Chapter 1

Key policy issues and approaches to inclusive business creation

This chapter presents key inclusive entrepreneurship data for youth, women and seniors. This includes business creation rates, interest in entrepreneurship and barriers to self-employment. The chapter also discusses the main policy approaches used in the European Union to encourage and support disadvantaged and under-represented groups in business creation and self-employment.

Facts and figures on inclusive business creation

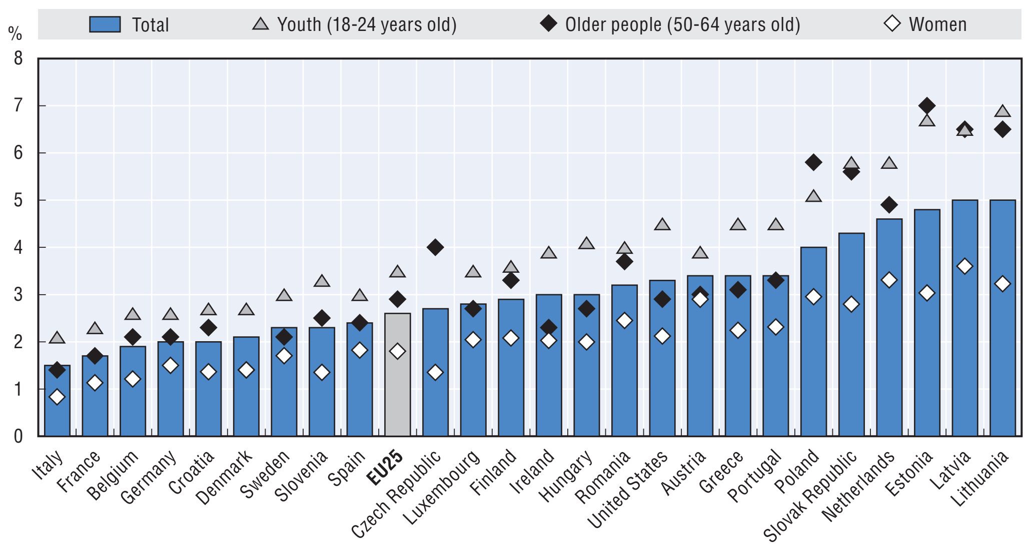
Business creation

Policy makers are interested in business creation for several reasons. New businesses help stimulate innovation and are responsible for nearly all private sector job creation net of closures and job losses in larger established firms. However, only a relatively small part of the population is involved in starting a business, and there are some substantial differences across countries in this propensity. Figure 1.1 compares the rates of new business ownership for the total population, women, youth and older people. This measure captures the proportion of the adult population who report that they are currently an owner-manager of a new business that has paid salaries, wages or any other payments to the owners for more than 3 months, but not more than 42 months. Approximately 2.6% of the adult population in the European Union was a new business owner in the 2009-13 period. At the country level, this proportion ranged from 1.5% in Italy to 5.0% in Lithuania. Increasing the rates can be expected to have important benefits for job creation and innovation.

Furthermore, not all people have the same opportunities to create and run a business. It is clear in Figure 1.1 that some population groups are less likely to be new business owners. Despite having similar levels of human capital, women were less likely to be a new

Figure 1.1. **New business ownership rates in the European Union, 2009-13 (combined)**

Percent of adult population (15-64 years old)



Notes:
The European Union countries that participated in the Global Entrepreneurship Monitor survey over this period are: Austria, Belgium, Croatia, Czech Republic, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden and the United Kingdom.
Data presented in this figure are pooled data, combining the annual survey results over the 2009-13 period. A number of countries did not participate in the GEM surveys in every year but were included in the tables: Austria (2012, 2013), Czech Republic (2011, 2013), Denmark (2009, 2010, 2011, 2012), Estonia (2012, 2013), Ireland (2010, 2011, 2012, 2013), Italy (2009, 2010, 2012, 2013), Lithuania (2011, 2012, 2013), Luxembourg (2013) Poland (2011, 2012, 2013), Portugal (2010, 2011, 2012, 2013), Slovak Republic (2011, 2012, 2013) and Sweden (2010, 2011, 2012, 2013).
The New business ownership rate is the proportion of the adult population that are currently an owner-manager of a new business that has paid salaries, wages or any other payments to the owners for more than three months, but not more than 42 months.
Source: Global Entrepreneurship Monitor (GEM) (2014), Special tabulations of the 2009-13 adult population surveys from Global Entrepreneurship Monitor.

business owner than men between 2009 and 2013. Across the European Union, women were half as likely as men to be new business owners (1.8% vs. 3.5%) in this period. This gap can be closed with a range of policies, including making business creation more desirable for women, supporting the creation of entrepreneurial networks, implementing family policies that encourage dual earners and offer childcare services and addressing discrimination in financial markets (OECD/EC, 2013).

