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## *A position note on well-being and self-employment*

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### *Abstract*

Following the idea that entrance into self-employment is a phenomenon that can be partially captured by the level of one's aspirations and well being, the purpose of this position note is to outline the nexus between well being and entrance into self employment. For that purpose Wagle's (2008) objective setting of multidimensional poverty is utilized in defining the concept. A central argument to be made is that the intention to improve one's well-being through self employment and the option to enter self-employment, in many situations, cannot be completely separated from each other. Accordingly, people seek opportunities to improve aspects of their well-being, rather than business opportunities per se. This will be demonstrated by a conceptual model of entry into self-employment residing on the notion of well-being; where well-being is seen to affect and be affected by entrance into self-employment. The model does not provide a strategic map of how to enter self employment and how to succeed with that. Nor, it aims at giving very strong practical implications. Rather, it guides attention to questions about what in an individual relative level of well-being that affect entrance into self-employment. This is important since the entrepreneurship literature has yet to theorize and examine the triggering effects of well-being on the entire entrepreneurial process.

## Introduction

One major operational definition of entrepreneurship is self-employment, which can be defined as the performance of work for personal profit rather than wages paid by others (Le, 1999; Shane 2003). According to Carroll & Mosakowsky (1987), entrance into self employment occurs through a variety of ways, many of which do not involve the creation of new organizations. Either way, entering into self employment requires an *action* in relation to a recognized *option*, i.e., the possibility to sell a product or a service to a third “person” along with whatever benefits to the first person; whether this implies the creation of a new firm or not, or through inheriting, or acquiring, the owner-manager position of an existing firm or not.

According to Barbara Bird (1988), intentionality refers to a state of mind directing a person’s *attention* towards a specific object or a *path* in order to achieve something. Hence, having recognized an option to enter self-employment, an entry will be most “objectively” described as an *action/decision* based upon the *intention* (aspiration mode) to *improve* or *maintain* one’s *quality of life*; rather than just fulfilling an adventures challenge or just doing it for the sake of doing it. This implies that individuals may seek opportunities (either through a discovery or creation processes) to improve aspects of their well-being, rather than business opportunities per se. A central argument is that the option to enter self-employment cannot be *completely* separated from the intention to improve one’s quality of life through self-employment. Although self-employment in itself, as a *process* of combining resources for the purpose of improving/maintaining one’s well-being, might generate intrinsic values per se, it further makes sense to scale back and ask what in an individual currently experienced well-being *drives* her to self-employment and how it *affects* her actual decision to enter. This suggests that an individual’s well-being both create and created by the process of self-employment.

It is important to note that although we could think of extreme situations where one is literally forced into self employment, as when psychologically being pressured to take over the family business, it could nevertheless be argued that the intention if not to improve is at least to maintain some perceived aspects of one’s quality of life; here maintaining a certain relational state (i.e., family related). Another example is of an immigrant with a PhD degree that is forced to enter self employment as a taxi driver; here maintaining/amending, among others, the material state, perhaps even some aspects of the relational state (e.g., friends), however sacrificing inner aspects and perhaps some other aspects of the relational state as well (e.g., family). Hence, *compromising* among some valued aspects of one’s quality of life, or even sacrificing some in order to being able to achieve others, via mental calculation of cost and benefit, seems to be a core aspect to be considered, but one that has largely been ignored; aside from the opportunity cost discussion focusing almost entirely on economic issues.

An inevitable problem is the idiosyncrasy of individual differences in value and choice. Further, how should we go about defining and even measuring such a subjective and relative state of well being? According to Stanford Encyclopedia of Philosophy, well-being is a kind of value, sometimes called ‘prudential value’, to be distinguished from, for example, aesthetic value or moral value. “*What marks it out is the notion of ‘good for’*. *A person's well-being is what is ‘good for’ them. The question of what well-being consists in is of independent interest and where it has become standard to distinguish theories of well-being as either hedonist theories, desire theories, or objective list theories.*” Here, Wangle’s (2008) *objective* setting of multidimensional poverty is employed as a point of departure in defining well-being. Besides, the idea that some aspects of well being are commonly perceived and even socially accepted is followed (e.g., health, friendship, gender).

Overall, following the idea that entrance into self-employment is a phenomenon that can be partially captured by the level of one’s aspirations and well being, the purpose of this position note is to outline the nexus between well being and entrance into self employment. To begin with, well-being will be objectively defined and a theoretical foundation to the concept of well-being will be introduced. Following that, a conceptual model of entrance into self-employment will be set up in three stages. The model does not provide a strategic map of how to enter self employment and how to succeed with that. Nor, it aims at giving very strong practical implications. Rather, it guides attention to questions about how and what in an individual’s well-being that affect entrance into self-employment. This is important since the entrepreneurship literature has yet to theorize and examine the triggering effects of well-being on the entire entrepreneurial process.

## Relative Multidimensional Well-Being

Identifying the actual quality of life status is a more intricate task than any single approach attempting to measure economic well-being can possibly handle (Wagle, 2008). Hence, viewing well being as a complex phenomenon, state, which cannot be fully captured by the level of one's economic well-being, I choose to describe well being, much like well fare, according to one's relative endowment in the following aspects of one's life:

- *Economic well-being* (Material state).
- *Capabilities* (Inner state).
- *Social inclusion* (Relational state).

These three dimensions, or approaches as they are sometimes described, are often used within economics and sociology as prime determinants of one's relative poverty and constitute the ground for several multidimensional poverty indexes (Wagle, 2008). I only make the modification in perspective and choose to see it as the relative well being of a person as it is determined by her endowments in any one of these dimensions *relative* to the distribution in the total society. These three elementary dimensions of well-being capture fairly well some of the core topics found within several definitions of well-being. These mainly encompass material, physical, economic, political, social, and institutional factors (Misturelli & Heffenman 2008).

While these dimensions are easily conceived as instrumental for achieving well-being they can be simultaneously perceived as representing functionings, i.e., the ends or the actual state of well-being. *Thus, employing this conceptual setting of well being force us to see it as both the ends and the means of entrance into self-employment; hence, it directs intention/aspiration to achieve higher well being through self employment while simultaneously affects the prospect of achieving it through self-employment; through the perception of resource availability (mean driven) and the motivation to enter self employment (end driven).* Before outlining the conceptual model, a theoretical foundation for each of these three dimensions will be given separately.

### *Economic well being*

The most widely used concept of well-being relates it to the level of economic well-being. The basic argument is that high economic well-being, thought to capture the individual's *material state*, will expend individual's freedom and opportunity to purchase the necessary attributes (e.g., education) to achieve the things she values (Wagle 2008). This assumes an instrumental value of economic resources rather than a representative description of the *state* of well-being itself, i.e., even if we were to accept one's love for money essentially this money will be valueless unless in used. Of course, it is another thing to argue that higher consumption, or the possibility of it, may generate intrinsic values such as security, happiness, self-perception and self-confidence in achieving the things one values.

