

Chapter 1

Recent developments in entrepreneurship

The short-term indicators presented in this chapter provide timely information on business dynamics and self-employment. They offer an up-to-date snapshot of entrepreneurialism, and therefore growth and employment prospects, in the OECD area.

Enterprise creations are picking-up in most countries

In most OECD economies where data are available the number of new firms created continues to recover and in many cases, enterprise creations are above pre-crisis highs. Of the OECD economies where timely data are available, entries have trended upwards in nine in recent periods (up to the first quarter of 2017): Australia, Belgium, France, Hungary, Iceland, the Netherlands, Norway, Sweden and the United States (Figure 1.1).

Moreover in countries where the numbers of enterprise creations have continued to trend downwards in recent years this may mask other patterns. In Italy and Germany, for example, declines reflect falls in the number of new sole proprietors, with creations of other legal forms of companies picking up in recent years (Figure 1.2).

The services sector appears to have been the main driver of these upward trends in recent years. In Canada, France, Germany, and the United States, the trend growth of enterprise creations in the services sector outpaced that of the manufacturing sector (Figure 1.3).

Figure 1.1. **New enterprise creations**

Trend-cycle, 2012 = 100

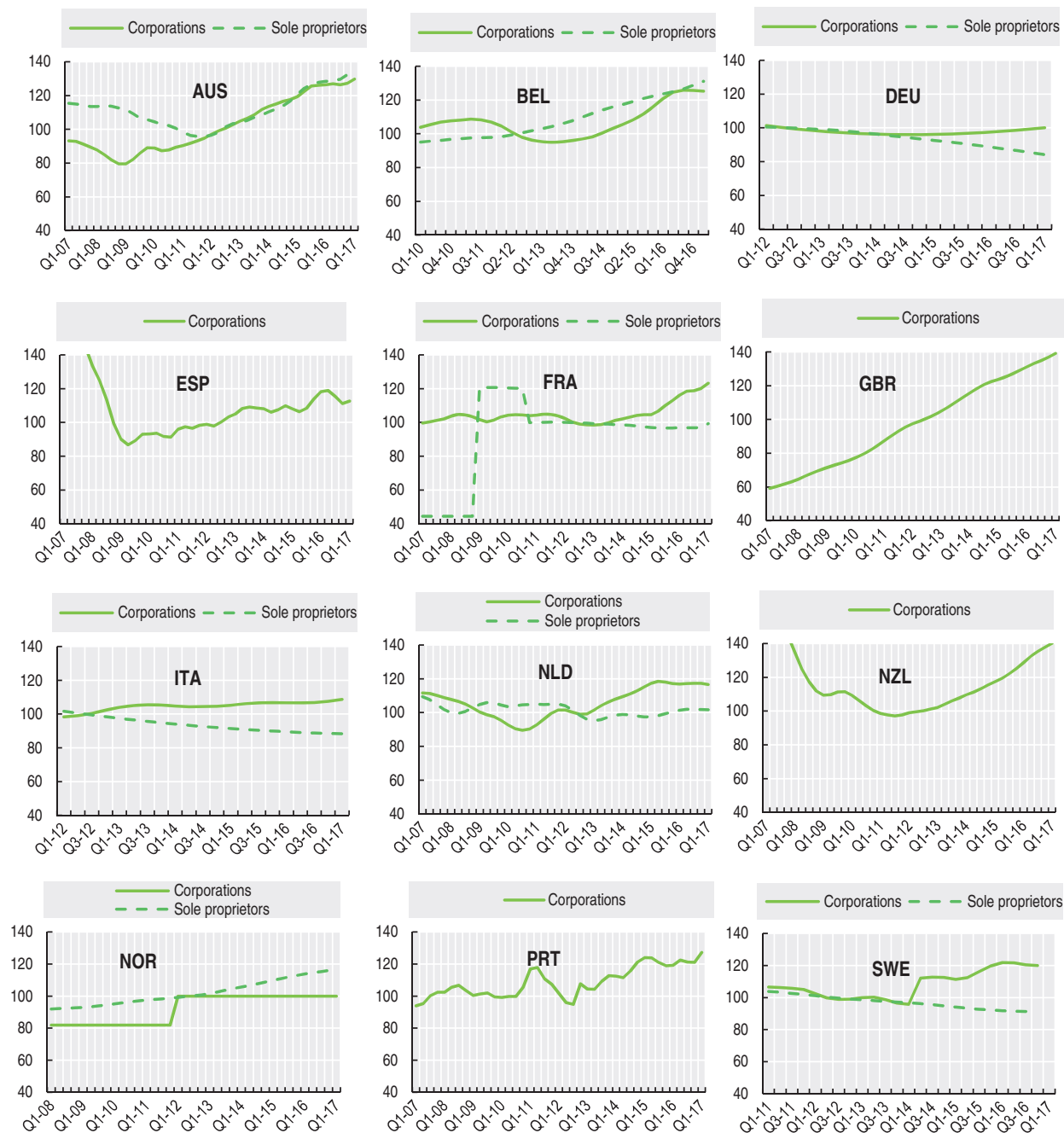


Source: OECD Timely Indicators of Entrepreneurship (database), July 2017.

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Figure 1.2. **New enterprise creations by legal form**

Trend-cycle, 2012 = 100



Source: OECD Timely Indicators of Entrepreneurship (database), July 2017.


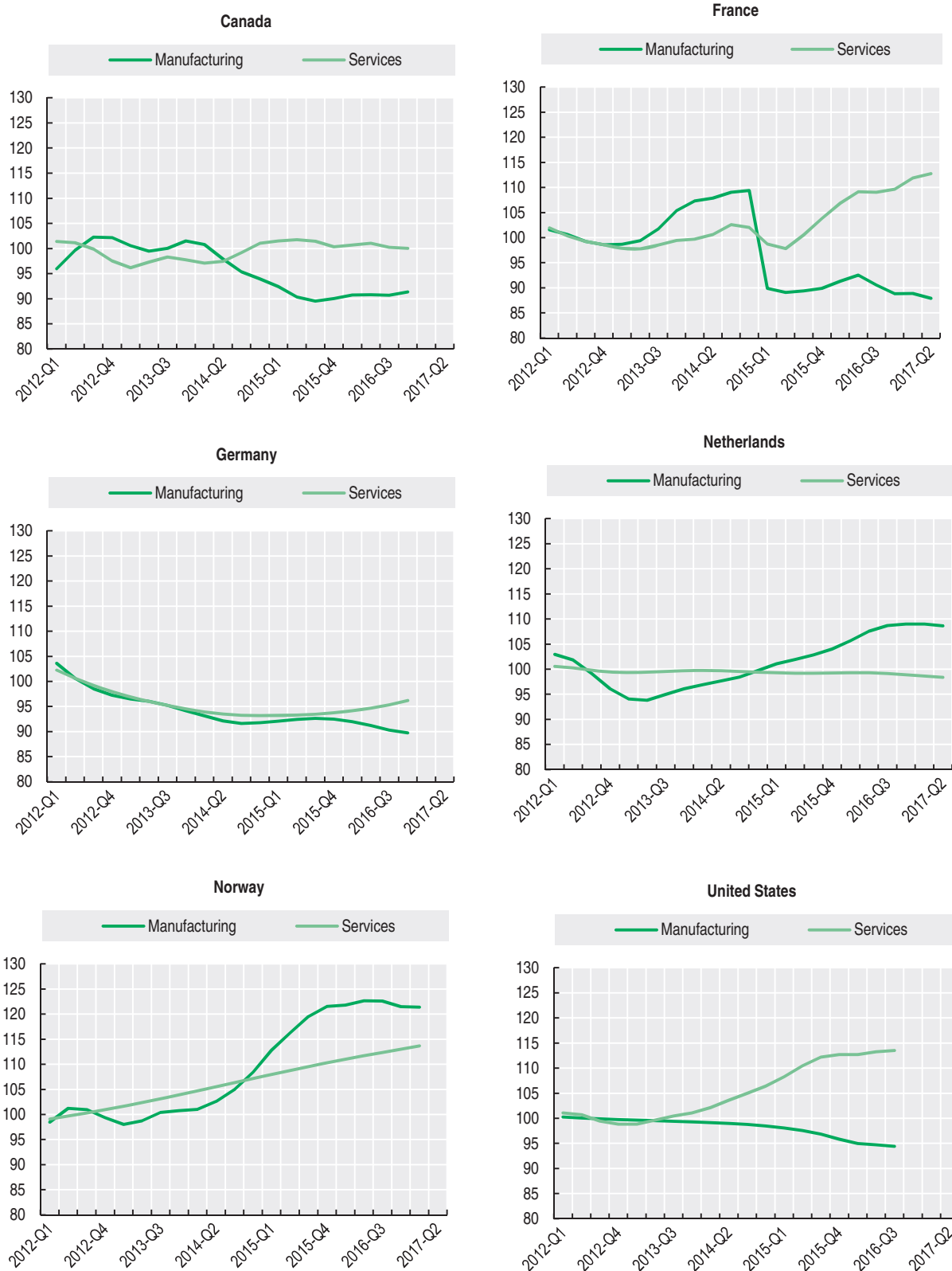
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Figure 1.3. **New enterprise creations by main sector, selected G7 countries**

