

Marcin Rataj  
Institute for Structural Research (IBS)  
marcin.rataj@ibs.org.pl  
tel. +48 504 056 716  
Institute for Structural Research  
ul. Wiśniowa 40B lok.8,  
02-520 Warsaw

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*Exploiting a business opportunity or escaping unemployment? - The role of labour market  
career dynamics for entrepreneurial decisions.*

(Research area II: Enterprise Development and Behaviour including Corporate Governance  
and Restructuring)

ABSTRACT

This paper investigates how the employed and unemployed compare in terms of the probability of setting up a company and how this probability is moderated by dynamics and thickness of the labour market.

The empirical analysis shows that the long-term positive conditions on the labour market facilitate entrepreneurship because they indicate good business perspectives, which are a key factor taken into account by all individuals planning to start a business. Short-term labour market improvements on the other hand decrease the probability of starting a company because such fluctuations on labour market shape anticipation of business perspectives to lesser extent and create attractive alternatives to starting a business to greater degree. The analysis of differences between unemployed and employed persons proved that the unemployed have higher probability of starting a company compared to employed individuals, but the difference in this probability is moderated by short-term developments on labour market: improvement in labour market situation decrease the probability of starting a company to greater extent among unemployed than employed individuals.

The claims made in this paper have important implications for policy debate and they draw attention towards policy mix approach in entrepreneurship programmes. The entrepreneurial behaviour seems to be not only the result of market developments but also to be shaped by social security. The results suggests in particular that periods of labour markets shortages might result in increased share of start-ups funded by the unemployed, which are described in literature on entrepreneurship as underperforming and having higher probability of failure. Such results suggest that entrepreneurial activities might be a tool to absorb some redundant employees during times of labour market difficulties. Nevertheless, entrepreneurial policies cannot be considered as a universal and anticyclical driver of economic growth during the crisis on the labour market. According to the results, acute labour market conditions lower a quality of an average start-up. Therefore, entrepreneurial policies during that time should not support transformation of the unemployed into self-employed persons but rather target employed individuals with potential for establishing growing company and focus on entrepreneurial education.