

**Are Necessity Entrepreneurs Really Unhappy? Revisiting the Relationship
Between Necessity-Driven Entrepreneurship and Well-Being**

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Abstract

In this paper we explore the relationship between necessity-driven entrepreneurship and subjective well-being. Using data from the Global Entrepreneurship Monitor in 70 countries, and a two-stage probit least squares estimator, we find that necessity-driven entrepreneurs exhibit relatively high degrees of well-being, similar to those of opportunity-driven entrepreneurs, and that higher degrees of well-being in necessity contexts reduces entrepreneurial activities. These are unexpected findings and point to an important shortcoming in the subjective well-being of entrepreneurs specifically and more generally the self-employed.

1. Introduction

Drawing on economic principles alone, one would expect that well-being will neither constitute the driver nor the expected outcome of necessity-based entrepreneurship. An individual living in a necessity context would, first and foremost, decide to start a business as a mean to (higher) income generation, under the assumption that such an increment will positively affect his or her living conditions. Factors such as “working, resting, being literate, being healthy, being part of a community, being respected” (Robeyns, 2003:6) are assumed to be secondary, and become undermined in light of (seemingly) more profound and urgent problems. This logic has so far driven most of current entrepreneurship-based aid programs, which treats entrepreneurship as a mere vehicle for producing economic-oriented outcomes.

What if, however, necessity-driven entrepreneurship involves other mechanisms and factors that allow for generating more comprehensive outcomes? We would need a depart from the dominant view that force us to see and weight entrepreneurship with respect to its final economic return, towards also considering that entrepreneurs could exercise processes and reasons leading particular type processes (by necessity in some cases) that transcend the material success of being an entrepreneur (Block and Koellinger, 2009) with the kind of life the individual wants to

live (Naude et al., 2014). If we observe entrepreneurship through the lens of development and a broader approach to markets, there is an argument to be made with regards to the close relationship between necessity-driven entrepreneurship and the pursuit of well-being, which require further examination.

In this paper, we set out to explore the (bidirectional) relationship between necessity-driven entrepreneurship and subjective well-being. We use a two-stage probit least squares procedure to test the above relationship with particular emphasis on the direction of causality between both variables. We draw on data from the 2013 GEM report to assess individual perceptions of subjective well-being and entrepreneurial activities of almost 50,000 entrepreneurs from 70 countries, representing one of the first attempts to study such relationship at the individual level.

Results indicate that necessity-driven entrepreneurs exhibit relatively high degrees of well-being, similar to those of opportunity-driven entrepreneurs, and that higher degrees of well-being in necessity contexts reduces entrepreneurial activities. Our findings contradict currently held assumptions that argue that necessity-driven entrepreneurs would experience on average less subjective wellbeing than opportunity-entrepreneurs, since the former are not entrepreneurs by choice and may have neither financial nor human capital to successfully run their enterprises (Gries and Naudé, 2010).

2. Necessity entrepreneurship and well-being

Intuitively, entrepreneurship increases well-being. If unemployment is a major and significant cause of unhappiness and no-satisfaction (Clark and Oswald, 1994), entrepreneurship can potentially produce the reverse effect, increasing life satisfaction and well-being (or at least prevent happiness from declining), since it creates jobs, income and economic wealth. In developed economies, entrepreneurs on average tend to report higher levels of job and life satisfaction than employees, in that they value the independence and lifestyle flexibility derived from running their own businesses (Benz and Frey, 2008; Lange, 2012). They also tend to be healthier and less prone to negative feelings and depression (Bradley and Roberts, 2004; Graham et al., 2004; Patzelt and Shepherd, 2011).

While this seems to be true for most opportunity-driven entrepreneurs (Carree and Verheul, 2011), some authors emphasize that this is less likely to occur in necessity contexts, as the central focus of necessity-driven entrepreneurial activities is on, arguably, solving basic needs (Hall et al., 2012). This is predominant in developing

context, i.e. both factor-driven and efficiency-driven economies (Singer et al., 2015). In these contexts, it is assumed that necessity-driven entrepreneurs are “pushed” into the entrepreneurial journey because this is the only option for wealth generation. As such, the lack of freewill regarding employment options derives in fewer choices, less freedom and subsequently a loss of subjective well-being (Gries and Naudé, 2010). Ultimately, necessity-based entrepreneurship is usually treated as an escape route out of poverty, driven by desperation (Bruton et al., 2013).