Trend-cycle, 2012 = 100



Source: OECD Timely Indicators of Entrepreneurship (database), July 2017.

StatLink  <http://dx.doi.org/10.1787/888933590492>

Box 1.1. A closer look at the secular decline in enterprise creation rates

Set against a backdrop of declining trends in productivity, there has been considerable debate in recent years on what has now become known as a secular decline in enterprise creation rates, focussing primarily on US data, where relatively long time series going back to the 1980s are available (Decker et al., 2016, Haltiwanger 2016). Similar studies, albeit with much shorter time series (Blanchenay et al., forthcoming) have drawn similar conclusions for other countries.

Although it is still too early to state with certainty, the timely evidence presented in this publication suggests that the secular decline may have abated. To reinforce this, albeit tentative, message, it is instructive to contextualise the debate around creations, or at least to highlight the statistical nature of their construction and how this may need to be interpreted in analyses.

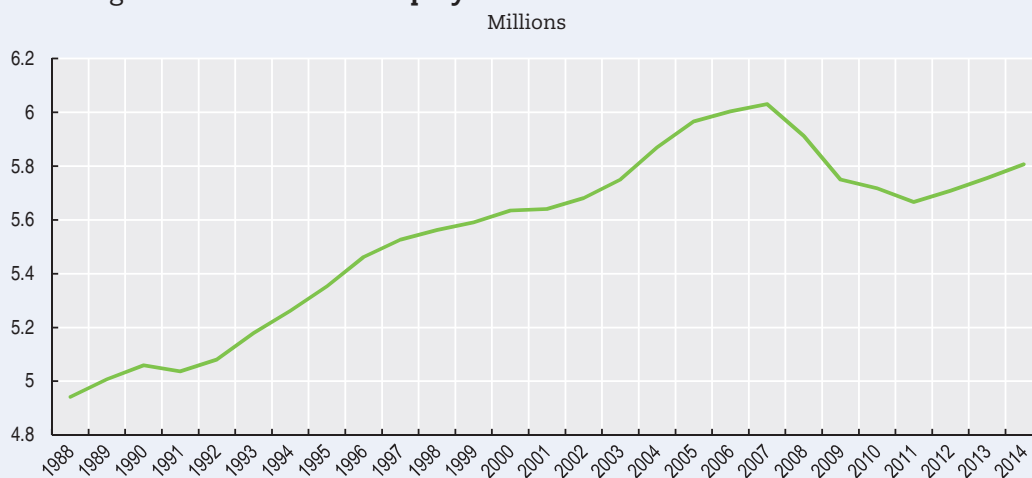
In many analyses, creation rates in business statistics are viewed analogously to birth rates in the general (human) population, even if the applications differ. But what is often forgotten in this debate is that, unlike with general population measures, existing firms do not typically give birth to new entries and create new firms, and where existing firms do engage in the creation of new firms, these are often recorded as ‘growth’ in the existing firm and not new creations.

Implicit in the analogy is that the existing stock of firms is a proxy for the pool of entrepreneurialism within an economy from which new firms can be created, hence the use of the number of existing firms as the denominator in measures of enterprise creation rates. This has proved, and continues to prove, to be a very useful measure of entrepreneurialism within an economy, which is why it features prominently in this publication. But it does not come without statistical caveats that can impact on comparability over time and across countries.

For example, two countries with exactly the same general population sizes and exactly the same numbers of new creations in a given year can have very different creation rates if the population of firms differ. Indeed, if one of these economies was an emerging economy and the other a mature developed economy, the assumption would likely be that the number of new creations in the emerging economy would be higher than in the developed economy as the emerging economy catches up. This difference would in turn be exacerbated in presenting creation rates through the application of a lower denominator (of firms). It is perhaps no coincidence in this respect that creation rates shown for former transition and emerging economies in this report are typically higher than for more mature developed economies.

