10.5465/AMBPP.2015.204

ENTREPRENEURIAL COUPLES

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INTRODUCTION

We study "co-entrepreneurial" businesses operated by married or cohabiting couples in Denmark. Our data come from government registers collected in the Integrated Database for Labor Market Research (referred to by its Danish acronym, IDA) and the Entrepreneurship Database, both maintained by Statistics Denmark. The sample we construct consists of three groups. The first is the focus of analysis: 1,069 co-entrepreneurial couples. The second group includes 161 couples owning two businesses that they operate separately, and the third consists of 3,928 couples in which one spouse operates a business while the other is active in the labor force. To ensure that the firms we analyze are comparable, we restrict attention in each of the three groups to firms that at the time of founding (between 2001 and 2010) had exactly two people including the entrepreneurs working in them.

MOTIVES FOR CO-ENTREPRENEURSHIP

We consider economic motivations, both positive and negative, as well as non-pecuniary motivations. On the economic side we consider: (**A**) couples where a spouse has limited labor market options, so that joining the entrepreneurial spouse's business has a low opportunity cost; (**B**) wealth constraints, which may prevent couples in which both spouses have entrepreneurial aspirations from establishing separate businesses; and (**C**) productivity motivations, where the trust and intimacy enjoyed by couples lowers communication and coordination costs and ameliorates conflicts that may otherwise arise in business partnerships. Non-pecuniary motivations (**D**) include factors such as the pleasure a couple may have in working together and the flexibility co-entrepreneurship may provide in balancing the demands of work and family life.

Opportunity Costs

Table 1 reports household earnings in the year prior to business creation along with individual incomes of the spouses in the same year. Although prior earnings of husbands are indistinguishable across groups, the average prior earnings of women in the sample of co-entrepreneurs are much lower than for the other two groups: In the year prior to business creation, women in co-entrepreneurial couples earned on average 27 percent less than women in couples that formed two businesses, and 33 percent less than women in the third control group.

10.5465/AMBPP.2015.204

These differences in means are statistically significant and, clearly, economically meaningful. Probit estimates, not reported, reveal that these differences persist after the inclusion of numerous control variables. Figure 1 reveals that the main driver of the differences in means between the groups is found in the greater mass of very low earners among women in co-entrepreneurial couples, suggesting that women frequently join the family business because the opportunity cost of doing so is low.

Insert Table 1 about here

Insert Figure 1 about here

Wealth Constraint

A substantial literature has provided evidence that entrepreneurs with limited personal wealth face binding credit constraints. Wealth constraints may induce co-entrepreneurship when both spouses have individual aspirations to become entrepreneurs. Although both may have a desire for the autonomy afforded by running their own businesses, financial limitations may prevent them from investing in two firms. A single, joint business, while perhaps not the couple's ideal, at least offers an imperfect substitute. The evidence, however, does not support this. In Table 1, mean household assets in the year prior to business creation are in fact greater among co-entrepreneurs than they are for the other groups, a finding that is all the more surprising given the lower prior income of co-entrepreneurial spouses.

Productivity

Co-entrepreneurial business might outperform other new dyadic firms because of the greater familiarity, cohesion, and trust that likely spouses have for one another relative to unrelated business partners. The greater familiarity may induce higher levels of organization capital at the inception of the business, and the greater trust may promote higher rates of human capital investment in the business.

If co-entrepreneurs are motivated by the productivity advantages that being in a personal relationship offers, then we should expect to see them outperform other types of startups, all else equal. Table 2 reports panel OLS estimates of firm performance, using sales and profits as outcome measures. The main result is that co-entrepreneurial firms are smaller but generate profits of comparable levels as firms founded by unrelated partners. Co-entrepreneurial firms are also on average smaller in terms of personnel than the comparison group after the first year, even though all firms began with exactly two members.

Insert Table 2 about here

10.5465/AMBPP.2015.204

Non-Pecuniary Benefits

Supposing that spouses are in a relationship because they like to interact, it is obviously possible that couples establish businesses together at least in part because of anticipated non-pecuniary gains from working side by side. Indeed, in a number of surveys, co-entrepreneurs have reported that working together had enhanced their personal relationships. Co-entrepreneurs may also value the flexibility for managing work and home life, such as taking care of children, that is afforded by working with an understanding partner who shares the same non-work goals and concerns. These motivations may induce spouses to establish firms that do not have especially good economic prospects, and to continue to operate these businesses in the face of relatively poor performance. Table 3 reports estimates from a piecewise exponential hazard regression for firm dissolution. A notable feature of the hazard regression is that co-entrepreneurial firms are as likely to fail as the comparison group.