Unemployment and poverty are major and significant causes of low subjective well-being (Clark and Oswald, 1994). For the unemployed and poor, self-employment (entrepreneurship) even if by necessity, can potentially provide a vehicle for social mobility, and hence increase life satisfaction. Thus, although entrepreneurship driven by necessity is not seen as “entrepreneurship by choice”, it may nevertheless increase the entrepreneur’s independence and self-determination and therefore certain degree of well-being. People acting freely can choose to act upon those freedoms in line with their own ideas of the kind of life they want to live (Robeyns, 2003:7), which includes valuable activities and states that positively influence people's well-being (Alkire, 2005). Entrepreneurship, in Gries and Naudé’s (2011) view, can be seen as one of these activities if observed through the lens of *capabilities* and *functionings*. The capability approach is an opportunity-based theory of inequality that focuses on the relative choices that individuals have, or do not have, at their disposal (Robeyns 2003). It emerged as a response to the limitations of dominant perspectives that measure development by means of monetary indicators. Just like GDP does not represent a robust outcome measure of development, higher income generation cannot be considered as the ultimate outcome of necessity-entrepreneurship. Through a broader lens, entrepreneurship in necessity contexts can be seen as a central instrument in the improvement of human freedom and well-being.

Drawing on this approach, we hypothesize that necessity-driven entrepreneurship will exhibit high degree of well-being, similar to opportunity-driven entrepreneurship, compared to non-entrepreneurs operating in the same context. Following this line of reasoning, we also argue that given entrepreneurship in necessity contexts emerge in response to well-being aspirations, high degree of well-being in disadvantaged communities will decrease necessity-driven enterprising activity, contrary to opportunity-driven entrepreneurship.

3. Methodology

3.1 Estimation methodology

In examining discrete dependent variables (either opportunity-driven or necessity-driven entrepreneur), we use a double probit (biprobit) sample selection estimator. Double probit is better suited for our analysis than OLS estimator since a large number of participants did not become entrepreneurs due to particular individual features. Opportunity and necessity outcomes are thus observed only in individuals that indicated to be entrepreneurs. In addition, because of the potential endogeneity of subjective well-being, we estimate using a double probit sample selection estimator with endogenous regressors.

Our model contains two equations one for individual well-being (WB) and other for the individual marginal net benefit of being an entrepreneur (MB) as:

$$WB_i = j_0 + j_1 ED_i + j' Z_i + e_i \quad (1)$$

$$MB_i = \beta_0 + \beta_1 WB_i + \beta' X_i + u_i \quad (2)$$

where ED_i represents the entrepreneurial decision and takes a value of 1 when the individual starts new business and 0 otherwise, Z and X are sets of controls, e and u are random errors, and j_0 , $j_1 j'$ and β_0 , β_1 , β' are unknown parameters.

On this model we don't observe MB_i , only whether the person start a new business or not. Therefore our observation is:

$$ED = 1 \text{ if } MB > 0$$

$$ED = 0 \text{ if } MB \leq 0$$

Hence we can postulate the following model for the probability that $ED=1$:

$$\text{Prob}(ED=1) = \text{Prob}(MB_i > 0) = F(\beta, WB_i, X_i) \quad (3)$$

where $F(\beta, WB_i, X_i)$ is a probability model. Thus our equations (1) and (2) are rewritten as:

$$WB_i = \varphi_0 + \varphi_1 ED_i + \varphi' Z_i + \varepsilon_i \quad (4)$$

$$ED_i = F(\beta, WB_i, X_i) \quad (5)$$

In this setting the two endogenous variables, WB_i and ED_i are also among the regressors which cause a system of simultaneous equations. Moreover, in this case one of the endogenous variables is continuous (WB) and the other is dichotomous (ED). This requires the use of two-stage probit least squares as estimation technique as it provides consistent estimates for the coefficients, as well as their corrected standard errors (Keshk, 2003). In the first stage, models for each endogenous variable are fitted using all of the exogenous variables (i.e., the exogenous variables in both (4) and (5)). Model for WB_i is estimated via OLS and model for ED_i via Probit. From these reduced-form estimates, the predicted values from each endogenous variable are obtained for use in the second stage. In the second stage, the original endogenous variables WB_i and ED_i are replaced by their respective fitted values in the right hand side of equations (4) and (5). Again, model for WB_i is estimated via OLS and model for ED_i via Probit. The final step in the procedure is the correction of the standard errors. To estimate this model we use option *cdsimeq* in STATA (Keshk, 2003).