A drawback of this approach is its instrumental-related assumption that markets exist for all attributes; including non-income ones like public goods (Thorbecke, 2005). Thus, key dimensions of well-being such as literacy, access to public goods and social participation will not be fully captured by this approach. Of course, the popularity of these measures lays in their ability to be highly correlated with one's quality of life (Wagle, 2008). Admittedly, high economic well-being implies the freedom/opportunity to see and acquire many of the things one values, thus potentially improving the quality of life. In this sense, however, while income has instrumental value to achieve functionings, more central than income is the capability to realize such income (Wagle 2008). According to Wagle (2008) highly relevant in measuring economic well-being are consumption, income, and net wealth.<sup>1</sup>

### *Capabilities*

A theoretical concept which goes beyond the understanding of well-being as a monetary function is the *capability* approach introduced by Armatya Sen (1993). It broadens the notion of well-being from economic well-fare to more comprehensive, freedom and human well-being (Wagle 2008). It rests on the assumption that well-being can be assessed by looking at one's capabilities, or *inner state characteristics*, indicative of the individual's *freedom* to achieve valuable functionings (ways of

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<sup>1</sup> These three measures can be seen as both relative and absolute concepts, and measurement has to do with how one defines the material aspects of well-being. Also, grants, government transfers and gifts could be further seen as indicators of one's economic well-being.

living). According to Wagle (2008), people poses a range of basic (e.g., ability to be well-nourished) and more complex (e.g., ability to invent a medicine) capabilities necessary in achieving basic (e.g., good health) respective more complex functionings (e.g., self-respect). Besides being complicated to operationalize, this approach is censured for placing opportunities instead of the outcomes achieved at the core of the analysis, which results in not accounting those who “fail to seize the opportunities offered” (Fleurbaey, 2002).

Indeed, capabilities are seen as having both an instrumental value, enhancing *freedom* by allowing one to achieve the things *she* values, and intrinsic values such that they themselves serve the outcomes, or, the “purpose of functionings” (Wagle 2008). For example while knowledge (e.g., via education) is instrumentally valuable to the realization of individual ends (e.g., healthy life-style) it also has intrinsic value serving as the end in itself (e.g., knowing makes one to be self-conscious and happy). This suggests that capabilities and functionings are two integral and interrelated, yet different, aspects of well-being; where functionings representing the *individual ends* (i.e., signifying parts of the state of a person) in assessing one’s quality of life and capabilities representing the *means* or the potential to achieve valuable functionings; hence assessing the *opportunity* to improve or maintain one’s quality of life; as they determine the quantity and quality of the options that enable one to achieve functionings. Accordingly, capabilities indicates “the alternative combinations of functionings” within one’s reach (Sen 1993). Undoubtedly, the notion of value and choice is important as two people with identical capabilities may pursue different set of functionings.

Sen (2002) is further separating between the opportunity and the process aspects of freedom. Accordingly, while opportunity refers to the ability to realize outcomes one values and has a reason to value, the process aspect of freedom indicates that the process used in achieving a certain outcome has value in itself, independent of the value of the outcome. This systematic view would then have three components including the input (capabilities), output (functionings), and the process, with the last one focusing on how one transforms the input into the output (Wagle, 2008). Accordingly, self-employment could be seen as the process itself whereby capabilities (or former functionings) are being transformed into future aspired functionings, or desired aspects of well-being. Again, this does not preclude us from seeing self employment per se as having intrinsic value.

A relevant theoretical concept referring to the capability dimension is the one of human capital. Accordingly, knowledge provides individuals with increase in their cognitive abilities leading to more productive and efficient potential activity (Davidsson & Honig, 2003). Thus, if profitable opportunities for new economic activity exist, individuals with more or higher quality human capital should be better at perceiving them and exploiting them upon engagement (Davidsson & Honig, 2003). A problem with this approach is that it does not account the tendency for proxies indicative of one’s human capital (e.g., education) to also be indicative of one’s functionings; crucial in understanding the motivation to be self-employed and the option perceived. Further, it does not account for the tendency of these proxies to also be indicative of one’s social capital (e.g., increasing years of education may cause social isolation). This might explain the nonlinearity documented between education and the likelihood of becoming an entrepreneur and the general inconsistency with the relationship between human capital and entrepreneurial activity (Davidsson & Honig, 2003).<sup>2</sup>

Regarding measurement issues, Wagle (2008) argues that a caution should be taken in order to avoid all-inclusive lists with over-identifying indicators. Moreover, indicators should reflect both the elements of capability and functionings in order to assess both the freedom respective quality of life. Few authors have tried to establish an appropriate list of indicators (e.g., Nussbaum, 2000, 2006; Alkire, 2002). Wagle (2008) suggests that education, prestige, self-respect, health, nutrition and gender equality are important measures of capability, indicating one’s inner quality of life. Besides age I would further like to include socially constructed characteristics such as being a first born (e.g., path dependence of independence) or having entrepreneurial parents. According to Coleman (1988), parents’ human capital provides the potential for a cognitive environment for a child that aids learning. This should not be confused with the relational aspect which captures the social capital upon *interaction* between the parents and the child.

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<sup>2</sup> This has statistical implications. In order to account for this problem, I believe we should create an interaction terms between some measures of human capital and social capital, as a control variable, in order to distil the direct effects of human and social capital separately. This is in contrast to the analysis performed by Davidsson & Honig (2003). From a theoretical point of view by employing well-being allows us to incorporate extensive measures of social structures, factors that may amplify or mitigate human capital outcomes.

## *Social inclusion*

Whereas the capability and the economic well-being dimensions view well-being from the inner and material quality of life standpoints, the social inclusion dimension relates instead to the *relational* aspects of one's quality of life (Wagle, 2008). The distinction is such that, while the former two approaches dealt with personal aspects this focuses on the relationship of a person with the broader social institutions and frameworks, identifying one's relational resourcefulness needed to achieve human well-being (Wagle, 2008). The basic argument is that one's well-being may be regarded as a consequence of social process where existing social institutions and orders preclude some people from participating in different activities central to resource generation and distribution. Besides being complicated to operationalize, this approach is censured for placing opportunities instead of the outcomes achieved at the core of the analysis.

Much like capabilities, social inclusion can be seen as the ends and means of a person's well-being. At first, participation in certain activities in the economy, polity, or society is intrinsically important as it generates feelings of social belongingness and attachment. From this perspective one's life quality is partially depended on the degree of affiliation and networking. Secondly, inclusion is instrumentally important as it produces other consequences with constitutive, intrinsic value (Sen, 2000). Not having access to financial resources or cultural activities may not matter much to the quality of life directly but it does indirectly as it can lead to negative consequences across other types of activities.

