

# Is becoming self-employed a panacea for job satisfaction? Longitudinal evidence from work to self-employment transitions

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*Using British longitudinal data, we investigate whether individuals enjoy a permanent boost in their job satisfaction by becoming self-employed. We track individuals before and after transitions from work to self-employment and record changes in their job and domain satisfaction scores. We find that job satisfaction follows a rising trajectory immediately upon transition into self-employment and a declining trajectory in subsequent years, as expectations fail to materialize and the novelty of the new venture wanes down. Thus, our findings confirm that job satisfaction gains are not necessarily permanent, suggesting that self-employment is not always a panacea for job satisfaction.*

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## ***Introduction***

For many individuals, the decision to become self-employed is one of the most important decisions in their career. Typically, transitions into self-employment are costly and often stressful. They involve a substantial investment of wealth (Moskowitz and Vissing-Jørgensen 2002), they are associated with volatile earnings streams (Hamilton 2000), and they entail increased risks (Douglas and Shepherd 2002). On the positive side, becoming self-employed is a choice that helps individuals

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to achieve a better lifestyle, driven by their desire for work autonomy (Lange 2012; Schjoedt 2009), flexible work schedules (Hyytinen and Ruuskanen 2007), and an improved work-life balance (Cooper and Artz 1995). These positive attributes of self-employment explain why becoming self-employed is often associated with a boost in job satisfaction (Benz 2009). Yet, a question that has attracted little attention in the literature is whether the realized job satisfaction gains associated with self-employment transitions are long lasting. If such gains are only temporary in nature, then the argument of job satisfaction as a pull factor into self-employment becomes less persuasive.

Research based on longitudinal evidence explores whether the higher job satisfaction among the self-employed, which is documented in the existing literature, is due to a failure to account for the temporal, dynamic nature of job satisfaction around the time of self-employment transitions. For example, Hanglberger and Merz (2015) use German longitudinal data to investigate whether the positive correlation between self-employment and job satisfaction is the result of neglecting anticipation and adaptation effects in measures of subjective well-being. In a similar vein, Guerra and Patuelli (2014) use data from the Swiss Household Panel to examine how job satisfaction shocks prior to self-employment transitions influence employees' decision to become self-employed.

Our study contributes to this small body of work by exploring the temporal patterns of job satisfaction and its domain around the time of self-employment transitions. Building upon Guerra and Patuelli (2014) and Hanglberger and Merz (2015), we track changes in reported job and domain satisfaction scores before and after the transition from work to self-employment in order to assess whether any job satisfaction gains are permanent. Drawing upon *Discrepancy Theory (expectation–reality gap theory)*, we argue that job satisfaction follows a rising trajectory immediately upon transition into self-employment and a declining trajectory in subsequent years, as expectations fail to materialize. We further argue that any job satisfaction gains associated with self-employment transitions are only transitory, as individuals rapidly revert to their pre-transition levels of job satisfaction through a process of hedonic adaptation, as the novelty of the new venture wanes down.

This is consistent with the prediction of *Set-point Theory* that individuals tend to adapt back to their pre-set levels of well-being, which remain stable overtime and they are predetermined by personality traits or other inborn temperaments (Lykken and Tellegen 1996; Headey and Wearing 1992).

To test the validity of this argument, it is necessary to observe individuals' complete job satisfaction trajectories before and after the transition. In addition, it is important to control for unobserved individual characteristics that remain fixed over time and influence both job satisfaction and the decision to become self-employed. Controlling for such fixed effects ensures that self-employment is the reason why individuals are satisfied with their working lives and not simply that satisfied individuals become self-employed. We argue that such a test is a robust way to assess whether self-employment has a permanent effect on job satisfaction. Based on longitudinal data from the British Household Panel Survey (BHPS), our findings indicate that the job and domain satisfaction gains from becoming self-employed are not necessarily permanent, thus casting doubt on the notion of self-employment as a panacea for job satisfaction.

In the next section, we draw upon set-point theory and expectations-reality gap theory to develop hypotheses regarding the temporal evolution of satisfaction around the time of self-employment transitions. In the Data and Methods section, we describe the BHPS data, the main measures, and the fixed effects estimation method. In the Results section, we present the main empirical estimates. Furthermore, to check the robustness of our findings, we provide auxiliary results based on separate analyses by gender. We also verify whether the emerging job satisfaction patterns are unique for work to self-employment transitions. Finally, in the last substantive section, we discuss the main findings and suggest potential avenues for future research.

## ***Background and Hypotheses Development***

The expected utility maximization model provides a useful framework for analyzing individuals' decision to make the transition from wage-earning employment to self-employment. The

model assumes that an employee's decision to become self-employed is based on a comparison of the expected net benefits of self-employment to the expected net benefits of staying with the current employer. However, when individuals do actually make the transition, they often discover that the expected net benefits associated with self-employment do not always materialize. The Expectations-Reality Gap Theory describes the perceived gap between individuals' anticipated and actual state (Cooper and Artz, 1995). It postulates that the perceived discrepancies between individuals' actual self-state (or adopted anchor) and their aspired state determine their level of satisfaction, which is commonly used as a proxy for utility. In the context of self-employment decisions, employees form expectations about the net benefits associated with a potential self-employment transition. However, as expectations do not always materialize during self-employment, the expectations-reality gap widens, which has a detrimental effect on job satisfaction.

Psychological theories of adaptation offer a complementary theoretical explanation for the temporal patterns of job satisfaction associated with transitions into self-employment. A main tenant of set-point theory is that although individuals experience shocks in their well-being caused by various life or economic events, they revert to their pre-event levels of well-being through a process of hedonic adaptation, which is usually rapid and complete (Lykken and Tellegen 1996; Headey and Wearing 1992). Therefore, according to set-point theorists, a transition into self-employment, which is normally considered a positive life and economic event, has the potential to boost employees' job satisfaction, but only temporarily. This is because the novelty of the new venture wanes down and the self-employed become accustomed to their new status.

Both theories help us gain a better understanding of the temporal evolution of job satisfaction when employees make the decision to become self-employed. Individuals become self-employed because of the expectation of higher job satisfaction and the non-pecuniary benefits that self-employment offers and not necessarily because of higher pecuniary rewards. Studies find that the self-employed are drawn to the greater autonomy and the work schedule flexibility (Lange 2012; Schjoedt

2009), the opportunities and capacity for growth (Stoner and Fry 1982), and the more control over work-family life balance (Judge, Locke, Durham, and Kluger 1998) associated with self-employment. Moreover, compared to conventional work, self-employment allows individuals to cope with negative emotions better (Patzelt and Shepherd 2011), to experience lower depression levels (Bradley and Roberts 2004), and to feel less mental strain as they usually enjoy the type of work (Andersson 2008). The self-employed relish these non-pecuniary benefits, which potentially explain why they are more satisfied with their working lives compared to employees. Likewise, Guerra and Patuelli (2014) argue that dissatisfied employees decide to quit and to become self-employed in anticipation of such non-pecuniary benefits and higher job satisfaction.

If employee dissatisfaction is indeed a main push factor into self-employment, we should observe a declining pattern of job satisfaction in the years leading up to the time of the transition. Consistent with the predictions of set point theory, during the pre-transition period, employees are likely to report unusually low job satisfaction scores, below their normal, pre-set level. As in the case of other positive life and economic events, the transition into self-employment causes job satisfaction to peak above its normal, pre-set level, which reflects the novelty of the new status. Such a boost is also a reflection of individuals' optimistic outlook, viewing facets of their lives favorably and having high expectations of better future prospects for non-financial rewards (Guerra and Patuelli 2014). Thus, we formulate the first hypothesis as follows.