Insert Table 3 about here

Column A of Table 4 shows some estimated costs and benefits of co-entrepreneurial ventures after startup. Each cell shows the coefficient of the dummy 'co-entrepreneurial business' estimated in a regression equation in which the row variable is the dependent variable. Couples in co-entrepreneurial firms experience greater income gains that do couples with a single entrepreneur; this is true both collectively and for each spouse. The estimated coefficient of the difference-in-difference for wives is particularly large. Together, the two diff-in-diff estimates for husbands and wives imply that co-entrepreneurial couples not only manage to improve their relative income position while being active as entrepreneurs, they also manage to decrease the earnings difference between the two of them relative to other couples, because the gain of the wife is materially larger than the gain of the husband. To the extent that income equality within a household is beneficial, this may be a positive outcome of co-entrepreneurship. Column B of Table 4 reports estimates obtained using post-entrepreneurship outcome measures among the subsample of firms that have dissolved in the observed period, about one third of the total sample. The revealed pattern is similar to the pattern before firm dissolution, suggesting that outcomes already evident during the operation of the business persist after dissolution.

Finally, in regression results not reported, we also evaluated the effect of co-entrepreneurship on various non-economic outcomes. We found that co-entrepreneurial couples are not more or less happy than other couples, measured in terms of the use of medications such as anti-depressants or anxiety/insomnia medication. Several relationship-related outcomes are also similar for co-entrepreneurial couples and their counterparts: the hazards of separation, divorce, weddings, and childbirths are all the same.

CONCLUSIONS

We found evidence that couples often establish a business together because one spouse – most commonly the wife – has limited outside opportunities in the labor market. Perhaps as a consequence, co-entrepreneurial firms tend to maintain a smaller scale than the comparison firms

10.5465/AMBPP.2015.204

but their smaller scale does not induce a lower profit level or a higher dissolution rate. Nonetheless, financial benefits are significant and substantial. Both spouses, but especially the wife, gain more income from their business than do the couples in the control group, compared to the earnings generated prior to the business startup. This larger increment to earnings survives firm dissolution among couples whose firms are closed down, and contributes to a persistent reduction of intra-household income inequality. We find no evidence of non-pecuniary benefits or costs of co-entrepreneurship. In particular, we find no evidence that the joint business harms or benefits the relationship of the spouses, even after the dissolution of the firm.

REFERENECES AVAILABLE FROM THE AUTHORS

TABLE 1

Descriptive statistics before the startup of the company

	Entrepreneurial Couples				**Couples with a single entrepreneur**	
	with a joint firm		**with separate firms**			
	I		II		III	
	Mean	St dev	Mean	St dev	Mean	St dev
Household income (1,000 DKK)	464.9	391.12	559.6**	573.5	559.0***	375.6
Husband's income (1,000 DKK)	312.8	345.4	349.9	503.9	331.2	330.8
Wife's income (1,000 DKK)	152.1	143.3	209.7***	190.0	227.8***	141.1
Household wealth (1,000 DKK)	149.3	105.1	100.8	209.4	92.7***	240.9
Unemployment history of husband	963.1	1828.9	1339.8**	1920.6	859.0*	1523.2
Unemployment of wife	1662.9	2223.5	1442.6	1843.3	1454.8	2119.3

Asterisks indicate a mean significantly different from its counterpart in the first column at the *** 1%, ** 5%, and * 10% levels.

TABLE 2

Panel OLS *Regressions: business performance of entrepreneurial couples.*

	LN(SALES)		LN(PROFITS)		PROFIT/SIZE	
	Coef.	St error	Coef.	St error	Coef.	St error
Co-entrepreneurs = 1	-.1984	.0199	-.0335	.0239	38.78	20.99
Husband's pre-entry income	.0002	.00003	.0003	.00003	.1722	.0290
Wife's pre-entry income	.0005	.00006	.0003	.00008	.0790	.0639
Household pre-entry wealth	-4.48E-06	.00003	2.03E-06	.00003	.0096	.0272
Adj, R-squared	.119		.043		.003	
Number of observations	22,256		18,097		19,933	

All regressions include the following controls: age, education, and unemployment history for both spouses, relationship status and children dummies, and firm age dummies.

