, employers are unable to know whether a potential candidate is formerly or non-formerly incarcerated. If formerly incarcerated entrepreneurs reap benefits from their entrepreneurial experience because it sends a different (positive) signal to employers, I would expect that once “Ban-the-Box” policy is implemented such benefits should diminish. In other words, the benefits from entrepreneurial experience for formerly incarcerated individuals should hold only when “Ban-the-Box” policy is yet to be implemented.

RESULTS

My results show that entrepreneurship helps formerly incarcerated individuals in their employment outcomes, in terms of the number of weeks unemployed before securing employment. I find that while prior incarceration increases the length of unemployment before securing employment (as found in previous research), having entrepreneurial experience mitigates this disadvantage for formerly incarcerated individuals (Table 1 Model 1). When

subsampling the formerly incarcerated individuals, I find that while formerly incarcerated individuals without entrepreneurship experience show 4.2 weeks of unemployment, those with entrepreneurship experience face 50% less unemployment of around 2 weeks (Table 1 Model 2). This decrease in unemployment is particularly amplified for formerly incarcerated individuals who generally face greater discrimination and stigma from employers: Black or Hispanic formerly incarcerated individuals (Table 1 Model 3) and formerly incarcerated individuals who have not completed high school education (Table 1 Model 4). These results suggest that entrepreneurial experience provides a positive signal, particularly, for the most stigmatized groups or those who lack other positive credentials. I find that this benefit from entrepreneurship for formerly incarcerated individuals holds regardless of the success or failure of the entrepreneurial venture.

The results from the “Ban-the-Box” policy shock provide suggestive evidence that the underlying mechanism of why formerly incarcerated individuals gain benefits from entrepreneurship is because employers consider formerly incarcerated entrepreneurs differently compared to non-formerly-incarcerated entrepreneurs. Table 2 shows that for the sample of the formerly incarcerated population, entrepreneurship decreases subsequent unemployment when “Ban-the-Box” policy is not implemented in the county or state. However, this benefit from prior entrepreneurial experience disappears when “Ban-the-Box” policy is implemented, or when employers are no longer able to know whether a job applicant is formerly incarcerated. This finding supports the mechanism that the benefit from entrepreneurship for formerly incarcerated people comes from the positive signal that employers receive from entrepreneurship by formerly incarcerated individuals.

 Insert Tables 1 & 2 about here

DISCUSSION

This paper provides implications for theory, empirical work, and policy. By showing that entrepreneurship provides advantages in post-entrepreneurship wage-employment outcomes for individuals who face labor market discrimination, this paper adds to recent research exploring the long-term impact of entrepreneurship through post-entrepreneurship outcomes. My findings highlight a societal benefit of entrepreneurship, as I find that entrepreneurship provides discriminated individuals a bridge back to or a road to employment opportunities. Furthermore, as one of the first studies to explore entrepreneurship for formerly incarcerated people, this paper speaks to the important discussion on the intersection of race and the criminal justice system by underlining the significance of race in the role of entrepreneurship for the formerly incarcerated. My findings that Black and Hispanic formerly incarcerated individuals reap the greatest advantages from entrepreneurship emphasize that entrepreneurship offers an opportunity for long-term economic and social integration, particularly for those who face the greatest stigma and discrimination in the traditional labor market. Finally, my research speaks to policy around entrepreneurship and employment for discriminated populations, providing implications that while resolving employer discrimination remains the main goal, entrepreneurship may be an alternative pathway to provide both short-term and long-term advantages to discriminated populations.

REFERENCES AVAILABLE FROM THE AUTHOR

TABLES

Table 1. Does Entrepreneurship Decrease Subsequent Unemployment for the Formerly Incarcerated Population?

DV: Number of Weeks Unemployed (<i>t</i>)				
	(1)	(2)	(3)	(4)
Sample	Full Sample	Formerly Incarcerated	Formerly Incarcerated Racial Minorities	Formerly Incarcerated Highschool Dropouts
Entrepreneurship (<i>t</i> -1)	0.268 (0.177)	-2.296* (1.136)	-3.265* (1.592)	-4.868* (2.178)
Formerly Incarcerated	1.471** (0.196)			
Entrepreneurship (<i>t</i> -1) x Formerly Incarcerated	-1.663* (0.675)			
Time Varying Individual & Regional Controls	Y	Y	Y	Y
Individual, Year, Regional FE	Y	Y	Y	Y
N	145,084	4,810	2,487	1,462
Adj. R-Sq	0.189	0.607	0.605	0.601

* $p < 0.05$, ** $p < 0.01$, standard errors are robust and clustered at individual-level

Table 2. Mechanism Check with “Ban-the-Box” – Does Entrepreneurship Decrease Subsequent Unemployment for the Formerly Incarcerated Population?

DV: Number of Weeks Unemployed (<i>t</i>)	
Entrepreneurship (<i>t</i> -1)	-3.005* (1.322)
Ban-the-Box	-1.997* (0.787)
Entrepreneurship (<i>t</i> -1) x Ban-the-Box	5.362* (2.589)
Time Varying Individual & Regional Controls	Y
Individual, Year, Regional FE	Y
N	4,810
Adj. R-Sq	0.459

* $p < 0.05$, ** $p < 0.01$, standard errors are robust and clustered at individual-level

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