On the other hand, youth (18-24 years old) were more likely to be new business owners than adults. Over the 2009-13 period, 3.5% of youth in the European Union were new business owners. Despite these high rates of start-up, a body of academic research suggests that businesses operated by youth entrepreneurs are likely to have lower survival rates (e.g. van Praag, 2003). Thus, the challenge for policy makers is to ensure that youth are starting quality businesses in appropriate industries where there is sufficient excess demand to build a sustainable business (OECD/EC, 2012).

The picture is mixed for older entrepreneurs (50-64 years old). In some Member States, older entrepreneurs are more likely to be a new business owner while in others the rate is below that of adults. As the European Union population ages, labour force participation rates among older people are increasing but self-employment rates are lagging (OECD/EC, 2012b). Furthermore, the size and growth rates of businesses operated by older people tend to be small (OECD/EC, 2012b). Policy makers can seek to increase the entrepreneurial potential of older people by creating a positive awareness of the benefit of entrepreneurship, supporting network development, ensuring access to start-up financing, highlighting the potential of business acquisition rather than start-up and encouraging older people to support start-ups by younger entrepreneurs.

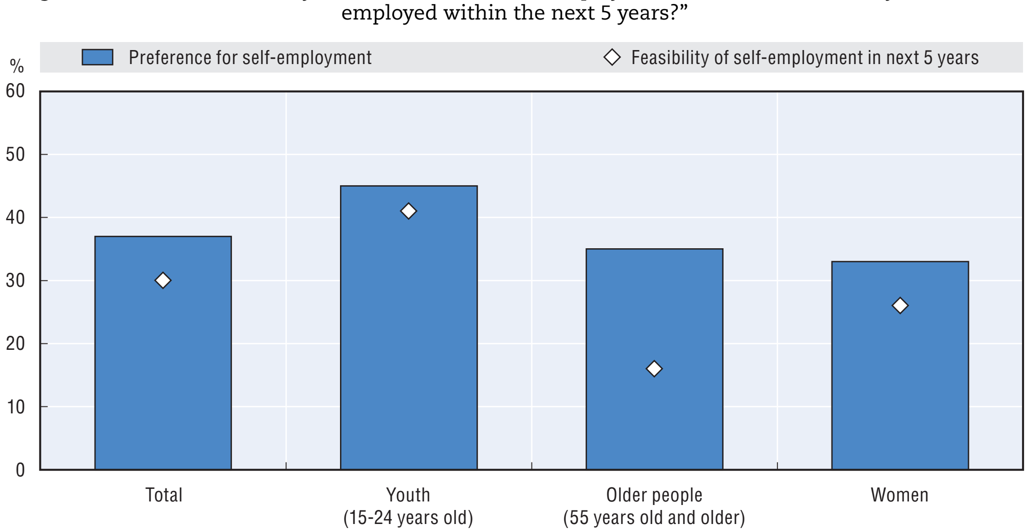
Desirability and feasibility of self-employment

There are many factors that influence the decision to create a business. Data from the recent Eurobarometer survey suggest that having an appropriate business idea (87%) and the ability to access the necessary financing (84%) are two of the most important factors (EC, 2012). However, underlying this decision is the individual's perception about the desirability and feasibility of entrepreneurship. That is, whether business creation is viewed positively relative to working as an employee and whether it is a realistic option.