**Hypothesis 1a.** *When switching from work to self-employment, employees experience an immediate boost in their job satisfaction.*

Whether this initial boost in job satisfaction persists in the years after the transition depends on how fast individuals adapt back to their pre-set levels of satisfaction. Set-point theory predicts that, soon after the transition, the novelty of the new status fades and individuals adapt very quickly back

towards their pre-transition level of satisfaction. A main implication of this hedonic adaptation process is that the boost in job satisfaction is a transitory one. The expectation-reality gap theory also explains the transient nature of the potential satisfaction gains. As the self-employed realize in the early years of their venture that their situation is different from what they expected it to be, their job satisfaction starts to dissipate (Cooper and Artz 1995). This scenario is particularly plausible because of the high level of optimism characterizing most self-employed (Fraser and Greene 2006). Generally, the self-employed tend to have high expectations and they are excessively optimistic about the probability of venture success (Cooper, Woo, and Dunkelberg 1988; Cassar 2010). However, an over-estimation of the probability of success, coupled with an under-estimation of the volatility of outcomes, suggests that the self-employed are prone to a cognitive bias (Busenitz and Barney 1997), which results in a mismatch between expectation and reality causing satisfaction to drift downwards. Thus, we hypothesize that:

**Hypothesis 1b.** *After the initial boost, job satisfaction declines in the years following the transition to self-employment.*

Both, set- point and expectations-reality gap theories offer useful insight for developing hypotheses about the dynamic trajectories of domain satisfaction measures as well. These domain satisfaction measures refer to specific job facets, which include earnings, job security, hours of work, and the nature of the work itself, often quoted as the ones that workers care about mostly. Pay is a desirable job attribute, which is positively correlated with employee satisfaction. If dissatisfaction with pay is a factor that pushes employees to seek alternative employment as self-employed, then pay satisfaction should peak immediately upon transitions into self-employment. The main reason is that the self-employed have expectations for higher income in the future, which boosts their satisfaction with pay and exerts a positive motivating effect. Guerra & Patuelli's (2014) findings lend support to

this conjecture by showing that a main reason why employees quit to become self-employed is because of their expectation that self-employment opens up new opportunities for them for boosting their future income. Therefore, despite the lower actual income during the early years of self-employment - it takes time for most business startups to generate a constant stream of income - the potential of higher future income is sufficient to boost the self-employed pay satisfaction. We further argue that the income referent for employees who enter self-employment is the income of other successful entrepreneurs. At least initially, the higher income of other successful entrepreneurs exerts a positive, motivating influence on job satisfaction. However, as the self-employed fail to reach their referent income, the higher income of other successful self-employed exerts a negative, demoralizing influence. Thus, we should expect that satisfaction with pay starts declining in the years following the transition as expectations about future income in self-employment are not fulfilled. Thus, we hypothesize that:

**Hypothesis 2a.** *When switching from work to self-employment, employees experience an immediate boost in their satisfaction with pay.*

**Hypothesis 2b.** *After the initial boost, satisfaction with pay declines in the years following the transition to self-employment.*

A main concern for the self-employed is job security (Kolvereid 1996). Based on the predictions of set-point theory, satisfaction with job security drops at the time of the transition, but it recovers soon after, as individuals adapt. Recent studies also confirm that the self-employed experience low satisfaction with job security, which is partially explained by the mismatch between expectations and the reality experienced (Millán, Hessels, Thurik, and Aguado 2013).

**Hypothesis 3a.** *When switching from work to self-employment, employees experience an immediate drop in their satisfaction with job security.*

**Hypothesis 3b.** *After the initial drop, satisfaction with job security improves in the years following the transition to self-employment.*

Satisfaction with the nature of the work itself is perhaps one of the most significant domains for understanding overall job satisfaction (Prottas and Thompson 2006). Schjoedt (2009) shares the same view, arguing that satisfaction with the nature of work comprises job characteristics, which enhance the individual's sense of responsibility and provide the motivation to cope with work demands. Yet, situational factors determine the effectiveness of certain job attributes (for task variety) in affecting overall job satisfaction (Lechmann and Schnabel 2014). For instance, business obligations such as deadlines, business travel, and customer demands often limit autonomy (Parasuraman *et al.* 1996). Similarly, independence in the context of self-employment is often a misnomer because self-employed contractors, for example, often depend on other organizations for their income (VandenHeuvel and Wooden 1997). As individuals begin to experience and gain more knowledge about their self-employment venture, differences in anticipated versus experienced outcomes surface, with a detrimental effect on satisfaction. Consequently, the dynamic trajectory of satisfaction with the nature of the work itself declines leading up to the time of transition, reaching a peak during the transition and declines thereafter. Set-point theory predicts a similar trajectory. Thus, we hypothesize:

**Hypothesis 4a.** *When switching from work to self-employment, employees experience an immediate boost in their satisfaction with the nature of work itself.*



**Hypothesis 4b.** *After the initial boost, satisfaction with the nature of work itself declines in the years following the transition to self-employment.*

A main attraction of being self-employed is the flexibility of working schedules and the control that individuals have over their working hours. Therefore, satisfaction with hours of work peaks upon transitions into self-employment. Naturally, there is also the element of novelty associated with the transition to self-employment, which causes satisfaction with hours to peak. In practice however, the need to meet business demands often necessitates that the self-employed work longer hours, at the detriment of the much-anticipated schedule flexibility (Parasuraman *et al.* 1996). With the success of the venture depending on the long-hours commitment by the self-employed, a deterioration in satisfaction is often inevitable. When the self-employed realize that working longer hours than anticipated is the norm rather than the exception, job satisfaction is bound to decline over time (Hyytinen and Ruuskanen 2007). This pattern is consistent with the predictions of set-point theory. The novelty associated with the transition to self-employment causes satisfaction with hours to peak above its set-point value around the time of the transition and to decline in the following years.

**Hypothesis 5a.** *When switching from work to self-employment, employees experience an immediate boost in their satisfaction with work hours.*

**Hypothesis 5b.** *After the initial boost, satisfaction with work hours declines in the years following the transition to self-employment.*

## ***Data and Methods***

The empirical analysis uses eighteen waves of the British Household Panel Survey (BHPS), for the period 1991-2008. The BHPS is a household-based survey, interviewing every adult member

of the sampled households using a multi-stage, clustered probability sampling design. The first wave of the panel consists of approximately 10,300 individuals in about 5,500 households, drawn from 250 areas of Great Britain with a response rate of 74 percent of eligible households. We restrict the sample to individuals aged 16 to 60 who were in salaried employment or self-employment, excluding the unemployed and those individuals who were out-of-the labor force. These restrictions result in an unbalanced panel of about 10,500 individuals, yielding 60,610 person-year observations. In this sample, we follow about five percent of individuals for all eighteen waves of the survey. On average, however, we are able to follow individuals for six years.

We are interested in tracking employees who made the transition from work to self-employment during the survey period, 1991-2008. In our sample, we identify 1,144 such transitions by comparing individuals' employment status at time  $t$  to their employment status in the previous year, at time  $t-1$ . A transition from work to self-employment occurs when an individual reports self-employment as her main employment status at time  $t$  and "paid-employment" as their status at time  $t-1$ . In our analysis, we limit our attention to the first observed entry into self-employment during the sampling period and we follow individuals for up to four years before and about five years after the transition. For each interview year before and after the transition, we observe changes in individuals' reported job satisfaction.

In the BHPS, overall job satisfaction is a single-item measure, based on individuals' responses to the question "*All things considered, how satisfied or dissatisfied are you with your present job overall...?*" Respondents are asked to use a 7-point Likert scale ranging from 'completely satisfied' (7) to 'not satisfied at all' (1). The existing literature lends support to the approach of utilizing single-item measures of job satisfaction (Scarpello and Campbell 1983; Wanous, Reichers, and Hudy 1997). Additionally, more recent studies find that single-item measures compare favorably to the Job Description Index (JDI), contain more face validity, and they are more flexible than multiple-item scales (Nagy 2002).

The domain satisfaction variables are measured in a similar way, using the same 7-point Likert scale. In our analysis, we focus on four domain satisfaction measures, based on the following questions: (i) satisfaction with pay, “*How satisfied would you say you are with the total pay, including any overtime or bonuses in your present job*”; (ii) satisfaction with job security, “*How satisfied would you say you are with job security in your present job*”; (iii) satisfaction with the nature of the work itself, “*How satisfied would you say you are with the actual work itself in your present job*”; and (iv) satisfaction with hours of work, “*How satisfied would you say you are with the hours you work in your present job*”. Table 1 shows the distribution of overall job satisfaction and its four domains reported by employees during the last year in salaried-employment (top panel) and during their first year in self-employment (bottom panel). Comparing the corresponding distributions before and after the transition, it emerges that transitions to self-employment shift the distribution towards higher scores in the case of overall job satisfaction, satisfaction with pay, and satisfaction with the nature of the work itself. There is also a slight shift in satisfaction with hours. As anticipated, there is a deterioration in the distribution of satisfaction with job security upon embarking on the self-employment venture.

[Table 1 about here]

Our aim is to explore whether changes in job satisfaction are long lasting, beyond the first few years in self-employment. For this purpose, we explore the temporal patterns of job satisfaction and its domains using longer time frames before and after self-employment transitions. Table 2 summarizes these patterns for up to four years prior to the transition to five years after the transition. Because of the unbalanced nature of our longitudinal data, from the 1,144 employees who switched into self-employment between  $t-1$  and  $t$  (*Within the next year*), we are able to follow 742 who stayed self-employed one year after the transition (*0-1 years*). Subsequently, we follow 397 who stayed self-employed two years after the transition (*1-2 years*), 244 who stayed self-employed three years after

the transition (*2-3 years*), and so on. Focusing on the period prior to the transition, of the 1,144 individuals who became self-employed, we observe 979 of them in the year prior to the transition (*1-2 years hence*), 833 two years prior to the transition (*2-3 years hence*) and 722 three years prior to the transition (*3-4 years hence*).