In this context, it is helpful to keep one eye on levels of creations and not just the rates. Figure 1.4 below for example shows the number of employer establishments in the United States over the last quarter of a century, revealing a strong upward trend, notwithstanding the crisis dip, which presents the secular decline story in a slightly more nuanced context.

Figure 1.4. Number of employer establishments in the United States



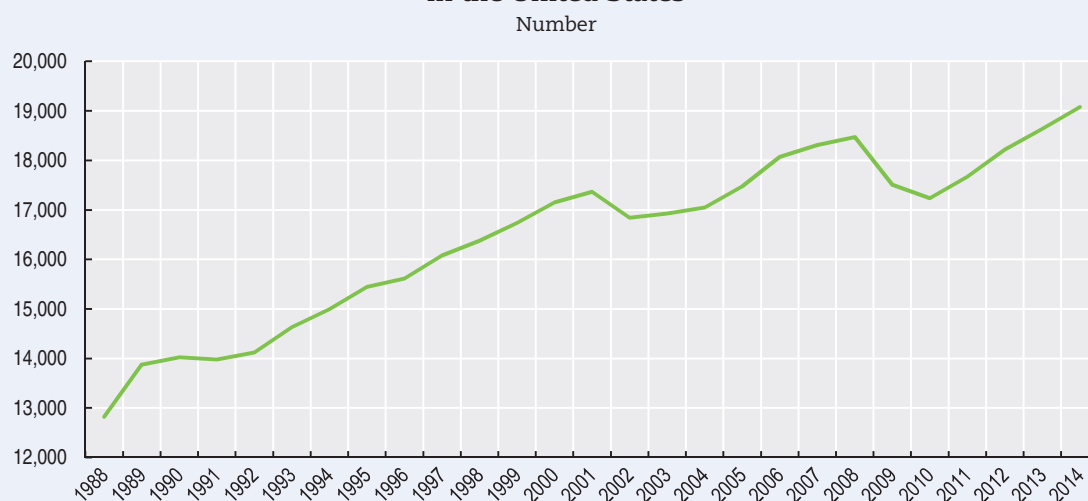
Source: US Small Business Administration.

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Box 1.1. A closer look at the secular decline in enterprise creation rates (cont.)

Additional context for the secular decline story also emerges when one looks at the strong growth in the population of large establishments (with more than 500 employees), as increased market concentration may have crowded out potential new entrants.

Figure 1.5. **Number of employer establishments with 500+ employees in the United States**

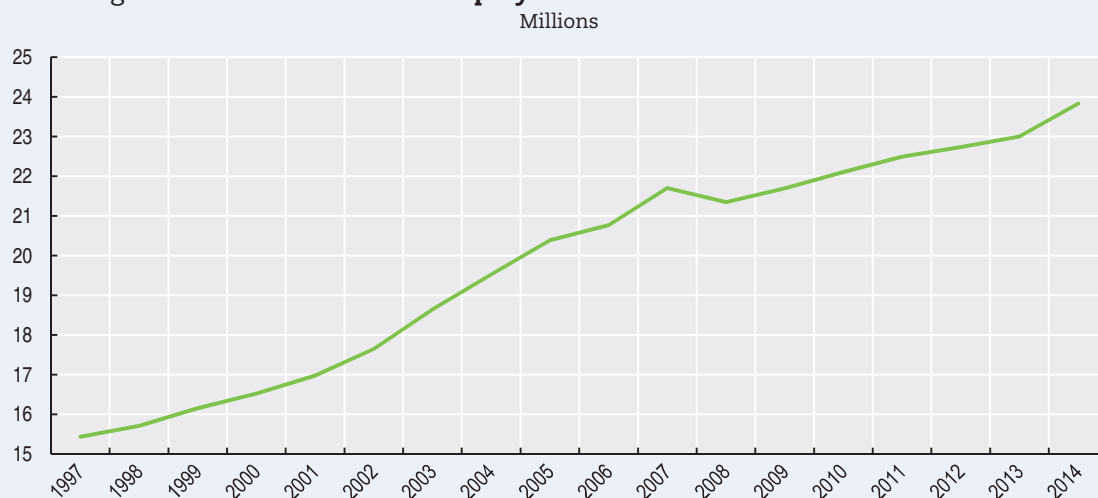


Source: US Small Business Administration


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But looking at the numbers of non-employer establishments suggests that the impact of increased market concentration may not have been especially severe. The number of non-employer establishments increased by around 60% in the last fifteen years.