Figure 1.2 presents the perceived desirability and perceived feasibility of self-employment for the adult population, women, youth and older people. In 2012, women were much less likely than men (not shown) to prefer self-employment to employment (33% vs. 42%) and were also less likely to view self-employment as feasible (26% vs. 35%). Youth, however, were more likely than adults to view self-employment as preferable to working as an employee (45% vs. 37%) and as a feasible activity (41% vs. 30%). This enthusiasm explains high start-ups rates among youth. Older people were as likely as adults to view self-employment as preferable to paid employment (35% vs. 37%) but were much less likely to view it as feasible (16% vs. 30%). The gap in perceived feasibility can be explained by a range of factors, including lifestyle choice, financial disincentives in state benefits and retirement income and the opportunity cost of time (i.e. older people are often less willing to commit time to activities that yield a stream of future payments and are associated with some risk, such as starting a firm, compared to activities that generate instant and riskless returns, such as waged labour).

Figure 1.2. **Preference for and feasibility of self-employment in EU28 countries, 2012**

"If you could choose between different kinds of jobs, would you prefer to be self-employed?"
"Regardless of whether or not you want to become self-employed, would it be feasible for you to be self-employed within the next 5 years?"



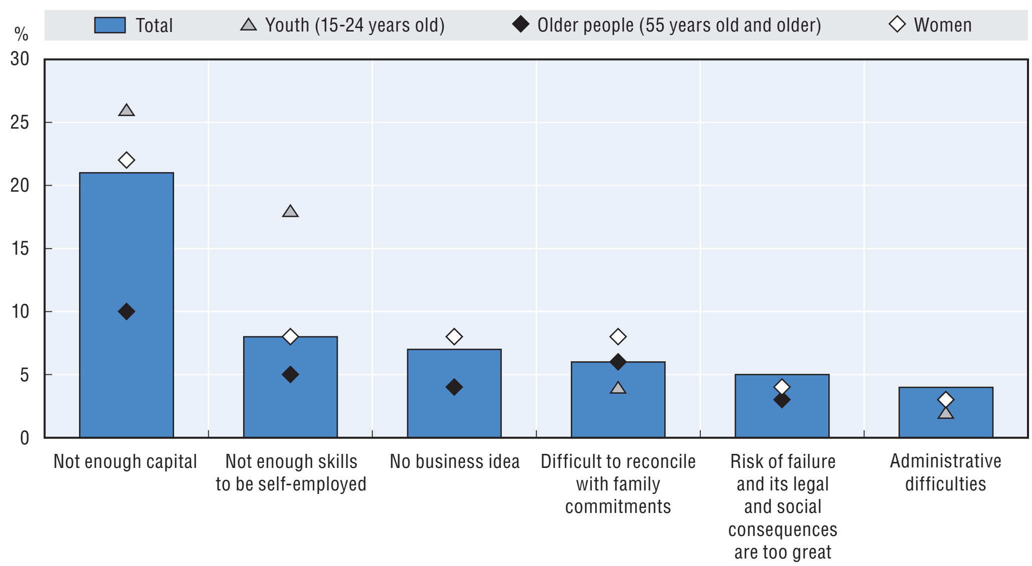
Source: European Commission, 2012, "Entrepreneurship in the EU and beyond", *Flash Eurobarometer*, No. 354.

Barriers to business creation

Perceptions of barriers to business start-up are presented in Figure 1.3. Access to start-up financing is the most frequently cited reason why it is not considered feasible to become self-employed, identified by 21% of adults in the European Union. This was followed by a lack of skills to be self-employed (8%), no business idea (7%) and difficulty reconciling self-employment with family responsibilities (6%). A risk of failure and its legal and social consequences (5%) and administrative difficulties were also identified (4%). There are levers available for public policy to reduce each of these barriers.

Figure 1.3. **Barriers to business creation in EU28 countries, 2012**

"Why would it not be feasible for you to be self-employed within the next 5 years?"



Source: European Commission, 2012, "Entrepreneurship in the EU and Beyond", *Flash Eurobarometer*, No. 354.

There is some variation in the extent to which different population groups experience these barriers. Both men and women identified access to capital for business start-up as the most significant barrier and had similar likelihoods of identifying it as a barrier (22% for women and 20% for men). Men and women also had similar likelihoods of being constrained by a lack of skills, a high risk of failure and significant consequences of business failure and administrative difficulties. However, women were more likely to identify a difficulty reconciling self-employment with family responsibilities (8% vs. 4%) and a lack of business idea (8% vs. 6%).

Youth were the most likely population group to identify a lack of capital (26% vs. 21%) and skills for entrepreneurship (18% vs. 8%) as barriers to self-employment. There was little difference between youth and adults for other perceived barriers. Administrative difficulties do not appear to be a significant barrier for youth, suggesting that efforts to reduce regulatory burden are likely to have a small impact on youth entrepreneurship.