A relevant theoretical concept referring to social inclusion is the one of social capital. According to Coleman (1988), social capital constitutes a particular kind of '*relational*' resource (e.g., information channels) available to an actor to achieve her valued ends. It addresses the fact that the access of individuals to resources is partly determined by networks, memberships and social structures. According to Davidsson & Honig (2003), social capital facilitates the discovery of opportunities, as well as the identification, collection and allocation of scarce resources; and further provides and diffuses critical information and other resources. However, it does not *fully* capture the individual's relational state (e.g., the social and political status), crucial in capturing the prerequisites to exploit the option. Nor it considers inclusion as an outcome or an end; crucial in understanding the motivation to be self-employed and the option perceived. Rather it emphasizes the individual's ability to capitalize (i.e., extract benefits) on their social structures and networks (Davidsson & Honig, 2003).

Regarding measurement issues, Wagle (2008) argues that a caution should be taken in order to avoid all-inclusive lists with over-identifying indicators. Moreover, indicators should reflect both the instrumental and intrinsic elements of social inclusion. Wagle (2008) suggests that of interest would be the factors that can be grouped into the economic-, political-, and civic/cultural-inclusion categories. Examples of such factors may include, besides classic social capital characteristics (e.g., membership, family, and number of friends and social web networks), relevant demographical and situational aspects (e.g., gender, ethnicity, years being an immigrant, citizenship, length of unemployment). Furthermore, some human capital characteristics having relational aspects should also be considered (e.g., analphabetism and educational attainment). Lastly, both spatial and physical characteristics, indicative of social isolation, are important aspects to be considered (e.g., residing in areas manifesting social crisis, proximity to capital city and public services and one's health).

## *Final comments*

Having these three dimensions of well being, included into one multidimensional conceptual approach, may provide us with insights into the drives and motives respective the prerequisites behind entrance into self employment. By viewing well-being through these three lenses, entrance into self employment, as a legitimate way for achieving aspects of well-being, can be explicated not only by referring to one's material state and aspirations but also to the inner and relational states of the individual. A problem, however, is how we should go about combining these three aspects, if at all, into one integrated measure. Should we draw a reference line for each dimension and then compare by means of unions or intersection, or should we attempt to mathematically aggregate it all into one measure? Problems are not merely statistical but theoretical as well; as different aspects of well-being are clearly interdependent or may have completely different influence on different people at different point in their lives and across different social contexts. For now, however, the only aim is to hypothesize and pose several links within one integrated conceptual model of entrance into self-employment.

## **The Individual – Opportunity Nexus: An introduction to the model**

According to Shane and Venkataraman (2000), Eckhardt and Shane (2003) and Shane (2003), entrepreneurship can be explained by considering the individual-opportunity nexus of enterprising individuals and valuable opportunities and by using that nexus to especially understand three interrelated processes: discovery, evaluation and exploitation<sup>3</sup>. Their most basic premise is residing upon the argument that the entire process begins with one individual's *perception* of the existence of *objective* opportunity, or situation, in which resources can be recombined through a new means-ends framework at a potential profit; where profit is further defined as the difference between the ex-post value of resource combination and the ex-ante cost of obtaining the resources (Shane, 2003).<sup>4</sup> This perception is seen to be held by alert individuals, who *discover* these opportunities, develop ideas on how to pursue them and exploit them via organizing activities.<sup>5</sup> According to Shane (2003), people discover opportunities that others do not see for two reasons: First, they have better *access to information* about the existence of the opportunity (e.g., resulted from education and previous life experience). Second, people are better *able to identify* opportunities than others, given the same amount of information. Two factors influence this ability: absorptive capacity (e.g., prior knowledge about markets) and cognitive processes (e.g., intelligence).

As I see it, implicit in their assumption is that entry is seen to be based upon the *opportunity* to improve well-being rather than upon (and distinct from) one's *aspirations and intentions* to do so; as those are neglected. This is not to be confused with being alert. Being alert in their world of definitions refers to *external* stimuli or sources of opportunities (e.g., changes in technology, political regulations and social-demographical changes), while having a drive is an internal endeavor. In all respects they endorse a more Kirzenerian perspective rather than Schumpeterian one to the entrepreneurial process. This reasoning has both theoretical and research implications. For example, it can explain why their nexus perspective fails to consider the relation between opportunity and the individual as duality but rather as dualism (Sarason et al., 2006). As will be argued it is through the state of well-being that individuals and opportunities come to affect one another in a duality fashion. Next, a conceptual model of well-being to the process of entering self-employment will be introduced in three stages.

### **Stage 1: Well-being and the option (opportunity) of being self-employed**

Before introducing the concept of well-being as an antecedent for the decision-making process of entrance into self-employment, attention should be guided towards asking how the *recognition* of the option itself is *triggered* by one's well-being. As mentioned above, by viewing well-being as both means to achieve personal ends and the already achieved attributes/ends in themselves calls for a distinction between a perception mode and a motivation mode respectively. Arguably, while well-being influences the recognition of an option through its effect on the motivation to "engage" in a discovering process to self-employment; partially by being internally compared to alternative *processes* for achieving one's aspirations and valued ends, it will also affect recognition through its effect on what is perceived as available (or not) and/or could be achieved and how.

More specifically, the recognition of an option is *partially* determined by one's well-being as it is *mediated* via the *motivation* to seek for options within the process of self-employment<sup>6</sup>; indicative of both the idiosyncrasy *need* and *will* to discover and/or create (e.g., higher alertness and active information searching due to a *specific* individual constrain), and via the *perception* of resource availability; indicative of what and how opportunities (could be) perceived and/or conceptualized.<sup>7</sup> Putting it all together, each of the three dimensions of well-being will generate three sources of motivation and resource perception (i.e., material, inner and relational) that will eventually affect the recognition of an option to enter self-employment.

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<sup>3</sup> Evaluation is seen to be embedded in both stages.

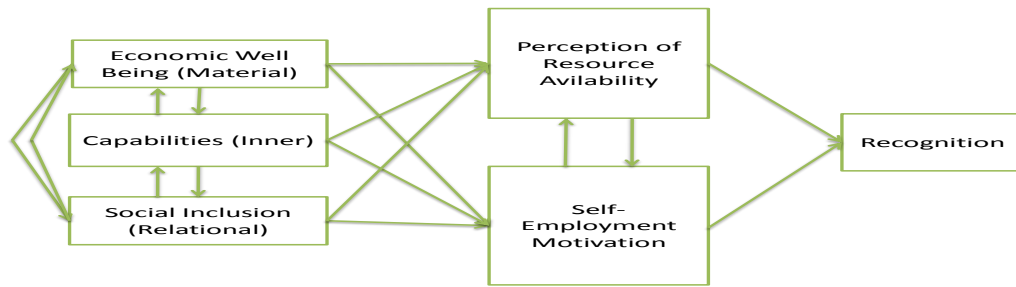
<sup>4</sup> There is also a very strong economic orientation since, according to Shane entrepreneurial discovery occurs because the price system does not always allocate resources effectively due to information constraints (e.g., missing markets). This has consequences also to the way intention is implicitly implied and to the way success has been treated and measured in the literature.