3.2 Data and variables

Data comes from the Global Entrepreneurship Monitor 2013, where 244,000 individuals in 70 countries responded a set of questions related to their well-being. Given the complex structure of the well-being construct (Conceição and Bandura, 2008), we adopt a wider approach using measures of subjective well-being, which relates to the ways in which people experience quality of life, and it comprises both emotional reactions and cognitive judgments (Diener, 1984). We measure subjective well-being by means of the Satisfaction With Life Scale SWLS¹ (Pavot and Diener, 2008). We calculate a single indicator of subjective well-being for each individual, using Principal Component Analysis (normalized, media=0). This procedure allows for capturing more information from the proposed scale versus the simple average of the five items².

In establishing our measures for entrepreneurship, we focus on two entrepreneurial stages. First, we use a combination of owners/managers of businesses that have paid wages and salaries for over three months, but less than 42 month, and entrepreneurs that own and manage a firm older than 42 months, which we label “Entrepreneurs”.

¹ SWLS is a five-item, five-point Likert scale that focuses on global cognitive judgments of satisfaction with one’s life.

² Scale reliability coefficient (Cronbach’s alpha) = 0.8106. PCA matrix and additional information by request.

This allows us to compare individuals involved in entrepreneurial activities and individuals who are not involved directly. Secondly, we focus on nascent entrepreneurs as it allows for capturing individuals that have initiated a business in a very early stage within the year. In particular we centered on the motivational basis of nascent entrepreneurs: necessity- and opportunity-based entrepreneurial activity. At individual level we control for age, gender, education and personal income. At country level, we control for country and degree of development, based on WEF's Global Competitiveness Report³.

Out of the 49,503 entrepreneurs identified in the sample, 15,418 are nascent entrepreneurs: 8,018 opportunity-driven nascent entrepreneurs, 3,097 nascent entrepreneurs partially motivated by opportunity, and 3,739 necessity-driven nascent entrepreneurs.

4. Results

Descriptive statistics and correlation matrix are in Table 1a and 1b.

Table 1a. Descriptive statistics and correlation matrix

Variable	Mean	Std. Dev.	Min	Max
Subjective Well-being	-0.014	1.002	-2.511	1.642
Entrepreneur	0.232	0.422	0	1
Nascent	0.068	0.252	0	1
Nascent by opportunity	0.035	0.184	0	1
Nascent partially by opportunity	0.014	0.116	0	1
Nascent by necessity	0.017	0.131	0	1
Age	40.059	13.670	18	97
Gender	1.468	0.499	1	2
Education	3.161	1.419	0	6
Income	1.958	0.828	1	3
Opportunities	0.426	0.494	0	1
Know Entrepreneurs	0.394	0.489	0	1
Fear to Failure	0.393	0.488	0	1
Development (country)	3.751	1.217	1	5

Results from our estimation are summarized in Table 2.

Results confirm our hypotheses. First, necessity-driven nascent entrepreneurship enhances individuals' subjective well-being. Our findings suggest that those entrepreneurs driven by necessity can find in this activity a way to live the lives they want, contrary to those who are unemployed, and that this way of living positively influences their subjective well-being. However, once a certain point of well-being is reached in necessity contexts,

³ WEF distinguishes 5 types of economies: factor-driven economies (less development), transition to efficiency-driven, efficiency-driven, transition to innovation-driven, and innovation-driven.

we observe no direct relationship between entrepreneurship and well-being. The latter can be supported by the fact that subjective well-being (after controlling for countries) positively affects the likelihood of becoming an opportunity-driven entrepreneur.

Table 1b. Correlation matrix

	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Subjective Well-being	1.000													
Entrepreneur	0.038	1.000												
Nascent	0.015	0.493	1.000											
Nascent by opportunity	0.034	0.348	0.706	1.000										
Nascent partially by opportunity	0.005	0.214	0.435	-0.023	1.000									
Nascent by necessity	-0.027	0.242	0.491	-0.025	-0.016	1.000								
Age	0.052	-0.027	-0.069	-0.053	-0.033	-0.027	1.000							
Gender	0.009	-0.081	-0.035	-0.034	-0.018	-0.002	0.005	1.000						
Education	0.116	-0.049	0.023	0.046	0.009	-0.027	-0.079	-0.044	1.000					
Income	0.175	0.097	0.046	0.057	0.021	-0.012	-0.033	-0.080	0.316	1.000				
Opportunities	0.094	0.191	0.130	0.104	0.061	0.045	-0.081	-0.040	-0.032	0.084	1.000			
Know Entrepreneurs	0.013	0.238	0.125	0.095	0.056	0.050	-0.123	-0.073	0.036	0.121	0.227	1.000		
Fear to Failure	-0.073	-0.115	-0.068	-0.059	-0.029	-0.020	0.019	0.071	0.027	-0.040	-0.117	-0.057	1.000	
Development (country)	0.164	-0.184	-0.074	-0.032	-0.043	-0.060	0.217	-0.024	0.246	-0.005	-0.199	-0.184	0.095	1.000