Even though older people were half as likely to view self-employment as feasible (Figure 1.2), they were much less likely to report barriers to self-employment than youth and core-age adults. Only 10% of older people indicated that a lack of start-up capital was a barrier to self-employment. Similarly, only 5% of older people reported a lack of skills and 4% reported a lack of business ideas as barriers, whereas 8% and 7%, respectively, of adults reported these barriers.

Main policy approaches for supporting inclusive entrepreneurship

Entrepreneurship education and training

Entrepreneurship education in schools, vocational education and training and higher education helps youth develop a positive attitude towards entrepreneurship and provides an opportunity to learn basic entrepreneurship skills so that youth can start higher quality businesses that are more likely to succeed (OECD/EC, 2013).

The aim of entrepreneurship education typically varies by age of students. In primary education, the objective is to increase awareness of entrepreneurship as a career option and develop knowledge, skills, and attitudes that are conducive to entrepreneurial behaviour. Often, this is done by inviting local entrepreneurs to speak to students in the classroom about running a business but it is also common to take students to local businesses to watch and learn about the day-to-day operation of a small business.

In secondary school, entrepreneurship education places a greater emphasis on the acquisition of specific technical skills. This is often done by providing opportunities to learn about business planning and accessing start-up financing through simulations or real business start-ups.

This approach goes further in higher education, where it is important for students to gain the basic skills for starting and operating a business, as well as learning about the importance of networks. Different approaches are used at different universities. Some offer integrated entrepreneurship modules within traditional subjects, while others offer dedicated courses and programmes. Many higher education institutions also have hands-on start-up support services that are available directly from the university or through partnerships with other organisations in the local community.

Vocational training centres have strong links with the business community and therefore offer great potential for supporting entrepreneurship education. Entrepreneurship education at this level tends to be less developed in the European Union than at other education levels. Current approaches tend to concentrate on the development of business plans and while this is important, more attention is needed on ensuring that students get hands-on experience that can be applied in the real world.

Entrepreneurship skills (Box 1.1) can also be developed outside of the education system. **Entrepreneurship training** outside of formal education can be targeted on specific groups of motivated entrepreneurs and can focus more on practical skills development. Training programmes typically deliver entrepreneurship modules over a number of weeks but there is also significant scope for the development of online courses. Often delivered as part of active labour market measures, this is one of the main policy approaches to supporting the acquisition of entrepreneurship skills for older people and disadvantaged youth who do not participate in education.

Box 1.1. **Entrepreneurship skills**

Entrepreneurship skills are a combination of technical skills, business management skills and personal skills required for starting and operating in business and self-employment. They include, for example, opportunity recognition, team building, negotiation, strategy development, risk management, financial planning, and marketing. Supporting the acquisition of entrepreneurship skills is important for not only increasing start-up rates but also improving the quality of business start-ups.

Coaching and mentoring

Coaching is typically a short-term relationship aimed at developing the skills of an entrepreneur. It is a collaborative process, in which the participants have clearly defined roles. The coach is responsible for developing short-term goals and guiding the coachee towards the goal by providing constructive feedback. The coachee is responsible for generating ideas and options, taking action to achieve the goal, and reporting progress.

Mentoring is also a professional relationship in which an experienced person (the mentor) assists another (the mentee) in developing skills and knowledge that will enhance the less-experienced person's professional and personal growth. These relationships are typically more long-term than the coaching relationship.

Coaching and mentoring schemes can be provided as either stand-alone programmes, or a component of an integrated scheme. To be effective, there must be a high level of trust between the individuals involved in coaching and mentoring relationships. For inclusive entrepreneurship, this means paying special attention to the needs of the client and matching them with a coach or mentor who understands the challenges faced. Often, the coach or mentor is from the same target group.

Most public policy initiatives seek volunteer coaches and mentors from the local business community. To increase the chances of being effective, initiatives should use a matching process that considers both individual and business characteristics and provide training to coaches and mentors to strengthen their communication skills and improve their knowledge about the barriers that clients face (OECD/EC, 2014). It is also important to set a time limit on the relationship to avoid a relationship based on dependency and to track the progress made during the relationship to ensure expectations are met.