<sup>5</sup> Concerning the form of opportunities, Schumpeter's (1934) typology constitutes a corner stone in the literature.

<sup>6</sup> Here I basically assume that higher motivation to choose self-employment as a process is also correlated with higher likelihood to recognize an option. Of course well-being may affect motivation very different as I will soon demonstrate.

<sup>7</sup> Here however a distinction will have to be made regarding the objective subjective nature of opportunities. While from an objectivity point of view higher perception is correlated with higher likelihood to find an option, the case is very different from a subjective perspective. Here, deprivation might enhance and sharpen the perception of resources necessary to generate an option. For example, this could be the case when the option is being tied to the situational reality of the individual.

### A process model of opportunity recognition



It should now be mentioned that the two modes of perception respective motivation could be further conceptualized as being reciprocally connected, a point that will be accounted more elaborately later on (albeit in a different contextual setting). For now, however, it is important to recognize that although higher well-being may reduce the perceived uncertainty with the process of self-employment per se by, among others, expanding the *perception* of the option set, which will in turn affect the motivation to view self-employment as a worthwhile alternative; it could nonetheless mean a higher recognition of other viable processes to improve one's quality of life. Of course, a greater motivation to seek for opportunities may inflate the perception of resources available hence the option set (with consequences for the quantity and quality of the options to be generated). Next, the nexus between well-being and recognition will be briefly illustrated with help of the outlined model.

#### *Applying the model to the case of recognition – the case of perception*

As far as higher economic well-being is indicative of higher and more diversified market participation, it should, *ceteris paribus*, expand the perception availability of resources and “problems” (e.g., demand/supply) from which opportunities could be perceived or conceptualized. A similar argument could have been made to the case of consumption. In support of this proposition, Shane (2003) argues that participation in more markets should increase the likelihood that a person will gain access to necessary information for opportunity discovery. Regarding the capability dimension, as far as more experience and education are indicative of higher well-being, it should display positive correlation with both individual's access to (diversified) information and ability to recognize and make sense, and hence with larger set of options or alternative combinations to be perceived and/or conceptualized. From a relational perspective, more socially included individuals will enjoy higher ability and better prerequisites to access more and different exchange of ideas and observations but also better infrastructure and public available resources from which to perceive and conceptualize opportunities to self-employment; e.g., enjoying political freedom, one of the sub-dimensions of social inclusion according to Wagle (2008), encourages the free exchange of information according to Hayek (1945).

#### *Applying the model to the case of recognition – the case of motivation*

Regarding motivation the picture seems to be more intricate. Taking one's relational state as an example, being more socially included may result in lower relational aspirations and thus less motivation to seek for options to enter self employment as there is less time available, less need to achieve social integration and less willingness to assume the uncertainty involved and to compromise over relational and other aspects of one's quality of life (e.g., to sacrifice the time with friends and family). In other words, being socially excluded might motivate the individual to improve a current experienced problem (e.g., health - disability Vs gender - staying home with the kids) and to free the individual from her perceived level of exclusion through seeking options to enter self-employment (e.g., inventing a suitable product Vs opening a home based business). Nevertheless, being more socially included may result instead in higher relational motivation to seek for options to enter self employment in order to satisfy one's relational wishes and aspirations (e.g., Facebook founder). Moreover, as there are more valuable networks and better prerequisites to draw on, expected returns from self-employment, *ceteris paribus*, should then be higher; positively affecting the attractiveness of self-employment as a process, hence the motivation to seek for options.

#### *Final comments*

Overall, in contrast to Shane (2003), Shane and Venkataraman (2000) and Eckhardt and Shane (2003), who views the beginning of the entrepreneurial process as residing on the *perception* of opportunities,

it is argued here that the entrepreneurial process is also residing on one's *intention* (motivation mode) to live a better life. Thus, well-being, through any one of the three dimensions, being seen as a *triggering end*, affects recognition by directing intention/aspiration towards self-employment in order to improve, or maintain, one's quality of life through a motivation respective a perception mode. In all respects the process is highly *path-dependent*. Hence, the (recognition of an) *option* to enter self-employment cannot be *completely* separated from the *intention/aspiration* to improve one's quality of life. This implies that individuals may seek opportunities to improve aspects of their well-being, rather than business opportunities per se. This is in contrast to a general view within economics, and not least entrepreneurship, which defines entrepreneurial opportunities in terms of objectivity and economic value (Shane & Venkataraman, 2000; Casson, 1982); which is further connected to how success has usually been treated and measured in the entrepreneurship literature<sup>8</sup>.

Reasoning this way should not be in contrast with either Schumpeterian opportunities, resulted from new information and changes in the environment, or Kirzenerian opportunities, resulted from errors and differential information, as these changes respective errors are being translated, albeit differently, into opportunities to increase the quality of life through more "productive" recombination of the resources perceived. Most importantly is that it leaves open the interdependence between the option and the individual. For example, the observations that entrepreneurs are filling market gaps could be explained by the model since well-being is indicative in the sense that the intention to amend one's quality of life may indicate towards the market gap per se; manifested by the individual context (e.g., disability problem). An opportunity, from this perspective, represents *idiosyncratic* manifestation of new means-ends framework to achieve a higher experienced life quality through self employment.

Of course, the recognition of an option could also be conceptualized to go via elements of surprise, curiosity and imagination. Furthermore, we could go on to refine the perception mode by assuming that one is sub-consciously locked into *perceiving* and conceptualizing a certain set of options and where this could be captured, at least partially, by the level of one's well-being. Lastly, it should be noted that interpersonal variations make it difficult to draw any strong theoretical generalizations. For example, being economically deprived might generate aspirations to be self-employed only in the face of high capabilities which strengthen one's belief in choosing a risky practice as self-employment.

### **Stage 2: Well-being and the decision to enter self-employment**

According to Venkataraman (1997) the decision to exploit an opportunity is being made on the basis of eventual payoff from entrepreneurship relative to payoffs from other alternatives that the entrepreneur might have, and where people must *believe* that they are to gain more than they are giving up. That is, individuals face uncertainty in their decisions. Consequently, Shane (2003) argues, when people make a decision to exploit, they do so based on their *beliefs* that the *expected value* (both monetary and psychic) of exploitation exceeds the *opportunity cost* for alternative uses of their time (here I would also add *capabilities*) plus the premium for *uncertainty* bearing. Shane (2003) further identifies and distinguishes between psychological and non-psychological factors that both facilitate exploitation and enable/constrain people to exploit.<sup>9</sup> From a judgmental perspective these are seen against the opportunity-cost and the uncertainty arguments.