Table 2. Estimation Models Entrepreneurship and Subjective Well-Being

Variables	Model I		Model II		Model III		Model IV		Model V	
	Equation for Subjective well-being	Equation for the likelihood of being an entrepreneur	Equation for Subjective well-being	Equation for the likelihood of being a nascent entrepreneur	Equation for Subjective well-being	Equation for the likelihood of being a nascent entrepreneur by opportunity	Equation for Subjective well-being	Equation for the likelihood of being a nascent entrepreneur partially by opportunity	Equation for Subjective well-being	Equation for the likelihood of being a nascent entrepreneur by necessity
Constant	-0.707*** (0.110)	-1.426*** (0.087)	-0.671*** (0.125)	-1.430*** (0.210)	0.324*** (0.040)	-1.934*** (0.112)	-0.001 (0.192)	-2.677*** (0.370)	-0.506*** (0.026)	-1.855*** (0.280)
Entrepreneur	0.258*** (0.008)									
Nascent			0.334*** (0.011)							
Nascent by opportunity					0.375*** (0.011)					
Nascent partially by opportunity							0.419*** (0.011)			
Nascent by necessity									0.505*** (0.032)	
Subjective well-being		0.684*** (0.027)		0.142*** (0.034)		1.957*** (0.117)		0.169*** (0.142)		-0.450*** (0.054)
Opportunities		0.169*** (0.010)		0.280*** (0.013)		0.251*** (0.016)		0.241** (0.023)		0.223*** (0.020)
Know Entrepreneurs		0.478*** (0.009)		0.357*** (0.011)		0.325*** (0.014)		0.275*** (0.020)		0.251*** (0.018)
Fear to Failure		-0.165*** (0.009)		-0.170*** (0.012)		-0.166*** (0.016)		-0.111*** (0.022)		-0.124*** (0.019)
Income	0.165*** (0.004)		0.190*** (0.004)		0.162*** (0.004)		0.185*** (0.006)		0.247*** (0.007)	
Age	-0.037*** (0.001)	0.088*** (0.002)	-0.029*** (0.001)	0.036*** (0.003)	-0.027*** (0.001)	0.059*** (0.004)	-0.033*** (0.002)	0.038*** (0.005)	-0.034*** (0.002)	0.024*** (0.004)
Age2	0.001*** (0.001)	-0.001*** (0.001)	0.001*** (0.001)	-0.001*** (0.001)	0.001*** (0.001)	-0.001*** (0.001)	0.001*** (0.001)	-0.001*** (0.001)	0.001*** (0.001)	-0.001*** (0.001)
Gender	0.116*** (0.006)	-0.264*** (0.008)	0.099*** (0.006)	-0.129*** (0.011)	0.102*** (0.007)	-0.148*** (0.013)	0.113*** (0.010)	-0.141*** (0.019)	0.068*** (0.010)	0.001 (0.017)
Education	0.040*** (0.002)	-0.051*** (0.004)	0.021*** (0.002)	0.032*** (0.005)	-0.003 (0.003)	0.005 (0.008)	0.017*** (0.004)	0.031*** (0.009)	0.051*** (0.002)	-0.020** (0.008)
Development (country)	0.195*** (0.110)	-0.252*** (0.036)	0.218*** (0.003)	-0.200*** (0.044)	0.149*** (0.003)	-0.137** (0.064)	0.171*** (0.038)	-0.057 (0.076)	0.286*** (0.038)	-0.187*** (0.060)
F or LR χ^2	416.96***	24333.06** *	419.86***	8407.08***	422.04***	5185.21***	419.93***	2694.63***	413.32***	2245.88***
R ² or Pseudo R2	0.16	0.14	0.16	0.10	0.16	0.10	0.16	0.12	0.16	0.08
Number of observations	159274	159274	159274	159274	159274	159274	159274	159274	159274	159274

Controls by country no reported.
Standard errors in parenthesis *** p< 0.01, ** p< 0.05, *p< 0.1

Instead of pushing individuals into entrepreneurship, high subjective well-being favors a “pull motive” into entrepreneurship, where desire for independence, increment of personal / family income, challenge, status or recognition tugs enterprising intention and action. This resonates with current literature (Naudé et al., 2014), in that personal and social relationships as well as perception of opportunities increases the likelihood of becoming an entrepreneur (Frey, 2010).