The remaining columns of Table 2 summarize the average satisfaction scores for each year before and after the transition into self-employment. These average scores are indicative of a pattern of declining job satisfaction in salaried employment up to the time of transition when average satisfaction scores peak at 5.66 with a slight decline observed thereafter. Nonetheless, satisfaction remains generally higher during self-employment than in conventional employment. We observe a similar pattern for satisfaction with pay and satisfaction with the nature of the work itself. In contrast, the patterns of average satisfaction with job security and satisfaction with working hours are more mixed. Although satisfaction with hours of work peaks during the first year in self-employment, in subsequent years it drops below the pre-transition level. Satisfaction with job security declines around the time of the transition, but it recovers in subsequent periods.

[Table 2 about here]

Such stylized facts, however insightful they may be, only provide an expedient sketch of the temporal job satisfaction patterns. In the remainder of the analysis, we use multivariate regression techniques to control for observed and unobserved heterogeneity, which influences individuals' reactions to their new status as self-employed. To control for unobserved heterogeneity and to investigate whether self-employment transitions alter individuals' set points of job satisfaction, we use the fixed-effects methodology by Clark, Diener, Georgellis, and Lucas (2008). Although job satisfaction is categorical, we treat it as a continuous variable for the purpose of using individual fixed effects. The linear approach allows us to keep all of the values of the dependent variable, rather than converting to a binary variable and using a conditional fixed effect logit. Practically, as Frijters and

Ferrer-i-Carbonell (2004) suggest, the use of ordinal or cardinal estimation does not make much qualitative difference to regression results once a fixed effect is introduced. Adopting a fixed-effects estimation approach, has the advantage of modelling adaptation and anticipation within the same individual, i.e. within subject analysis, and ensures that we follow the same individual through. Controlling for fixed-effects also reduces the risk of unobserved individual characteristics affecting both job satisfaction and the propensity of individuals to become self-employed, thus reducing the risk of confounding the identification of anticipation, adaptation, and selection effects. Following Clark et al, we construct dummy variables that capture the elapsed duration since the transition into self-employment (lags), and the time coming up to the transition (leads). More specifically, the estimated fixed effects satisfaction regressions are of the following form:

$$JS_{it} = a_i + \beta'X_{it} + q_{-4it} + q_{-3it} + q_{-2it} + q_{-1it} + q_{0it} + q_{1it} + q_{2it} + q_{3it} + q_{4it} + q_{5it} + e_{it}, \quad (1)$$

where:

$JS_{it}$  = Job satisfaction of individual  $i$  at time  $t$ ,

$a_i$  = unobserved fixed effect, which remains constant over the period of observation.

$\beta$  = a vector with the respective coefficients,

$X_{it}$  = vector of variables controlling for observed heterogeneity.

$q$  = coefficient of the average effect of being self-employed, and

$e_{it}$  = the error terms.

The dummy variables  $q_{1it}$ ,  $q_{2it}$ ,  $q_{3it}$ ,  $q_{4it}$  and  $q_{5it}$  indicate the self-employed status of an individual over 1 to 2, 2 to 3..., up to 5 years or more after the transition and capture whether adaptation takes place following the transition into self-employment. If there is no adaptation effect, the value of  $q$  should remain stable. Similarly, the lead dummy variables  $q_{-4it} + q_{-3it} + q_{-2it} + q_{-1it}$  capture satisfaction prior to the transition. If, for example, the individual makes the transition into self-employment within four years, the dummy  $q_{-4it}$  takes the value 1, while all other lead dummies take

zero value. All dummies take value 0 if during the consideration period the individual neither transits to self-employment nor is in self-employment. These coefficients measure the effect of self-employment transitions on job satisfaction relative to four or more years before the transition, when anticipation effects are unlikely to be strong. The vector  $X_{it}$  includes the following covariates: age in years, health dummy variables, educational dummy variables, number of children in the household, dummy variables for marital status, and total household income from all sources. These covariates are commonly used as controls in job satisfaction regressions and as factors influencing the propensity to become self-employed (Blanchflower and Meyer 1994; Jamal 1997; Gumus and Regan 2015; Gai and Minniti 2015; Georgellis and Wall 2005). The definitions and sample means of all variables are in the Appendix.

## ***Results***

Table 3 summarizes the estimated lags and leads coefficients of the fixed effects regression (equation 1). The first column presents the estimated coefficients for overall job satisfaction, while the remaining columns present the coefficients for the four domain satisfaction measures under consideration: satisfaction with pay, satisfaction with job security, satisfaction with the nature of the work itself and satisfaction with hours of work. These coefficients are also plotted in Figure 1.

[Table 3 about here]

Prior to the transition, employees experience a drop in their overall job satisfaction, reporting scores below their usual, pre-determined level (i.e. the baseline). This dissatisfaction becomes progressively more salient, reaching its minimum value in the year prior to the transition (-.277;  $p < .01$ ). Consistent with hypothesis 1a, this deterioration in job satisfaction is followed by a boost in satisfaction upon transition to self-employment (.287;  $p < .01$ ). However, soon after this initial euphoria, the self-

employed experience a gradual reduction in job satisfaction during the second and third years in self-employment, as predicted by hypothesis 1b. Whilst still above its normal level during the first three years after the transition, the reduction in the size of the lag coefficients is evident, from .287 during the first year to .215 three years later. Thus, there is some evidence that job satisfaction declines in subsequent years, although it does not fully return to its usual, pre-determined level. To further test for the degree of adaptation, we compare the job satisfaction impact at 5 or more years after the transition to the impact at the time of the transition. The advantages of this test is that it tests for partial adaptation and it helps us avoid to incorrectly conclude that there is full adaptation simply because the coefficient for 5 or more years after the transition is imprecisely estimated. In the case of overall job satisfaction, the estimated degree of adaptation, reported at the bottom of Table 3, is .647 and it is statistically significant at the 5 per cent. This suggests that the long-term coefficient is statistically different from the coefficient at the time of the transition, thus supporting the adaptation hypothesis.

[Figure 1 about here]

Unlike their impact on overall job satisfaction, self-employment transitions have a more permanent impact on pay satisfaction (column 2). Although dissatisfaction with pay prior to transition does not seem to be a significant push factor, employees who become self-employed enjoy a boost in pay satisfaction in the first year (.408;  $p < .01$ ), supporting hypothesis 2a. However, contrary to hypothesis 2b, the lag coefficient for '5 or more years' after the transition (.346;  $p < .01$ ) suggest that pay satisfaction remains high in the long run, which is somewhat puzzling, given that the self-employed do not necessarily earn more than employees do. A possible explanation is that pay satisfaction is relative rather than absolute, that is, it is influenced by the earnings of the reference group rather than solely on own earnings. Following transitions into self-employment, the pay referent becomes the pay of other successful self-employed, which exerts a positive effect on pay satisfaction.

Satisfaction with job security drops upon self-employment transition (column 3). Employees feel less satisfied with their job security up to two years prior to becoming self-employed, in anticipation of the change in their employment status. Consistent with hypothesis 3a, satisfaction with job security is the lowest in the first year of self-employment ( $-.292$ ;  $p < .01$ ), and remains low for the first three years. After the third year, it returns to its normal, baseline level, as hypothesis 3b states. Such a pattern is consistent with the widely held view of self-employment as a riskier venture than conventional employment. Studies confirm that the risk of business failure is much higher than the risk of job loss, especially during the business start-up phase (Carter 2011).

The pattern of satisfaction with the nature of the work itself (column 4) shows a dissatisfaction among employees about the nature of the work itself for almost four years prior to quitting. As hypothesis 4a suggests, this pattern is reversed at the time of the transition ( $.314$ ;  $p < .01$ ) and it remains high for the first three years. After the third year, there is a rapid adaptation towards pre-transition levels, lending support to hypothesis 4b.

Finally, the last column of Table 3 shows the estimated lag and lead coefficients for satisfaction with hours of work. The results support hypothesis 5a, in that individuals are more satisfied with their work hours in the first year of self-employment ( $.207$ ;  $p < .01$ ) than they were in their previous employment. However, this pattern reverses rapidly in subsequent years, with dissatisfaction with working hours becoming apparent by the third ( $-.189$ ;  $p < .05$ ) and fourth year ( $-.207$ ;  $p < .05$ ). Such a pattern is consistent with previous evidence documenting the long hours and irregular, undesirable schedules into evenings and weekends associated with self-employment (Jamal and Badawi 1995; Hyttinen and Ruuskanen 2007). Satisfaction with work hours bounces back towards its baseline in the long run, as the estimated coefficients for '4-5 years' and '5 or more years' indicate, supporting hypothesis 5b.