Nevertheless, the notion of uncertainty is unquantifiable. And, since the opportunity cost argument cannot be separated from the uncertainty perceived the argument posed by Shane (2003) is incomplete. Here a more holistic approach to the analysis of the decision to enter will be offered based on the concept of well-being. Arguably, it is crucial to be willing to *compromise* and *sacrifice* (or even *bet on*) some aspects of well-being in order to being able to achieve others. Surely, lower uncertainty perceived, *ceteris paribus*, should induce entry as it reduces the need to compromise and increases expected returns. Here, the perceived uncertainty is further conceptualized as partially being a function of the current experienced state of well-being, rather than solely being inherit in the "objective" option or the "objective" environment itself, and is further seen more broadly as connected to the visualized yet-to-attained life quality outcome as a consequence of the venture being undertaken.

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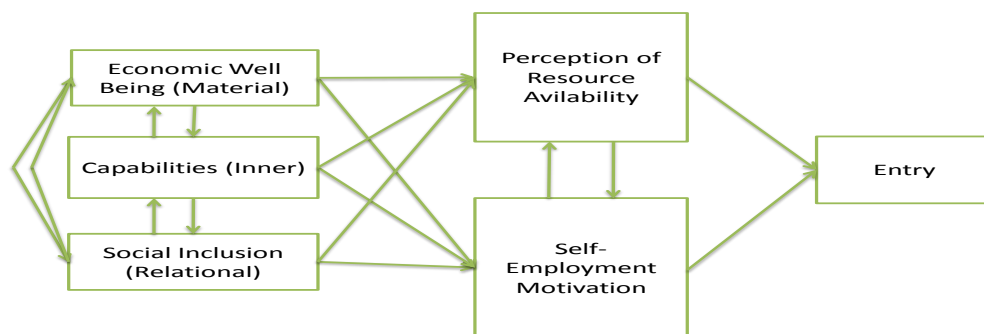
<sup>8</sup> This is important since failure respective success might be viewed totally different from one self employed to another and between the self-employed and those who evaluate her; and further between an individual and organizational point of view.

<sup>9</sup> Some of the non-psychological characteristics mentioned include: income, education, career-experience, age, being married and social position. Regarding psychological characteristics he identifies aspects of personality and motives (e.g., need for achievement, risk taking, desire for independence), core self-evaluation (e.g., locus of control, self efficacy) and cognitive characteristics (e.g., overconfidence).



To begin with, by viewing well being as both the ends and the means of entrance calls for a distinction between the *motivation* to improve one’s well-being through entrance into self-employment (well-being as end drive) and the *viability* to do so (well-being as mean drive). We could think of it in the following way; this time with an identified option(s) in mind. While the current state of well-being will influence the decision to enter through its effect on what is perceived as available and could be achieved and how (i.e., means to succeed), through a perception (viability) mode, it will also affect one’s motivation to enter self-employment; partially by being internally compared to a new visualized yet-to-attained *outcome* regarding one’s experienced quality of life (i.e., mental cost-benefit calculation). Accordingly, it is important to be motivated to assume the *uncertainty* embedded in the process and to *compromise* and sacrifice some aspects of well-being in order to achieve others. Motivation could also so be seen here as motivation to succeed; through *self-reflection* (Do I really want it?). Putting it all together, each of the three dimensions of well-being, in the face of a recognized option, will generate three sources of motivation and resource perception that will eventually affect the *decision* to improve one’s well-being through entrance into self-employment.<sup>10</sup>

A process model of entry into self employment



Both these determinants are, of great importance to our understanding of entry into self-employment. From a decision making point of view, while perceived resource availability is tied to a viability assessment of the option to improve the state of well-being through self-employment, the motivation to enter is tied to the attractiveness assessment of the option to improve the state of well-being through self-employment. Furthermore, these two dimensions can actually be thought of as being tied in a reciprocal causality. More specifically, people who perceive “more”, based on any one of the three elementary dimensions of well-being, will, *ceteris paribus*, perceive less *uncertainty* and be more *self-confident* in their ability to execute their idea<sup>11</sup>. Hence, positively assessing the viability of the option, which will in turn have a positive impact on their motivation to realize the option; hence positively assessing the *attractiveness* of the option. Of course, lower perception of resources available to begin with could depress motivation through a decrease in *self-confidence* and an increase perception of the uncertainty embedded in the action.<sup>12</sup>

The relation, however, is not unidirectional, simply going from the perception mode to the motivation mode, but rather reciprocally. For example, it could be conceptualized that individuals with greater entrance motivation, as when they are deprived of economic well-being (or options to achieve it), will tend to, *ceteris paribus*, *over-optimize* the resources perceived (i.e., “positively” obscure the level of perceive resource availability, creating a sense of *over optimism*), convincing the individual in her assessment of the project’s viability. Surely, low levels of motivation may create the countered effect of pessimism instead. The main question, however, is how the model can illustrate the way in which well-being, *ceteris paribus*, can be thought to facilitate and/or hinder perception of resource availability and stimulate and/or depressed motivation in the decision making processes of entering self-employment. The central idea is to focus on these three separate, yet highly interrelated, dimensions of well-being and to conceptualize their effect on entrance via the two outlined modes.

<sup>10</sup> See Appendix A for a typological matrix over different types of entry resulted from the two outlined determinants of perception and motivation.

<sup>11</sup> Here, I must reserve myself somewhat. Accordingly, perceiving more, i.e., knowing more, is not in all cases a positive endeavor from a decision making point of view. A person who perceives more also perceives more problems. This is intuitive and is supported by Schumpeter’s assertion that: “knowing something in a very thorough manner can sometime block the right decision” (Swedberg, 2000).

<sup>12</sup> Here, I assume that individual’s *self confidence* is based on one’s beliefs and perception of resources relative to others (that one think of as having a similar idea) or in comparison to some *internal* reference of optimum to succeed.

### *Applying the model – the case of perception*

As argued, participation in more markets should increase the likelihood that a person will gain access to necessary information for opportunity discovery (Shane 2003). Furthermore, prior knowledge of market problems and customers, through active engagement as consumer, should also increase this likelihood. Of course, an opportunity is also an opportunity to acquire the necessary resources in order to realize one's option. Accordingly, as far as higher economic well-being (e.g., being employed or having high income) is indicative of higher and more diversified market participation and consumption, it should, *ceteris paribus*, enhance the perception availability of resources or opportunities and the freedom to acquire them, and the confidence in doing that (reduced perceived uncertainty); hence the viability assessment of any option.