10.5465/AMBPP.2015.204

TABLE 3

Firm Dissolution Hazards

	Exponential regression log relative-hazard form	
	Coefficient	St error
Entrepreneurial couples (dummy)	-.0344	.0589
Husband's income, $t = -1$ (1,000 DKK)	-.0000	.0001
Wife's income, $t = -1$ (1,000 DKK)	.0001	.0002
Household wealth, $t = -1$ (1,000 DKK)	-.00003	.0001
Number of dissolutions	1,986	
Number of subjects	4,459	
Number of observations	22,723	

Regression includes the following controls: age, education, and unemployment history for both spouses, relationship status and children dummies.

TABLE 4

Regression results: business and family performance of entrepreneurial couples

	ENTREPRENEURIAL COUPLES VS COUPLES WITH SINGLE FIRM			
	Column A Pre-dissolution		Column B Post-dissolution	
	Coefficient	St error	Coefficient	St error
Panel A Pre-dissolution				
Husband's income	.0252	.0057	.0127	.0092
Wife's income	-.0188	.0027	-.0747	.0048
Husband's income relative to income prior to founding	35.67	5.887	29.87	8.854
Wife's income relative to income prior to founding	77.93	2.370	74.72	4.271
Household income difference (current relative to prior to founding)	-42.31	6.148	-44.19	9.494

All regressions include the following controls: age, education, and unemployment history for both spouses, relationship status and children dummies, and firm age dummies. OLS regression with robust standard errors and cohort dummies.

10.5465/AMBPP.2015.204

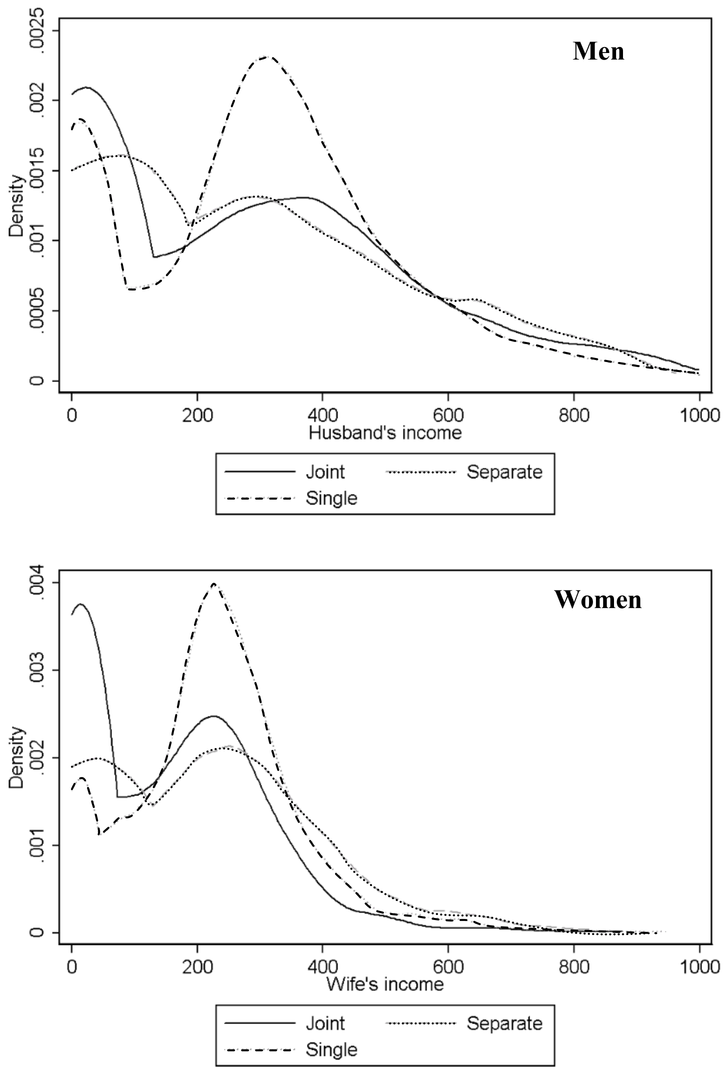

FIGURE 1. *Densities of individual income by group.* Upper panel: men; Lower panel: women. Epanechnikov kernel density estimates, using default settings in Stata 13.