The coefficients for the degree of long-run adaptation, appearing at the bottom of Tables 3, confirm that there continues to be no adaptation to pay. However, the effects of self-employment



transitions on satisfaction with job security, nature of work itself, and satisfaction with hours all disappear, as it can be seen also from the patterns in Figure 1. In all of these cases, the long-run coefficients are significantly different from the coefficients at the time of the event.

## ***Auxiliary results***

### **Gender**

Our analysis thus far is based on the full, mixed gender sample. Nonetheless, previous research documents important gender differences in labor market attachment, opportunities, and motives for self-employment transitions (Georgellis and Wall 2005). By and large, previous studies on female self-employment explicitly attribute the documented higher job satisfaction among self-employed women to placing less emphasis on monetary rewards, having lower initial expectations, the paucity of alternatives, and the greater flexibility of business ownership, which allows for combining career with childbearing and an improved work-life balance (Cooper and Artz 1995). Although it is not our objective in this study to anchor our analysis on gender theory and female entrepreneurship, there is sufficient evidence in the extant literature to warrant checking the robustness of our results to performing separate analyses by gender.

In our sample, we observe 740 and 404 work to self-employment transitions for men and women respectively. The top panel of Table 4 summarizes the estimated lag and lead coefficients based on the sample for men, while the bottom panel summarizes the corresponding coefficients for women. These coefficients, also plotted in Figure 2, suggest that there are gender differences in individuals' experiences following the transition into self-employment. Job satisfaction gains for men persist in the long-run, as shown by the positive and statistically significant lag coefficients including the coefficient for '5 or more years' (.246;  $p < .05$ ). Accordingly, men who become self-employed are more satisfied with their job than they were in their previous salaried employment. This is not the case for women though, who only experience a weak boost in job satisfaction in the first year of self-employment,

which dissipates rapidly. The lag coefficients after the first year are statistically insignificant and even turn negative in the long run. A similar pattern of gender differences emerges for pay satisfaction. Men who become self-employed enjoy a more permanent boost in their satisfaction with pay than women do. While the lag coefficients for women are positive, suggesting an increase in pay satisfaction above the baseline, these coefficients are not statistically significant, except for the lag coefficient for ‘4-5 years’.

[Table 4 about here]

[Figure 2 about here]

The pattern of satisfaction with job security based on separate analyses for men and women is similar to that based on the full sample. The only noticeable difference is that after the early years of increased job insecurity, self-employed men feel satisfied with their job security in the long-run (.333;  $p < .01$ ). Likewise, the patterns of satisfaction with work itself in Table 4 are remarkably similar to those based on the full sample, consistent with evidence of adaptation towards the baseline, although the process of adaptation back to baseline is slightly faster for women than for men. Finally, dissatisfaction with work hours in the years following transitions to self-employment is evident for both men and women.

### **Are transitions from self-employment into salaried employment different?**

Although we report satisfaction scores of people moving from work to self-employment, we need to demonstrate the distinctiveness (or otherwise) of these results. The obvious means of doing this, and adding an important control into our results, is to identify men and women who have moved from self-employment (back) into employment and track their satisfaction scores across the same dimensions. These results provide very strong contextualization for the patterns of satisfaction we report in Tables

3 and 4 above. However, are these patterns specific to the employed going into self-employment, or can those same patterns be observed among people who have done the opposite and moved from self-employment back into employment?

In our sample, we identify 711 transitions from self-employment back to work of which 481 are transitions by men and 230 by women. Applying the same methodology as in the case of transitions to self-employment, we estimate lag and lead coefficients (shown in Table 5) to ascertain whether changes in job satisfaction are permanent or transitory. The results confirm that leaving self-employment to return to conventional employment has a permanent negative impact on overall job satisfaction (column 1). Reassuringly, this pattern does not resemble the pattern of rising job satisfaction for transitions to self-employment. Leaving self-employment to become an employee has no impact on satisfaction with pay in the medium term, although the coefficient for ‘5 or more years’ (.437;  $p < .01$ ) implies a long-lasting positive boost. The results in the remaining three columns of Table 5 are particularly revealing. Self-employed individuals who return to salaried employment experience a positive and permanent boost in their satisfaction with job security and a significant positive boost in satisfaction with hours of work. In contrast, they are less satisfied with the nature of the work itself. It emerges, therefore, that although conventional employment is less rewarding in terms of the nature of the work itself, employees find the job security and the standard work schedules (often 9 to 5 jobs) that it offers attractive.

[Table 5 about here]

Repeating the analysis separately for men and women, we find that the decrease in job satisfaction following the return into conventional employment is more evident for men (top panel of Table 6) but not so much for women. Men who return to salaried employment enjoy a permanent boost in their satisfaction with job security and there is some weak evidence that they are more satisfied with

work hours. Certainly, men who return to salaried employment are less satisfied with the nature of the work itself. The coefficients in the bottom panel of Table 6 imply that the main attraction for women to return to conventional employment is work hours.

[Table 6 about here]

### **Are transitions from salaried employment to another salaried employment different?**

Finally, we investigate whether the observed pattern of job satisfaction associated with work to self-employment transitions is more general, applying also to those who change jobs from one salaried job to another salaried job. Some answers can be found in Guerra & Patuelli (2014), who use a multinomial logit model to explore how job satisfaction influences employees' decision to switch into self-employment or to take up another salaried job. Their findings suggest that although job satisfaction affects both, job changes (salaried to salaried employment) and transitions to self-employment, those who change jobs are more reactive to nonpecuniary dissatisfaction, while those who choose self-employment are more reactive to pecuniary dissatisfaction. By distinguishing between pecuniary and nonpecuniary satisfaction, they provide strong evidence that transitions into self-employment and changing employers are distinct labor market events. If this is generally true, we should expect that the temporal pattern of job satisfaction associated with job changes to be different from the pattern associated with transitions into self-employment. To further explore this premise, we replicate our analysis for men and women who quit their salaried jobs to take up jobs with another employer.

In our sample, we observe 332 men who quit their previous employer to accept employment with a different employer (salaried employment to salaried employment transitions). The equivalent number for women is 399 transitions. Tables 7 and 8 report the estimated lag and lead coefficients of the fixed effects regression analysis of job satisfaction and its domains.

[Tables 7 and 8 about here]

Comparing the coefficients in Table 7 to those in Table 3, it is evident that although there are similarities in the temporal job and domain satisfaction patterns, there are also differences. Employees who quit to accept a job with another employer experience a boost in their overall job satisfaction but only in the first year after the transition. The same pattern emerges for satisfaction with pay, experiencing a very transient boost in the satisfaction with pay. In contrast, employees making the transition into self-employment enjoy a more permanent boost in their satisfaction with pay. Regarding the remaining job satisfaction facets, it seems that employees who change employers enjoy a permanent boost in their satisfaction with job security, which is not the case for self-employment transitions. Another notable difference is that employees who change employers are less satisfied with the nature of work itself in comparison to those becoming self-employed. Finally, changing employers has only a temporary effect on satisfaction with hours. Based on these findings, we could conclude that work to self-employment transitions are distinctively different from job changes, i.e. salaried to salaried employment transitions. The results in Table 8 further support this conclusion.

### ***Concluding Comments***

In this paper, we revisit the argument that the self-employed are more satisfied with their jobs than employees are (Benz 2009). Our approach relies on the use of longitudinal data to explore the temporal pattern of job satisfaction and its domains around the time of the transition to self-employment. In our data, we identify employees who made the transition from work to self-employment and observe their satisfaction scores before and after the transition. Thus, we are able to explore whether individuals enjoy significant job satisfaction gains by becoming self-employed, and more importantly, whether these gains are permanent or transitory. Previous cross-sectional studies document only a contemporaneous correlation between job satisfaction and self-employment, with the

obvious shortcoming that they do not account for the possibility that individuals were already satisfied with their jobs prior to becoming self-employed (Hundley 2001). Largely, our findings suggest that entry into self-employment is not always a panacea for job satisfaction, in that, any job satisfaction gains tend to be transitory, as individuals tend to adapt towards pre-transition levels of job satisfaction. That is, while switching to self-employment is for many employees a way of escaping unsatisfactory jobs, any boost in satisfaction they might experience in the early stages of their self-employment venture is usually temporary. However, as our auxiliary analysis by gender reveals, there is some evidence that overall job satisfaction and satisfaction with pay gains for men are more permanent, which is not the case for women.