Figure 1.6. **Number of non-employer establishments in the United States**



Source: US Small Business Administration

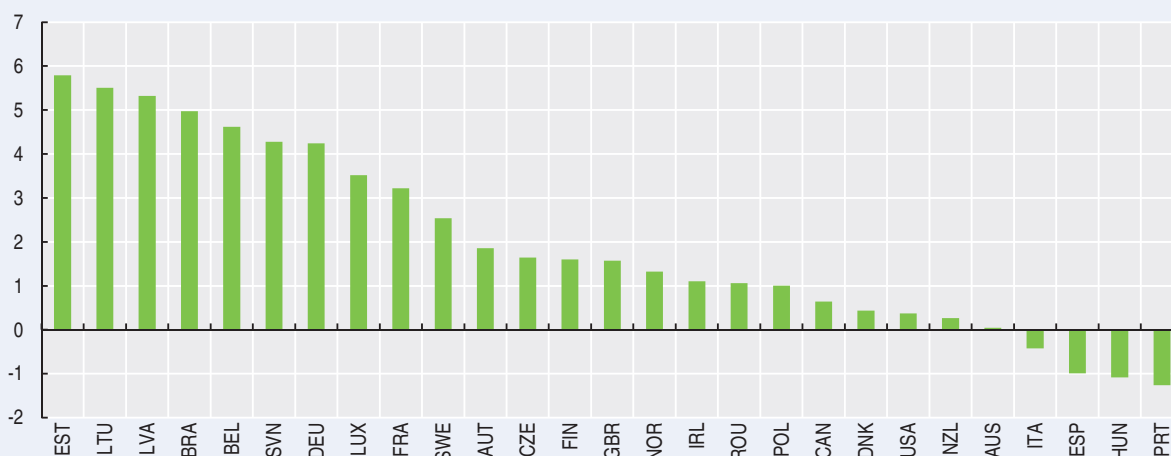
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Box 1.1. A closer look at the secular decline in enterprise creation rates (cont.)

Similar patterns emerge among many OECD countries too when looking at growth in the number of enterprises over the last decade: growth between 2005 and 2014 was particularly strong across many countries, with contractions only in countries hit hard by the crisis (Figure 1.7). This slightly nuances the secular decline story.

Figure 1.7. **Growth in number of enterprises, 2005-2014**

Average annual percentage change



Source: OECD Structural Business Statistics database.

StatLink <http://dx.doi.org/10.1787/888933590568>

None of the above however completely discounts the secular decline story either. The figures presented above, for example, only show net changes in creations minus closures. Increases in the population of firms can certainly go hand-in-hand with decreases in the number of creations and decreases in failures, and so lower levels of creative destruction and by extension entrepreneurialism. But a focus on the number of active firms, which has increased significantly in many countries despite lower levels of start-ups, adds context and may suggest that the state of entrepreneurialism in its broadest sense has been less bleak than that suggested by creation rates alone.