Concerning capabilities, well-being is argued to display positive correlation with individual's stock and access to information, diversified skills, absorptive capacity and self-awareness, and hence with the ability and freedom to "see" the resources needed, or uses of what is already at hand, and ways and means to acquire them, in order to realize (successfully) the option in mind. In support of that Shane (2003) argues that the information and skills provided by education will increase people's ability to assemble resources, develop a strategy, organize, and exploit opportunities. According to Casson (1995), more education also amends people's analytic ability and understanding of the entrepreneurial process. Furthermore, higher capabilities, such as education, are important signals of competence to resource providers enhancing the viability to acquire the needed resources (Shane 2003). Individuals with higher capabilities should also be better supplied with skills to identify and reach better contractual solutions with resource suppliers like venture capitalists. Hence, as far as skills, knowledge and self-consciousness are endeavors of well-being (Wagle, 2008), captured by the capability dimension, well-being should, *ceteris paribus*, enhance the perception availability of resources or opportunities to acquire them, and the confidence of doing that (reduced perceived uncertainty), and hence the viability assessment of any option.

Regarding the relational state, the basic argument is that lack of social inclusion operates to hinder one's capacity to access resources (Wagle, 2008). That is, being socially excluded will operate to hinder the awareness and feasibility of acquiring the necessary resources to allow for entry. In other words, more socially included individuals, *ceteris paribus*, will potentially enjoy better skills and prerequisites to access more and different exchange of ideas and observations but also better infrastructure and public available resources from which to draw on upon exploitation. For example, according to Shane (2003), one important way in which individuals gain access to information is with interaction with other people and where one's social status (e.g., gender) affect the likelihood of entrance through its instrumental function in persuading people (e.g., loan officers) about the viability of the project (Shane 2003). Regarding one's geographical inclusion (i.e., dispersion or segregation), Schiller and Crewson (1997) found that being in an urban area increased the likelihood of entering self-employment. This could be the result of more intensive and diversified knowledge circulation in cities. We also know that in order to minimize information and uncertainty problems investors make highly localized investment in new ventures (Shane 2003); those are most likely to be found in the major cities. Hence, as far as having more acquaintances, having higher social status and being in proximity to resource centers are endeavors of well-being, captured by the social inclusion dimension, well-being should, *ceteris paribus*, enhance the perception availability of resources or opportunities to acquire them, and the confidence of doing that (reduced uncertainty), and hence the viability assessment of any option. Hence, expected returns from entrance should then be higher as more socially included the individual is. This should have a positive effect on both the viability and attractiveness assessment of the option to enter and hence on the likelihood to do so.

### *Applying the model – the case of motivation*

As far as motivation is concerned the picture seems to be more intricate. Having recognized an option to enter self employment higher economic well-being may, *ceteris paribus*, result in less need to materially achieve status and thus lower material aspirations to enter self-employment. Since many of the desired attributes could be purchased, higher material state generates less willingness to assume the uncertainty embedded in the process and to compromise over other aspects of one's quality of life. From a monetary opportunity cost point of view, having a high income will discourage entry by attributing it a high return factor. Hence, a lack of economic well-being (e.g., unemployment), *ceteris paribus*, will induce one to self employment in the absence of other alternatives (Carroll and Mosakowsky 1987); yet, the uncertainty perceived, *ceteris paribus*, will tend to be higher in

comparison which might counteract the initial effect. Nevertheless, higher economic well-being may, *ceteris paribus*, also result in higher material motivation to compromise and to bear the uncertainty involved in the process and to enter self-employment. This is under the assumption that higher economic well-being facilitate higher locus of control, allowing more patience, more confidence and more tolerance for ambiguity and may even be seen as strengthening the individual's self perception. For example, higher economic well-being (e.g., wealth) may provide a buffer that the individual can use in adverse circumstances. Further, it provides potential entrants with the necessary capital to self-finance their option or to use their assets as collateral in obtaining external capital. This means that high economic well being might encourage more "risky" behavior as it can support loses. Of course, a risky behavior could be expected at low levels as well, as when one has to survive, thus has nothing to lose. Apparently, there seems to be reasons to expect a non-linear relation between economic well-being and risk taking, alternatively motivation, with respect to entrance into self-employment. Interestingly, even when the material motivation to enter might be high when economic well-being is low the psychological motivation might be low nevertheless as a result of increased perceived uncertainty and/or reduced confidence.

As far as well-being via the capability dimension is concerned higher levels may, *ceteris paribus*, results in lower inner motivation to enter, as there are more outside options available, and less willingness to assume the uncertainty involved and to compromise. That is, from an opportunity cost view other processes, or alternative combinations of one's inner resources, except self-employment, could be viewed as more attractive for achieving one's aspirations. Furthermore, certain capabilities, like education or having entrepreneurial parents, may be conceived as a pre-decided choice to avoid respective assume self-employment. Nevertheless, higher individual capabilities may, *ceteris paribus*, also result in higher inner motivation to bear the uncertainty involved in the process and to realize one's capabilities through self-employment. This might be the result of less perceived uncertainty, higher confidence, higher self perception and higher belief in the returns to be expected. According to Shane (2003), the beliefs that people form about the value of entrepreneurial opportunities depend, in part, on their evaluation of their own abilities to exploit those opportunities. Overall, expected returns from entrance, *ceteris paribus*, should then be higher as higher the capabilities of the individual and should positively affect the attractiveness assessment to enter.

Regarding the relational state, being more socially included may results in lower relational aspirations and less relational motivation to enter self employment as there is less time available, and less need to achieve social integration. Moreover, it might depress the willingness to assume the uncertainty involved and to compromise over relational and other aspects of one's quality of life (i.e., the time with friends and family). As already stated, being excluded might motivate the individual to improve a current experienced problem (e.g., health - disability Vs gender - staying home with the kids) and to free the individual from its perceived level of exclusion (e.g., inventing a suitable product Vs opening a home business). Nevertheless, being more socially included may, result instead in higher relational motivation to enter as there are more valuable networks and better prerequisites to realize the option in mind. This could imply higher confidence and higher self perception and hence less perceived uncertainty with the option. Moreover, since cooperation with others is seen a positive endeavor of the self-employment process, social inclusion could be further conceptualized as generating higher levels of social and emotional support; necessary in assessing any option as attractive and viable. Overall, expected returns from entrance, *ceteris paribus*, should then be higher as more socially included the individual is which should positively affect the attractiveness assessment to enter with the option in mind and to realize one's aspirations through self-employment. From this perspective, we could expect high risk taking not only at lower levels of inclusion. Interestingly, even when the social motivation to enter may be high when social inclusion is low, the psychological motivation may be low nevertheless as a result of increased perceived uncertainty and/or reduced confidence.