Financing

As identified earlier in the chapter, access to start-up financing is often identified as one of the greatest barriers to start-up. This challenge is magnified for those in disadvantaged and under-represented groups (with the exception of senior entrepreneurs), reflecting in large part the relative lack of collateral assets and own financial resources in these groups (OECD/EC, 2013; 2014b). Some potential entrepreneurs may also face discrimination in credit markets. The goal of inclusive entrepreneurship policy interventions in this area should be that everyone, irrespective of gender, age or ethnic background, has access to business financing tools available in the market.

Grants are the most commonly used approaches for inclusive entrepreneurship. These are capital transfers by which money ownership is transferred from one party (i.e. the grantor) to another (i.e. the grantee). It is not uncommon for public programmes to provide grants under certain conditions, for example with respect to its final use. Conditionalities are set to prevent misuse of public resources.

While not every entrepreneur applies for a **bank loan**, there are many that do and whose request is rejected. Governments can intervene by targeting loans to people who would otherwise find it difficult to obtain them, but who nonetheless have a viable business project (or one that can be made viable with complementary policy support). Many European Union countries have introduced subsidised loan schemes. An example is so-called "Honour Loans", which have provided many generations of young and female entrepreneurs in Italy and France with a combination of grants and interest-free loans. Honour loans are called so because they are conceded against the borrower's word of honour, without requiring collaterals or other forms of guarantee.

Alternatively, policy makers can offer a guarantee on private sector loans. **Credit guarantee schemes** are a commitment by an agency to reimburse a lender if the borrower fails to repay a loan. The guarantee fee is covered by the borrower, lender or both. As a risk sharing mechanism, credit guarantee schemes reduce the risks and potential losses of creditors, inducing lending to riskier types of borrowers. These schemes typically generate fewer market distortions relative to direct lending programmes because they use existing market mechanisms (i.e. private banks) as the main vehicles for lending.

Another approach used within inclusive entrepreneurship policies is **microcredit**, which is the extension of very small loans to borrowers who typically lack collateral and a verifiable credit history. They may often come from disadvantaged groups such as unemployed, youth or people with disabilities and may be unable to access the regular credit market. Microcredit is designed not only to support entrepreneurship and self-employment but also to alleviate poverty. Microcredit is a subset of **microfinance**, which is the provision of a wider range of financial services and other supports (e.g. training) to those with low incomes and no savings. Microcredit is typically provided through specialised microfinance institutions. In the European Union, the microcredit threshold is set at EUR 25 000. In practice, microloans supported by European Union funded programmes such as Progress Microfinance or EaSI Financial Instruments are well below this threshold, averaging at less than EUR 10 000.

Finally, an important element of supporting access to finance within inclusive entrepreneurship policies is **financial education** since many potential entrepreneurs from disadvantaged and under-represented groups have low levels of understanding of basic financial concepts and are unaware of their options in seeking start-up financing, for example how to access new forms of finance such as crowdfunding and group lending or how to maximise the use of limited resources through bootstrapping. The goal is to improve financial literacy. This includes the knowledge and understanding of financial concepts, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life.

Inclusive entrepreneurship programmes often develop specific financial actions for disadvantaged and under-represented groups as a whole, or for key populations within this group, such as specific initiatives for women or youth. However, smaller countries and regions often opt to serve these groups through mainstream programmes available to the population as a whole when the size of the client base does not justify a tailored programme. When putting in place finance programmes it is important to recognise that availability of finance alone is unlikely to solve all the business creation problems faced. Financing programmes also need to be aligned with other initiatives, including supporting entrepreneurial skills and market development skills.

Welfare bridges

Welfare bridge schemes pay an allowance or unemployment benefits for a fixed period of time after business start-up to cover social security contributions and living expenses. This approach has been introduced by several governments in the European Union over the past decade in order to ensure that the unemployed are able to secure an income during the period when they are starting and developing their business or self-employment activity and before they obtain a regular income.

With the large number of welfare bridge schemes implemented in the European Union, a substantial body of evidence can shed light on the effectiveness of these schemes. Two-year survival rates tend to be between 66% and 85%, which is only slightly lower than the overall survival rates of new businesses (OECD/EC, 2014). However, examining survival rates is not sufficient when considering the effectiveness and efficiency of these schemes. Programme costs need to be considered, as well as deadweight and displacement costs. Estimates of deadweight costs (usually self-reported measures of "I would have started a business none withstanding the subsidy") vary according to the country and the characteristics of the programme. Displacement effects are rarely investigated in evaluations but warrant consideration by policy makers.