Our study has some implications worth mentioning. For a start, our findings offer a simple explanation to the self-employment paradox that the self-employed are more satisfied with their jobs, compared to employees, although they do not earn more. Previous work in the field explains this paradox by claiming that the self-employed enjoy the autonomy, the flexibility in working schedules, doing interesting work, and other non-pecuniary benefits. Our findings provide a different answer to this paradox. That is, the self-employed are more satisfied than employees are, but only temporarily. In a sense, there is no paradox as the self-employed are not necessarily more satisfied in the longer term. Hanglberger and Merz's (2015) findings also support this conjecture.

Furthermore, our findings question the view that individuals become self-employed not for the pecuniary rewards of self-employment, but because they enjoy the autonomy, work schedule flexibility, and the nature of work. In this study, we find no evidence that any gains in satisfaction with these attributes are permanent. Then, the question that arises is why do individuals choose self-employment over conventional employment? A simple answer is that they do not. Instead, most individuals are pushed into self-employment or they see self-employment as an escape route away from unsatisfactory jobs. If this is the case, then it is perhaps imperative for employers, HR professionals, and policy makers to consider programs to improve working conditions in conventional

employment. Guerra and Patuelli (2014) reach a similar conclusion, recommending that managers need to pay more attention to employee dissatisfaction with working conditions, if they wish to reduce staff turnover. While the dissatisfaction argument is a credible one, our analysis opens up a whole range of other possibilities to be considered in future work. For example, if set-point theory is correct, as our analysis seems to suggest, entry into self-employment does not make people more satisfied in the longer term. In this case, the observed higher job satisfaction scores among the self-employed must be because mostly those individuals who are predisposed to be satisfied end up becoming self-employed. However, this is only one possible explanation and we believe that we have just started to scratch the surface of the possible avenues for investigating why individuals become self-employed under a new prism.

Our findings need to be evaluated in light of the limitations of the study. The fixed effects linear regression model, used in our analysis, exploits the within-individual variation over time in independent variables to explain within-individual variation in job satisfaction. The results about how self-employment affects job satisfaction are based on those individuals, who made the transition from salaried work to self-employment. So, although the analysis can offer useful insight about job satisfaction before and after transitions into self-employment, it does not allow us to make comparisons or to generalize the results to stayers or to those who changed jobs, unless we assume that wage to self-employment transitions are representative for the whole population. Another limitation is that we do not distinguish between different types of self-employment and we treat self-employment as a declination of entrepreneurship (Cullen, Johnson, and Parboteeah 2014). However, the self-employed are generally a very diverse group, which includes incorporated or non-incorporated small businesses, freelancers, contractors, consultants, domestic workers, professionals, and contingent workers of outsourced functions, among others. Exploring whether similar temporal patterns in job satisfaction emerge in a more disaggregated analysis by self-employment type will provide a more detailed insight of the motives of employees who decide to choose self-employment over conventional employment.

The advent of large longitudinal data in recent years opens up many opportunities for performing such a disaggregated analysis.

While our regression analyses control for heterogeneity, there is room for future research to identify whether certain groups of individuals are likely to adapt faster than others are. Recent studies highlight, for example, the role of personality in determining how individuals react to various events and how fast they adapt back to their baseline level of well-being (Yap, Anusic, and Lucas 2012). We believe that exploring the role of personality in determining how employees react to their new status as self-employed is a promising area for future research. Last, our analysis focuses on job satisfaction and its domains as the main dependent variable. However, there are other measures for evaluating how individuals feel about their jobs and their work lives in general, including multi-item measures, such as the General Health Questionnaire (GHQ) or various affect measures such as feeling anxiety or worrying about aspects of work and life. Again, the use of these measures as dependent variables would seem worthy of future analysis.

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**Table 1**  
**The distribution of overall job and domain satisfaction**

<b>SATISFACTION SCORES: LAST YEAR IN PAID EMPLOYMENT</b>										
	Overall Job Satisfaction		Satisfaction with Pay		Satisfaction with Security		Satisfaction with Work itself		Satisfaction with Hours	
	Count	%	Count	%	Count	%	Count	%	Count	%
1	36	2.7	76	5.7	87	6.6	27	2	36	2.7
2	55	4.1	77	5.8	55	4.2	40	3	49	3.7
3	110	8.3	173	13	98	7.4	84	6.3	150	11.3
4	117	8.8	134	10.1	133	10.1	105	7.9	134	10.1
5	293	22.1	305	23	231	17.5	264	19.9	301	22.7
6	524	39.5	409	30.8	396	30	515	38.8	447	33.7
7	191	14.4	153	11.5	320	24.2	291	21.9	210	15.8
Total	1326	100	1327	100	1320	100	1326	100	1327	100

<b>SATISFACTION SCORES: FIRST YEAR IN SELF-EMPLOYMENT</b>										
	Overall Job Satisfaction		Satisfaction with Pay		Satisfaction with Security		Satisfaction with Work itself		Satisfaction with Hours	
	Count	%	Count	%	Count	%	Count	%	Count	%
1	15	.8	77	3.9	89	4.5	9	.5	24	1.2
2	40	2	92	4.7	96	4.9	34	1.7	69	3.5
3	82	4.1	205	10.4	177	9	54	2.7	194	9.8
4	121	6.1	190	9.6	277	14.1	97	4.9	207	10.5
5	386	19.5	390	19.7	355	18	297	15	408	20.6
6	951	48.1	729	36.9	590	29.9	931	47.1	709	35.8
7	381	19.3	295	14.9	386	19.6	556	28.1	367	18.6
Total	1976	100	1978	100	1970	100	1978	100	1978	100

**Table 2**  
**Lags and Leads and Mean Satisfaction Scores**

	Number of Observations	Overall Job Satisfaction	Satisfaction with Pay	Satisfaction with Security	Satisfaction with Work itse	Satisfaction with Hours
<i>Leads</i>						
3-4 years hence	7224	5.28	4.76	5.29	5.43	5.04
2-3 years hence	832	5.28	4.74	5.28	5.43	5.09
1-2 years hence	979	5.27	4.83	5.33	5.47	5.11
Within the next	1144	5.21	4.80	5.17	5.48	5.13
<i>Lags</i>						
0-1 years	742	5.66	5.11	5.11	5.89	5.31
1-2 years	397	5.60	5.06	5.26	5.85	5.14
2-3 years	244	5.55	5.05	5.20	5.81	5.05
3-4 years	178	5.61	5.04	5.37	5.85	5.09
4-5 years	133	5.60	5.07	5.42	5.86	5.03
5 or more years	327	5.57	5.14	5.48	5.78	5.09

**Table 3**  
**The Effect of Self-employment on Job Satisfaction**

	Overall Job Satisfaction	Satisfaction with Pay	Satisfaction with Security	Satisfaction with Work itself	Satisfaction with Hours
3-4 Years hence	-.127** (.046)	-.073 (.054)	-.081 (.054)	-.103* (.046)	-.093 (.050)
2-3 Years hence	-.142** (.044)	-.057 (.052)	-.080 (.052)	-.131** (.045)	-.068 (.048)
1-2 Years hence	-.180** (.042)	-.041 (.050)	-.105* (.050)	-.108* (.043)	-.086 (.046)
Within the next Year	-.277** (.042)	-.040 (.049)	-.251** (.049)	-.140** (.042)	-.082 (.046)
0-1 Years	.287** (.050)	.408** (.059)	-.292** (.059)	.314** (.050)	.207** (.055)
1-2 Years	.245** (.065)	.354** (.076)	-.104 (.076)	.278** (.065)	-.079 (.071)
2-3 Years	.215** (.080)	.339** (.094)	-.193* (.094)	.230** (.081)	-.189* (.087)
3-4 Years	.096 (.093)	.222* (.109)	-.140 (.109)	.145 (.094)	-.207* (.101)
4-5 Years	.191 (.106)	.375** (.124)	.081 (.125)	.171 (.107)	-.100 (.115)
5 or more Years	.101 (.088)	.346** (.103)	.192 (.104)	.021 (.089)	-.121 (.096)
Degree of adaptation = 1 - (q5/q0)	.647* (.298)	.153 (.255)	1.658** (.407)	.933** (.280)	1.585** (.521)
<i>N</i>	60,574	60,610	60,483	60,586	60,589

\*  $p < .05$ ; \*\*  $p < .01$ ; Standard errors in parentheses; other controls include age, tenure, health, education, number of children, marital status, household income, region, and year dummies.