#### *Final comments*

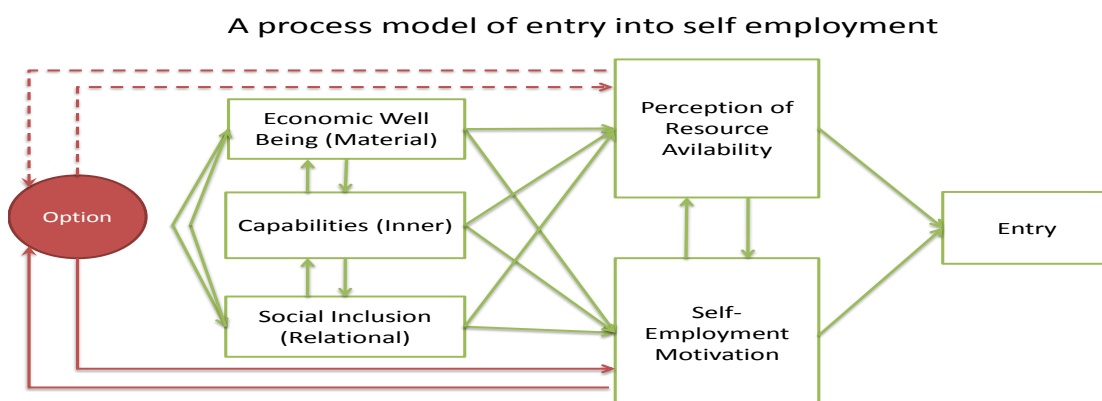
Overall, people will be more likely to enter self-employment if they want to, and believe that they will, achieve higher quality of life from doing that. This visualized yet-to-attained level of well-being is then influenced by: people's motivation to enter and succeed with self-employment (intention/end/aspiration mode) and to compromise (opportunity-cost related), people's perception of their prerequisites to succeed with assembling and combining the necessary resources to realize the option (uncertainty related), and the nature of the option per se; a third related (embedded) mode which will be elucidated below. Importantly, interpersonal variations (e.g., opportunity cost reasoning, uncertainty perceived, will to sacrifice and compromise) make it difficult to draw strong theoretical

generalizations. In all respects the process is highly *path-dependent*. Hence, the assessment and exploitation of an *option* to enter self-employment cannot be *completely* separated from the *intention/aspiration* to improve one's quality of life through self-employment. This implies that individuals *exploit* opportunities through self-employment to improve aspects of their well-being, rather than their material state per se or just for the sake of doing that. Next, a short supplement to the model will be given in which the decision making process is conceptualized to go via an option dimension as well. This should close the *circle* of discovery, evaluation and exploitation.

### Stage 3: Extending the model with an option dimension

Arguably, the option per se, partially as a function of one's well-being, could be conceptualized to have a motivational effect on individual's decision making in the process of entering self-employment; more specifically with assessing the attractiveness of being self-employed (i.e., motivating the individual to assume the uncertainty involved, compromise and succeed). Assuming that an individual is decided to enter self-employment (i.e., value it as an end for its own right) and has recognized three equally feasible alternatives for that, with equally perceived uncertainty, she will not necessarily choose the most profitable option in monetary terms but might rather chose (and compromise over) the one that satisfy a relational or inner aspiration such as her need for social esteem. From an inner perspective, she might decide to go with an option that best satisfy her self esteem instead, as when she realizes with content her inner capabilities. Undoubtedly, there may be correlations among aspirations as when more economic profitability (or the opportunity of being more profitable) will satisfy one's concerns for social and/or self esteem. Moreover, this is subjected to one's specific value and choice with achieving higher quality of life.

While it could be argued that the recognized option potentially influences the perceptiveness of available resources to realize it (e.g., through its effect on perceived feasibility), I encounter logical problems in doing that. Arguably, the recognized option is the result of perceived resources as much as the second is the result of the former since the two are one of the same and takes place in the mind (i.e., one perceives an option as an option because one perceive the resources for defining it as such). This makes the two collapses into one dimension as each defines the other. For example, perceiving the option as difficult equals perceiving the resources necessary to initiate an act as difficult to obtain or combined. Perhaps, an important distinction will have to be made regarding the subjective, objective nature of the option. That is, under an objective assumption the option will operate to affect both the perception and the motivation modes separately. However, under a subjective assumption the option will only operate to affect the motivation mode to enter. An important point to be made, nevertheless, is that by employing an option dimension, we can distinguish between the motivation to improve well-being through self employment as a process and the motivation of doing that with a particular option. Consequently, the complete model takes the following form:



Note that no connection has been made between the option and any one of the outlined dimensions of well-being. This is due to aesthetic aspects. Of course, as suggested above, any such connection should have been made between entry and any one of the dimensions of well-being. In return, since well-being can be seen as both the means and the ends of entrepreneurial action, we could have conceptualized a dynamic implication of growth and development to the venture itself; that is, a second order influence of well-being on the option to grow/expend. As I see it, such a dynamic

perspective hints towards a structuration theory of entrepreneurship (See: Giddens, 1991; Sarason et al., 2006). The model is compatible with the assumption that entry, or the inclination to entry, is transitory. That is, there is no special need to rely on the assumption of strong and stable set of individual psychological characteristics, such as need for achievement, which influence human action in the same way all of the time, as those are, at best, interpreted against the situational contexts.<sup>13</sup> Lastly, the model recognizes the ability of social and economic systems to influence both the discovery and evaluation processes as those are captured by the outlined construct of well-being.

### Concluding remarks

Studying the entrepreneurial process from an individual-opportunity nexus is undoubtedly an important endeavor. Yet, within the nexus-perspective outlined by Eckhardt and Shane (2003) the individual and the opportunity are still treated as different entities singled from one another (Sarason et al., 2006). In contrast to that, the analysis in this note has shown how the option and the individual, manifested by the state of well-being, are entangled in one another. As argued, the option to enter self-employment, while being influenced by the level of one's well-being per se, will also operate to influence the mechanisms through which well-being determine entry; thereby affecting well-being in return. Here it was also crystallized why the perception of resource availability defines the perceived option, as much as the latter defines the former. Overall, it has been illustrated that the intention to improve well-being and the option, motivation and prerequisites to do that via self-employment, are all interrelated and structured within the personal and the social sphere (e.g., path dependency) captured by the individual's state of well-being. Hence, the option to enter self-employment cannot be completely separated from the intention to improve one's quality of life through self-employment. As stated, this could be interpreted as if people seek opportunities to improve their quality of life rather than business opportunities per se. This might also imply that options will differ in many related aspects corresponding to changes in individual well-being factors. For example, it could be of interest to examine whether individuals possessing higher well-being enjoy higher and/or different returns from self-employment, pursuing a different set of options.