Box 1.2. **Deadweight costs and displacement effects**

Deadweight costs: The cost of supporting participants who would have set up a new business without the subsidy. Since behaviour of these "deadweight participants" is unaffected by the scheme, their participation does not contribute to economic value but involves a public outlay. The social cost of this outlay is the sum of the distortionary cost, the excess burden of the tax that finances it and the expenses to cover arrangement costs.

Displacement effects: The extent to which subsidised businesses take markets from and displace employment in unsubsidised businesses.

Business development support

Business development support services are services that aim to improve the performance of the enterprise by improving its ability to compete and access markets. Support services include information provision, consultancy and advisory services, marketing assistance, technology development and transfer assistance and networking. Both strategic (medium- to long-term issues that improve performance) and operational (day-to-day issues) supports are included (see OECD/EC, 2014).

In practice, policy makers use a variety of tools as part of a suite of business development support. The least intense service is **sign-posting**, which provides information to entrepreneurs about where they can go to seek professional sources of information and assistance. This can be done with websites, with information provided through public employment services and other partners (e.g. chambers of commerce) or media campaigns. The most critical success factor for sign-posting information for entrepreneurs from disadvantaged and under-represented groups is to go through channels that they already use (e.g. community media).

Business counselling is a business development service where professional business advice is provided to an entrepreneur. A common approach to offering business counselling services as part of an integrated support package and often meeting with business counsellors is often a condition for receiving financial support.

The most intensive business development support services are provided while enterprises are hosted in dedicated locations. **Incubators** are facilities designed to support the creation and growth of entrepreneurial companies through an array of business support resources and services, offered both directly in the incubator and through its network of contacts. Incubators vary in the way they deliver their services, in their organisational structure, and in the types of clients they serve. While virtual/online incubators exist, most programmes host start-up companies on their premises for a limited period of time. Successful completion of a business incubation programme increases the likelihood that a start-up company will survive and grow.

Networking

Entrepreneurial networks provide access to groups of interconnected entrepreneurs, business service providers and various other relevant people whom entrepreneurs can access for information and ideas for the operation of their businesses in reciprocal relationships. These networks can help entrepreneurs obtain financing, find business partners, suppliers, employees and customers, and get ideas for new products, processes, organisational methods and business models. They can also influence an individual's perception of the desirability and feasibility of entrepreneurship (OECD/EC, 2015).

Several key factors for the success of such initiatives can be identified. *First*, network structures and processes should be designed to ensure a high degree of interaction between the entrepreneurs in the network and the wider business community. This will ensure that entrepreneurs from disadvantaged and under-represented groups have access to a greater pool of resources to help them overcome their barriers and obstacles. In addition, building a strong bridge between the network and the wider business community will ensure that the network does not further isolate the group of disadvantaged entrepreneurs and reinforce their disadvantage.

Secondly, policy makers should set up clearly defined objectives for entrepreneurial networks. These objectives will shape the structure and processes of the network. For example, some policy actions combine the creation of networks with delivering entrepreneurship training and access to financing. This type of network will require a very different structure than one that aims to build international connections and facilitate exporting and business expansion. Having a clear purpose will also improve outreach and awareness-raising around the network.

Third, policy makers should not create a plethora of networks. A large number of networks will crowd each other out and will undermine the benefits that each network brings. It is much more important for policy makers to focus on providing high-quality networks.

Fourth, public policy should support the use of online entrepreneurial networks. While their effectiveness is not known, they can be a low-cost and easily-accessed structure. However, policy makers need to ensure that the network is dynamic so that members remain engaged. The impact will likely be greater if combined with face-to-face interactions.

Finally, it is crucial that policy makers design networking initiatives in such a way that the management and ownership of the network are transferred to the members. This is likely to build a higher level of trust and participation by members and potential members.

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From:

Inclusive Business Creation

Good Practice Compendium

Access the complete publication at:

https://doi.org/10.1787/9789264251496-en

Please cite this chapter as:

OECD/European Union (2016), “Key policy issues and approaches to inclusive business creation”, in *Inclusive Business Creation: Good Practice Compendium*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264251496-4-en