**Table 4**  
**The Effect of Self-employment on Job Satisfaction, by Gender**

MEN					
	Overall Job Satisfaction	Satisfaction with Pay	Satisfaction with Security	Satisfaction with Work itself	Satisfaction with Hours
3-4 Years hence	-.197** (.059)	-.143* (.068)	-.069 (.070)	-.110 (.059)	-.166** (.063)
2-3 Years hence	-.172** (.056)	-.099 (.065)	-.079 (.067)	-.150** (.056)	-.095 (.061)
1-2 Years hence	-.180** (.054)	.000 (.062)	-.060 (.064)	-.076 (.054)	-.074 (.059)
Within the next Year	-.269** (.053)	.030 (.061)	-.290** (.063)	-.133* (.053)	-.068 (.057)
0-1 Years	.380** (.065)	.461** (.075)	-.258** (.077)	.385** (.065)	.230** (.070)
1-2 Years	.284** (.081)	.417** (.093)	-.142 (.096)	.316** (.081)	-.043 (.087)
2-3 Years	.266** (.098)	.402** (.112)	-.105 (.115)	.256** (.097)	-.171 (.105)
3-4 Years	.147 (.114)	.216 (.130)	-.049 (.134)	.212 (.113)	-.205 (.122)
4-5 Years	.279* (.130)	.337* (.149)	.206 (.153)	.222 (.129)	-.100 (.140)
5 or more Years	.246* (.105)	.419** (.120)	.333** (.124)	.125 (.105)	-.002 (.113)
Degree of adaptation = 1 - (q5/q0)	.351 (.272)	.092 (.266)	2.290** (.684)	.674** (.264)	1.011* (.492)
<i>N</i>	28,988	29,005	28,946	28,993	28,996
WOMEN					
	Overall	Pay	Security	Work itself	Hours
3-4 Years hence	-.015 (.073)	.039 (.088)	-.100 (.086)	-.093 (.075)	.026 (.081)
2-3 Years hence	-.094 (.071)	.014 (.086)	-.084 (.084)	-.099 (.073)	-.019 (.079)
1-2 Years hence	-.181** (.068)	-.107 (.082)	-.182* (.080)	-.161* (.069)	-.101 (.075)
Within the next Year	-.290** (.068)	-.161* (.082)	-.180* (.080)	-.148* (.070)	-.102 (.075)
0-1 Years	.140 (.079)	.328** (.095)	-.351** (.093)	.203* (.081)	.172* (.087)
1-2 Years	.170 (.108)	.246+ (.130)	-.042 (.128)	.209 (.111)	-.140 (.119)
2-3 Years	.102 (.142)	.210 (.171)	-.402* (.168)	.178 (.146)	-.218 (.157)
3-4 Years	-.021 (.162)	.249 (.195)	-.353 (.191)	.004 (.166)	-.211 (.179)
4-5 Years	.006 (.184)	.470* (.222)	-.203 (.217)	.065 (.189)	-.095 (.204)
5 or more Years	-.277 (.165)	.167 (.199)	-.199 (.195)	-.247 (.169)	-.427* (.183)
Degree of adaptation = 1 - (q5/q0)	2.981 (.177)	.491 (.595)	.432 (.546)	2.217* (1.043)	3.487* (1.801)
<i>N</i>	31,586	31,605	31,537	31,593	31,593

\*  $p < .05$ ; \*\*  $p < .01$ ; Standard errors in parentheses; other controls include age, tenure, health, education, number of children, marital status, household income, region, and year dummies.



**Table 5**  
**The effect of Transitions into Employment on Job Satisfaction**

	Overall Job Satisfaction	Satisfaction with Pay	Satisfaction with Security	Satisfaction with Work itself	Satisfaction with Hours
3-4 Years hence	.005 (.080)	.033 (.097)	.193* (.095)	-.050 (.077)	.103 (.091)
2-3 Years hence	-.075 (.073)	.135 (.088)	.051 (.086)	-.103 (.070)	-.005 (.083)
1-2 Years hence	-.060 (.068)	.128 (.082)	.140 (.081)	-.052 (.066)	.125 (.078)
Within the next Year	-.119 (.064)	.113 (.076)	.014 (.075)	-.109 (.061)	.036 (.072)
0-1 Years	.032 (.081)	.054 (.097)	.602** (.095)	-.091 (.078)	.325** (.092)
1-2 Years	-.055 (.090)	.066 (.109)	.705** (.107)	-.213* (.087)	.291** (.103)
2-3 Years	-.208* (.099)	.039 (.119)	.514** (.116)	-.447** (.095)	.309** (.112)
3-4 Years	-.187 (.108)	.094 (.130)	.569** (.127)	-.340** (.104)	.277* (.123)
4-5 Years	-.324** (.117)	-.045 (.141)	.691** (.138)	-.371** (.112)	.210 (.133)
5 or more Years	-.188* (.085)	.437** (.102)	.670** (.100)	-.384** (.081)	.241* (.096)
Degree of adaptation = 1 - (q5/q0)	6.881 (16.22)	-7.052 (13.634)	-.112 (.177)	-3.235 (3.310)	.257 (.273)
<i>N</i>	8,245	8,249	8,238	8,248	8,249

\*  $p < .05$ ; \*\*  $p < .01$ ; Standard errors in parentheses; other controls include age, tenure, health, education, number of children, marital status, household income, region, and year dummies.

**Table 6**

**The Effect of Transitions into Employment and Job Satisfaction, by Gender**

MEN					
	Overall Job Satisfaction	Satisfaction with Pay	Satisfaction with Security	Satisfaction with Work itself	Satisfaction with Hours
3-4 Years hence	.003 (.093)	-.062 (.112)	.283* (.112)	-.085 (.087)	-.033 (.107)
2-3 Years hence	-.058 (.086)	.201 (.103)	.207* (.102)	-.130 (.080)	-.087 (.098)
1-2 Years hence	-.101 (.080)	.081 (.096)	.135 (.095)	-.085 (.074)	.023 (.092)
Within the next Year	-.198** (.075)	.105 (.091)	.040 (.090)	-.155* (.070)	-.055 (.086)
0-1 Years	.043 (.096)	.050 (.115)	.695** (.114)	-.134 (.089)	.229* (.110)
1-2 Years	-.004 (.105)	.049 (.127)	.821** (.127)	-.236* (.098)	.204 (.121)
2-3 Years	-.222 (.115)	-.061 (.139)	.758** (.137)	-.477** (.107)	.236 (.132)
3-4 Years	-.300* (.125)	.005 (.151)	.701** (.150)	-.440** (.117)	.141 (.144)
4-5 Years	-.445** (.137)	-.061 (.166)	.863** (.164)	-.521** (.128)	.102 (.158)
5 or more Years	-.156 (.101)	.293* (.122)	.809** (.121)	-.408** (.095)	.272* (.117)
Degree of adaptation = 1 - ( $q5/q0$ )	4.596 (9.158)	-4.818 (12.466)	-.165 (.195)	-2.039 (1.830)	-.189 (.576)
N	5,338	5,341	5,335	5,340	5,341
WOMEN					
3-4 Years hence	.013 (.157)	.281 (.188)	-.033 (.180)	.040 (.159)	.478** (.175)
2-3 Years hence	-.115 (.141)	-.035 (.168)	-.356* (.161)	-.035 (.142)	.210 (.157)
1-2 Years hence	.047 (.133)	.246 (.159)	.159 (.151)	.029 (.134)	.399** (.148)
Within the next Year	.065 (.119)	.133 (.142)	-.075 (.136)	.004 (.120)	.274* (.132)
0-1 Years	.010 (.152)	.094 (.181)	.304 (.173)	.025 (.153)	.565** (.169)
1-2 Years	-.181 (.175)	.139 (.210)	.319 (.200)	-.136 (.177)	.514** (.195)
2-3 Years	-.176 (.192)	.306 (.230)	-.178 (.219)	-.352 (.194)	.498* (.214)
3-4 Years	.099 (.213)	.333 (.254)	.144 (.242)	-.066 (.215)	.626** (.237)
4-5 Years	-.032 (.224)	.006 (.268)	.188 (.255)	.012 (.226)	.493* (.249)
5 or more Years	-.240 (.156)	.736** (.187)	.281 (.178)	-.298 (.158)	.232 (.174)
Degree of adaptation = 1 - ( $q5/q0$ )	25.715 (394.869)	6.801 (14.062)	.075 (.546)	12.966 (76.976)	.589* (.266)
N	2,907	2,908	2,903	2,908	2,908

\*  $p < .05$ ; \*\*  $p < .01$ ; Standard errors in parentheses; other controls include age, tenure, health, education, number of children, marital status, household income, region, and year dummies.