For example, individuals with high level of well-being, through any one of the three dimensions, will display high opportunity cost and hence require higher returns/compensation, alternatively will be less willing to compromise. Nevertheless, the perceived uncertainty will tend to be lower which counteract some of that effect. Furthermore, higher well-being might be indicative of the quantity and quality of the options perceived or conceptualized. The wider perception of resource availability might imply more alternative combinations and less uncertainty perceived. Hence, ex post entrance to self employment the value of the option alternatively the rate of success will tend to be higher. In contrast, those with lower levels of well-being might experience higher levels of failures upon initiation due to their higher perceived uncertainty resulted from limited perception of the resources available, but it might also indicate towards the quantity, quality and especially type of options. Although uncertainty perceived will, *ceteris paribus*, be higher there will be a higher need to compromise. This reasoning might also be taken to imply that people with lower well-being will be over-representative as nascent entrepreneurs but under-representative, relative to the initial stage, as the venture grows. In conclusion, it seems that, *ceteris paribus*, low levels of well-being should generate more inclination to compromise, though higher uncertainty perceived, while high levels of well-being should, *ceteris paribus*, generate lower inclination to compromise, but lower uncertainty perceived.

From a theoretical and empirical point of view, the interdependence between all three dimensions has to be accounted for. Taking the individual's material state as example it can be argued that less economic deprivation can lead to both higher and lower social inclusion and to higher and lower capabilities. Whether higher material state will provide one with the ability to pursue different types of education it might also have a depressive impact on the motivation to work, study and specialize. From a social perspective, whether higher material state will open the door to several club memberships and to the opportunity to acquire certain products/services that by themselves will enhance the relational state of the individual (e.g., buying a computer), it can also restrict one into her very limited social position; in fact socially isolating the individual. Overall, the level of one's material state will tend to pick up some of the positive/negative instrumental effects from its effect

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<sup>13</sup> The use of history analysis and panel data sets, with random and fixed effects to partial out unobserved heterogeneity in individuals and their opportunities, is likely to be useful (Eckhardt & Shane, 2003).

(path-dependence and current) on both capabilities and social inclusion (acting as meditative dimensions).<sup>14</sup>

Since we face individual idiosyncrasy and interpersonal variations across all three dimensions the model might be best utilized to detect and identify exposed groups in the society deprived of options or opportunities to achieve higher quality of life (e.g., unemployed, immigrant, women and youth). Taking the unemployed as an example it could easily be conceived that, *ceteris paribus*, she is deprived of at least two dimensions. Firstly, She is unemployed hence she does not have a stable income and steady consumption. Secondly, being unemployed can be indicative of limited capabilities (i.e., tautological). Thirdly, it can also be indicative of social exclusion. For the unemployed this could be taken to imply less perception or conceptualizations of viable options to amend her well-being but also less viability in realizing any giving option. Although, she could potentially be strongly socially-motivated to take on herself such an endeavor as self-employment, she could psychologically be demotivated through self-reflecting over the uncertainty she experiences.

To conclude, in contrast to Shane (2003), Shane and Venkataraman (2000) and Eckhardt and Shane (2003), who view the beginning of the entrepreneurial process as residing on the *perception* of opportunities, I argue that the entrepreneurial process is also residing on one's *intention* (motivation mode) to live a better life. Thus, well-being, through any one of the three dimensions, being seen as a *triggering end*, affects the processes of recognition, through either discovery or creation processes, by directing intention/aspiration towards self-employment in order to improve, or maintain, one's quality of life. An opportunity, from this perspective, represents *idiosyncratic* manifestation of new means-ends framework to achieve a higher experienced life quality through self employment. As argued, well-being further affects the prospect of achieving and realizing it through self-employment. The decision making process involves mental calculation of cost and benefit referring to aspects of one's life quality and captured by individual well-being factors across the three dimensions; where both *compromising* and the notion of *uncertainty*, two idiosyncratic aspects, play a crucial role in the decision making of pursuing, seeking and eventually exploiting these options.

In a sense, Shane, Venkataraman and Eckhardt would have probably reformulated my initial proposition (see page 2) as: "having intention to be self employed, entrance will be most objectively seen as an action based upon the opportunity to improve one's quality of life". For them, having this kind of intention means the state of being perceptively alert; the only thing that ignites the entire process. This explains the excessive focus on opportunity as an objective phenomenon independent of the individual and their relative neglect of aspiration and intention related issues. It also explains the mutual exclusivity of the option to enter and the intention to enter in their approach. This formulation could also imply that self-employment has mostly intrinsic value as an end per se but not much as a process for achieving some other higher ends. Schumpeter, in contrast to Kirzner, has outlined three core desires or sources of internal drive. If anything, I believe that my formulation is fitted to capture those drives that ignite the process within one integrated approach. This also enables a nexus perspective seeing the individual and the opportunity in a duality relation rather than dualism (Sarason et al., 2006).

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<sup>14</sup> I believe that an empirical attempt using a panel data set to use this model will be most appropriate. Moreover, control variables will have to be multiplicative as well (e.g., as between proxies of the three dimensions). From a theoretical and empirical point of view I also believe that seeing several proxies as fitting to more than one dimension (e.g., education, health) also has the potential to circumvent some of the problem (i.e., by trying to create appropriate versions of the same proxy).

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***Appendix A: On the intersection between Perception and Motivation – Four Typologies:***

Since the rate of substitution in any one of the three dimensions together with the others will be so complicated, it might be wise to construct a matrix-typology based on the two outlined determinants of entry and then try to distill what in the composition of the three well-being dimensions that could have triggered entry. Here I abstract from the dynamic nature of the interdependence between the two modes and choose to see it at a snapshot in time.

		<b>Entrance Motivation</b>	
		<b>High</b>	<b>Low</b>
<b>Perceived Resource Availability</b>	<b>High</b>	<p style="text-align: center;"><b>High-Opportunity Entrants</b></p> <p>(Effectuation tendencies, pull-push ingredients, highest entrance probability)</p>	<p style="text-align: center;"><b>Part - Time Entrants</b></p> <p>(Caution tendencies, pull ingredients, modest entrance probability)</p>
	<b>Low</b>	<p style="text-align: center;"><b>Low-Opportunity Entrants</b></p> <p>(Bricolage tendencies, push ingredients, modest entrance probability)</p>	<p style="text-align: center;"><b>Non-Entrants</b></p> <p>(Lowest entrance probability)</p>

Note that the matrix applied to a decision making stage whereby the individual is assessing entry into self-employment (i.e., whether she could and should act upon an identified option). Moreover, both the pull and push hypothesis of entrepreneurial supply could be seen against the background of this typology. Specifically, while the push motivation will apply to the case of high motivation (in order to prove self worthiness and avert displacement) the pull case will be most correctly described in the context of high perception (leading to beliefs of conviction in the viability of the entrance). Regarding the probability of entrance both these modes should display moderate probability relative to the case where both motivation and perception are high. Moreover, when both constructs are high we might have a combination of both pull and push that is coherent with a mode of effectuation. On the other hand, a limited perception of resources and options (e.g., resulted from low inclusion), might indicate to a more of a Bricolage resource utilization, as there is less to lose (i.e., risk taking is socially motivated).