Control variables in well-being models, i.e. women, education and income are positively related. We observe similar results for household income and country development. Age shows a U curve (skewed to the right), meaning that well-being has a relatively high evaluation in young people, following by a reduction and a subsequent increment as the individual gets older. In the entrepreneurship models, age presents an inverted U curve. The probability of becoming an entrepreneur reduces for women, educational level and also higher degree of country development. Further research can be conducted under gender and educational approach.

5. Discussion: realization and the pursuit of well-being in necessity entrepreneurship

Based on the traditional subjective well-being literature and its applications to entrepreneurship (and occupational choice more generally) we can expect that entrepreneurs will report high levels of subjective well-being, in that they benefit substantially from procedural utility and non-pecuniary benefits of being self-employed. Relatedly, we should also expect that necessity-driven entrepreneur will report lower levels of subjective wellbeing than opportunity-driven entrepreneurs, because of assumption that they experience less agency and hence experience entrepreneurship less as a functioning.

However, when observed through a broader lens of development, necessity-driven entrepreneurship can indeed be instrumental in improving the well-being of those who decided to become self-employed as a mean to overcome an inconvenient initial situation. This is due to adaptation response and the experience of necessity-entrepreneurship itself. First, individuals living under pressing conditions - which lead to self-employment - will in any case adapt to such conditions, where entrepreneurship may be used as a mean of such adaptation. Second, although many individuals become entrepreneurs as a result of having no other choice, they can turn pressing circumstances into successful enterprises, which can be indeed a vehicle for social mobility. As such, we emphasize that entrepreneurship scholarship needs to revisit the longstanding dichotomy between opportunity-driven entrepreneurs as 'happy' and necessity-driven entrepreneurs as 'unhappy'. Individuals in necessity contexts can nevertheless exhibit high levels of well-being as a result of engaging in entrepreneurial activities. There are indeed no significant differences between the subjective well-being of opportunity and necessity entrepreneurs.

Our exploratory study constitutes a preliminary assessment of necessity-driven entrepreneurship and well-being. Its cross-sectional nature certainly limits potential causal inferences regarding this relationship as

entrepreneurial dynamics depends on several different number of determinants (Frey, 2010). However, it opens up the field to explore necessity-entrepreneurship beyond the traditional notion of development which is generally associated with economic indicators. In the line with the idea that “GDP is a hopeless measure of welfare” (Layard, 2003:3), we argue and demonstrate that necessity-based entrepreneurship needs to be observed through broader lens of development, where measures reflecting economic outputs are tangled with well-being indicators. There is a (oftentimes neglected) risk of not paying sufficient attention to the need of comprehensiveness on how we approach to the intersection of poverty and entrepreneurship. Instead of creating harmony and prosperity, necessity-driven entrepreneurial efforts that simply focus on economic outputs may intensify and perpetuate social tensions, conflicts and acrimony (Zahra et al., 2009). Entrepreneurship matters to people in need, representing more than a mere source of material income, which resonates with the capability approach (Kimmitt and Muñoz, 2015).

Aside from the conceptual relevance of our work, our findings hold promises for entrepreneurship policy in less developed countries, which are characterized by having a large number of informal, necessity-driven entrepreneurs, who are often happier and satisfied than employed workers and unemployed. This promise derives from the fact that entrepreneurship has the potential to not only create wealth and jobs, but also improve life satisfaction through realization. The promotion of entrepreneurial activities among the poorest can indeed drive culmination and also comprehensive outcomes.

Our results, even exploratory and descriptive in nature, suggest that entrepreneurship matter for individual and societal development beyond income generation or job creation. In recent years, we have observed several initiatives focusing on subjective well-being such as the OECD or the UN’s “*World Happiness Report*” (Helliwell et al., 2015). Alongside recent calls (Shepherd, 2015), we stress that it is time for entrepreneurship scholars to explore the antecedents, processes and outcomes of this dynamic and fascinating phenomenon beyond economic drivers, logics and outputs.

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