**Table 7**  
**The Effect of Salaried Employment Job Changes on Job Satisfaction**

	Overall Job Satisfaction	Satisfaction with Pay	Satisfaction with Security	Satisfaction with Work itself	Satisfaction with Hours
3-4 Years hence	-.071 (.112)	-.073 (.133)	-.128 (.132)	-.138 (.107)	-.039 (.126)
2-3 Years hence	-.162 (.107)	-.042 (.126)	-.483** (.125)	-.109 (.102)	-.327** (.120)
1-2 Years hence	-.109 (.104)	-.026 (.123)	-.359** (.122)	.047 (.099)	-.138 (.117)
Within the next Year	-.429** (.102)	-.246* (.121)	-.212+ (.120)	-.178+ (.097)	-.148 (.115)
0-1 Years	.239* (.105)	.234+ (.124)	.459** (.123)	.080 (.100)	.413** (.117)
1-2 Years	-.097 (.103)	-.267* (.122)	.427** (.121)	-.240* (.098)	.123 (.116)
2-3 Years	-.161 (.111)	-.305* (.131)	.360** (.130)	-.259* (.105)	.074 (.124)
3-4 Years	-.194 (.119)	-.442** (.141)	.373** (.139)	-.236* (.113)	.142 (.133)
4-5 Years	-.219+ (.130)	-.345* (.154)	.354* (.153)	-.334** (.124)	.056 (.146)
5 or more Years	-.260** (.097)	-.188 (.114)	.370** (.113)	-.419** (.092)	.005 (.109)
Degree of adaptation = 1 - (q5/q0)	2.090** (.775)	1.803* (.804)	.194 (.222)	6.260 (7.287)	.988** (.261)
<i>N</i>	7,793	7,796	7,788	7,796	7,796

\*  $p < .05$ ; \*\*  $p < .01$ ; Standard errors in parentheses; other controls include age, tenure, health, education, number of children, marital status, household income, region, and year dummies.

**Table 8**

**The Effect of Salaried Employment Job Changes on Job Satisfaction, By Gender**

MEN					
	Overall Job Satisfaction	Satisfaction with Pay	Satisfaction with Security	Satisfaction with Work itself	Satisfaction with Hours
3-4 Years hence	-.109 (.152)	-.067 (.181)	-.313+ (.182)	-.294* (.142)	-.196 (.173)
2-3 Years hence	-.199 (.150)	.023 (.179)	-.524** (.180)	-.150 (.141)	-.260 (.172)
1-2 Years hence	-.025 (.143)	-.000 (.171)	-.622** (.172)	.017 (.135)	-.170 (.164)
Within the next Year	-.567** (.143)	-.304+ (.171)	-.432* (.172)	-.377** (.135)	-.202 (.164)
0-1 Years	.252+ (.131)	.124 (.157)	.514** (.157)	.074 (.123)	.464** (.150)
1-2 Years	-.069 (.130)	-.304* (.155)	.579** (.156)	-.223+ (.122)	.246+ (.148)
2-3 Years	-.139 (.144)	-.485** (.172)	.425* (.172)	-.248+ (.135)	.096 (.164)
3-4 Years	.070 (.156)	-.327+ (.187)	.629** (.188)	-.045 (.147)	.293 (.179)
4-5 Years	-.078 (.177)	-.615** (.211)	.507* (.212)	-.338* (.166)	.067 (.202)
5 or more Years	-.316** (.117)	-.390** (.140)	.431** (.141)	-.510** (.110)	-.022 (.134)
Degree of adaptation = 1 - (q5/q0)	2.253* (.957)	4.415 (4.602)	.162 (.277)	7.941 (12.377)	1.047** (.296)
N	4,782	4,784	4,779	4,784	4,784
WOMEN					
3-4 Years hence	.040 (.170)	-.094 (.198)	.121 (.193)	.097 (.166)	.159 (.187)
2-3 Years hence	-.103 (.156)	-.171 (.181)	-.395* (.177)	-.080 (.153)	-.340* (.171)
1-2 Years hence	-.228 (.155)	-.110 (.180)	-.070 (.176)	.034 (.151)	-.142 (.170)
Within the next Year	-.310* (.150)	-.204 (.175)	-.007 (.170)	.007 (.147)	-.172 (.165)
0-1 Years	.206 (.185)	.472* (.215)	.176 (.210)	.111 (.181)	.195 (.203)
1-2 Years	-.148 (.184)	-.042 (.214)	.050 (.208)	-.208 (.180)	-.115 (.202)
2-3 Years	-.182 (.192)	.024 (.223)	.012 (.217)	-.194 (.187)	-.054 (.210)
3-4 Years	-.451* (.202)	-.373 (.235)	-.121 (.229)	-.326+ (.198)	-.081 (.222)
4-5 Years	-.289 (.216)	.071 (.251)	-.034 (.244)	-.182 (.211)	-.038 (.237)
5 or more Years	-.183 (.179)	.124 (.208)	.068 (.202)	-.198 (.175)	.003 (.196)
Degree of adaptation = 1 - (q5/q0)	1.884* (1.514)	.736* (.371)	.616 (.910)	2.280 (4.114)	.984 (.992)
N	3,011	3,012	3,009	3,012	3,012

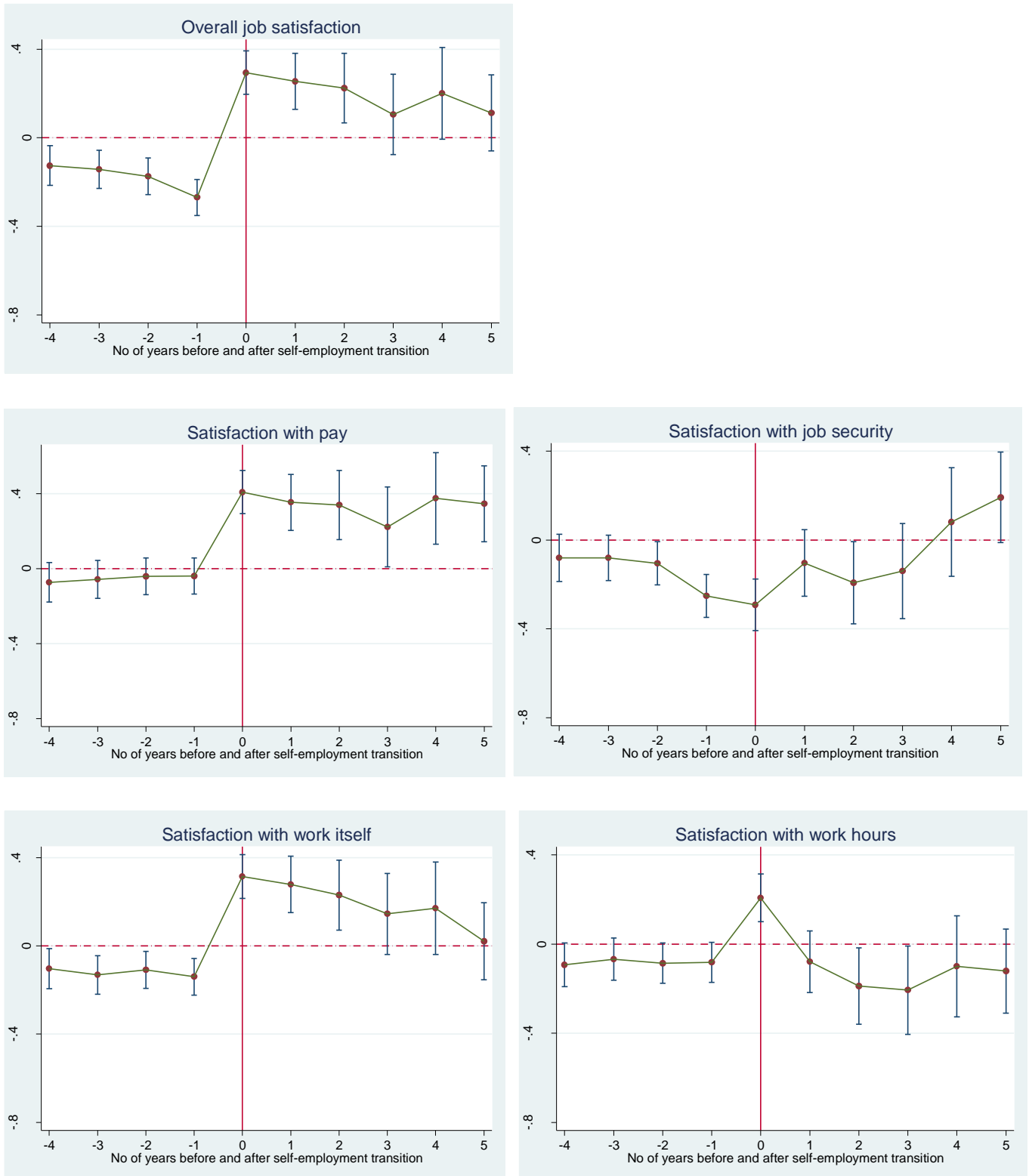
\*  $p < .05$ ; \*\*  $p < .01$ ; Standard errors in parentheses; other controls include age, tenure, health, education, number of children, marital status, household income, region, and year dummies.

## Appendix

### Variable Definitions and Sample Means

Variable	Definition	Mean (at t-1, the year before transition)	Standard Deviation (at t-1, the year before transition)
Age	Age in years.	37.69	10.93
Higher Education	Equal one if respondent's education includes a higher degree, a first degree, a teaching qualification, or some other higher qualification.	.50	.50
Medium Education	Equal one if respondent's education includes a nursing qualification, GCE A levels, or GCE O levels.	.34	.47
Lower Education	Equal one if respondent's education includes a commercial qualification (with no GCE O level), CSE Grade 2-5 or Scot G, apprenticeship, other qualifications, or no qualifications.	.16	.37
Health Excellent	Equal one if respondents report excellent health.	.30	.46
Health Good	Equal one if respondents report good health.	.50	.50
Health Poor	Equal one if respondents report poor health.	.20	.40
Children	Number of children.	.78	1.05
Married	Equal one if respondent is married.	.58	.49
Separated	Equal one if respondent is separated from spouse.	.03	.16
Divorced	Equal one if respondent is divorced.	.09	.28
Widowed	Equal one if respondent is widowed.	.08	.08
Never married	Equal one if respondent has never been married.	.30	.46
Household Income	Annual household income	34,590	21.29
Overall Job Satisfaction	Self-reported satisfaction with job (scale 1 to 7)	5.20	1.47
Satisfaction with Pay	Self-reported satisfaction with pay (scale 1 to 7)	4.77	1.67
Satisfaction with security	Self-reported satisfaction with security (scale 1 to 7)	5.15	1.75
Satisfaction with work itself	Self-reported satisfaction with work itself (scale 1 to 7)	5.45	1.41
Satisfaction with hours	Self-reported satisfaction with hours (scale 1 to 7)	5.11	1.51
Regional dummies	Equal one if respondent lives in Inner London, Outer London, Rest of South East, South West, East Anglia, East Midlands, West Midlands Conurb, Rest of West Manchester, Greater Manchester, Merseyside, Rest of North West, South Yorkshire, West Yorkshire, Rest of Yorkshire and Humber, Tyne and Wear, Rest of North, Wales, Scotland, or Northern Ireland.		
Time dummies	Equal one if the year is 1991-2008.		

**Figure 1**  
**Job Satisfaction and Satisfaction with Job Aspects before and after the**  
**Transition into Self-Employment**



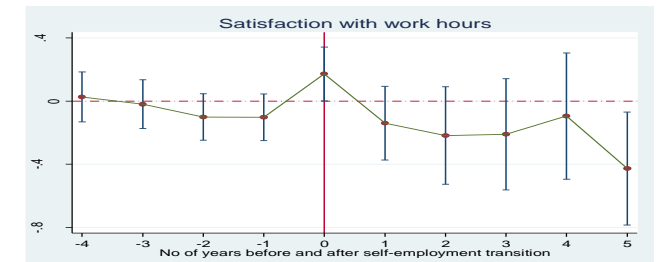
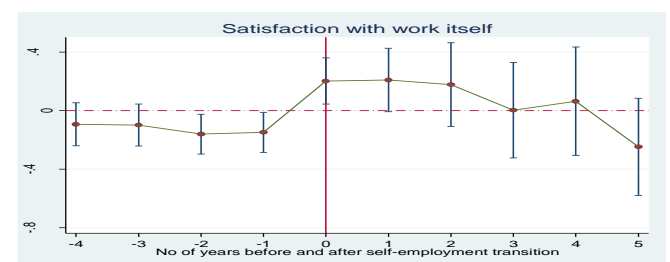
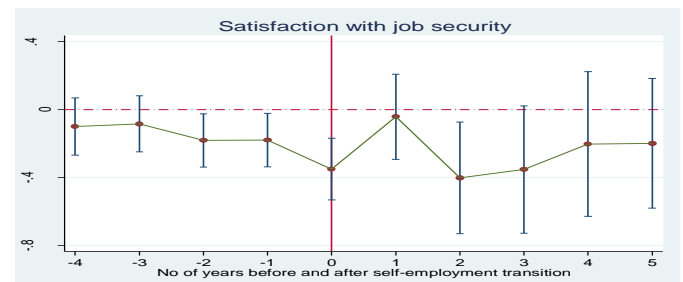
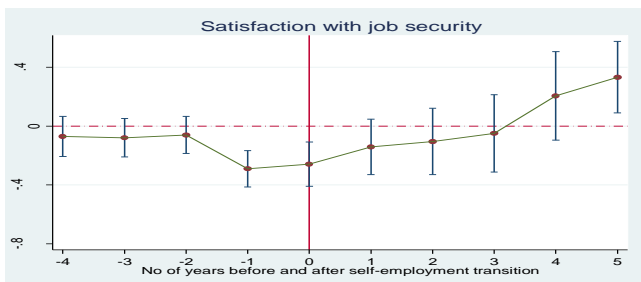
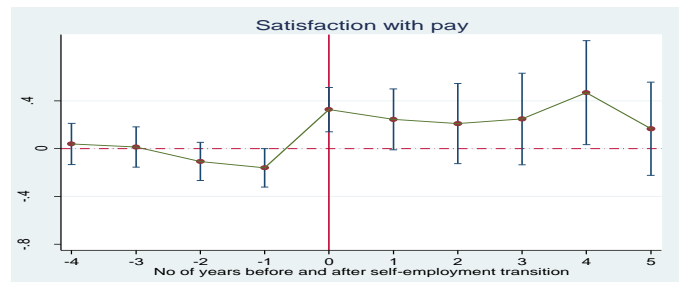
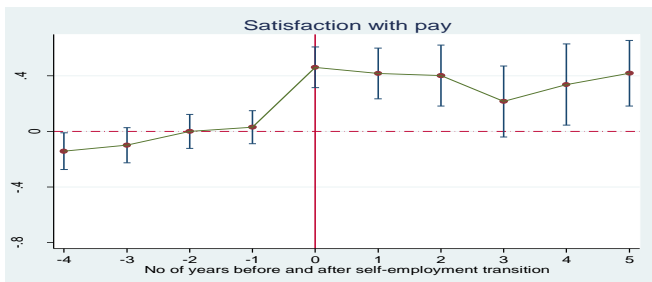
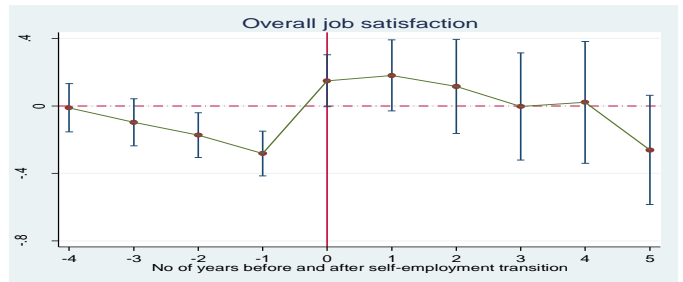
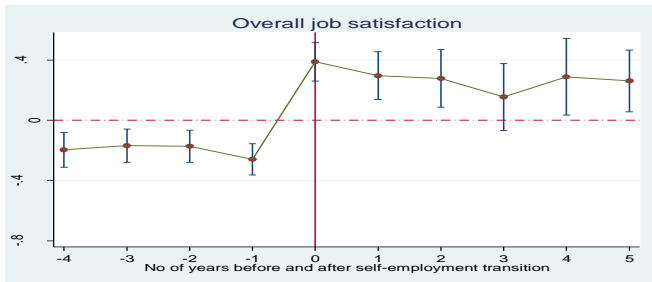
Analysis of lags and leads. Transition into self-employment occurs at  $t=0$  on the horizontal axis. The baseline satisfaction level is denoted by the dashed horizontal line at 0. Vertical bars denote standard errors and 95 percent confidence intervals.

Figure 2

Job Satisfaction and Satisfaction with Job Aspects before and after the Transition into Self-Employment, by Gender

MALES

FEMALES



Analysis of lags and leads by Gender. Transition into self-employment occurs at  $t=0$  on the horizontal axis. The baseline satisfaction level is denoted by the dashed horizontal line at 0. Vertical bars denote standard errors and 95 percent confidence intervals.