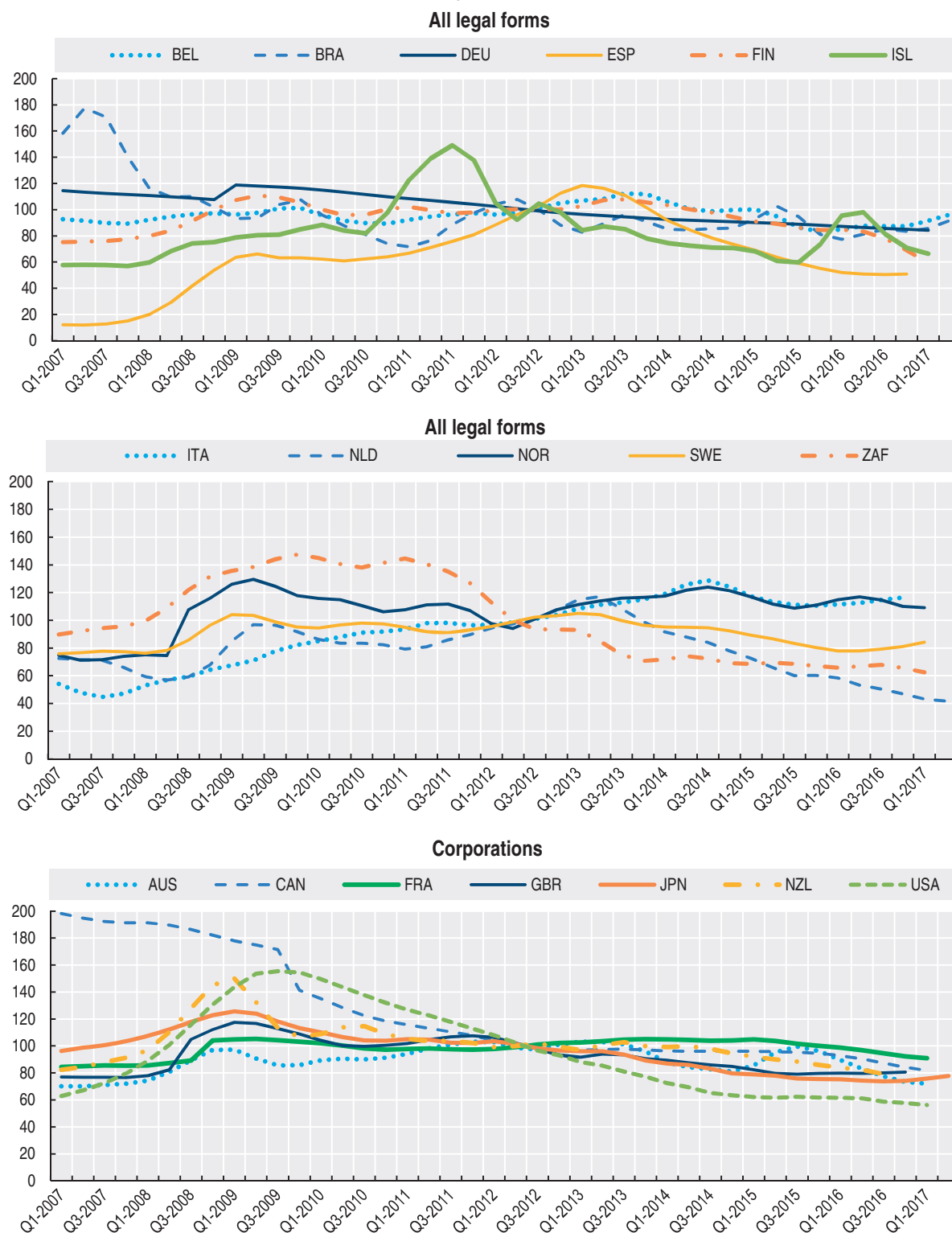
One final statistical point worth highlighting concerns comparisons of creation rates and firm growth across countries, where the size of a country matters too. The firm measure used for international comparisons and advocated in this publication is that of an “enterprise”. When a US enterprise located in New York creates a new establishment in California, this counts as growth, but when an enterprise located in France, say, creates a new establishment (and so an “enterprise”) in Luxembourg, this counts as a new enterprise creation in Luxembourg and no increase in growth in France.

Bankruptcies are back to pre-crisis levels

In line with the observed recovery in enterprise creations, is improvement in bankruptcy trends. At the end of 2016 the number of bankruptcies was back to pre-crisis levels, or below, in most countries. In Iceland, Italy and Spain levels remained higher than in 2007, although the most recent quarter on quarter trends at the beginning of 2017 point to improvements in all three countries.

Figure 1.8. Bankruptcies, selected countries

Trend-cycle, 2012 = 100



Source: OECD Timely Indicators of Entrepreneurship (database), July 2017.

StatLink  <http://dx.doi.org/10.1787/888933590587>

Self-employment has evolved differently across countries

While trends in start-ups and bankruptcies are beginning to converge in most economies, patterns of self-employment (i.e. persons who own and work in their own business) continue to evolve differently across countries (Figure 1.9). In a large group of countries, including Australia, Germany, Italy, Korea, Poland, Sweden, and the United States, self-employment rates continue to decline, although the number of self-employed remains stable; reinforcing the messages highlighted in Box 1.1 concerning rates *versus* levels. But in Greece, Japan and Portugal declines in self-employment rate have occurred in parallel with significant decreases in the number of self-employment jobs.

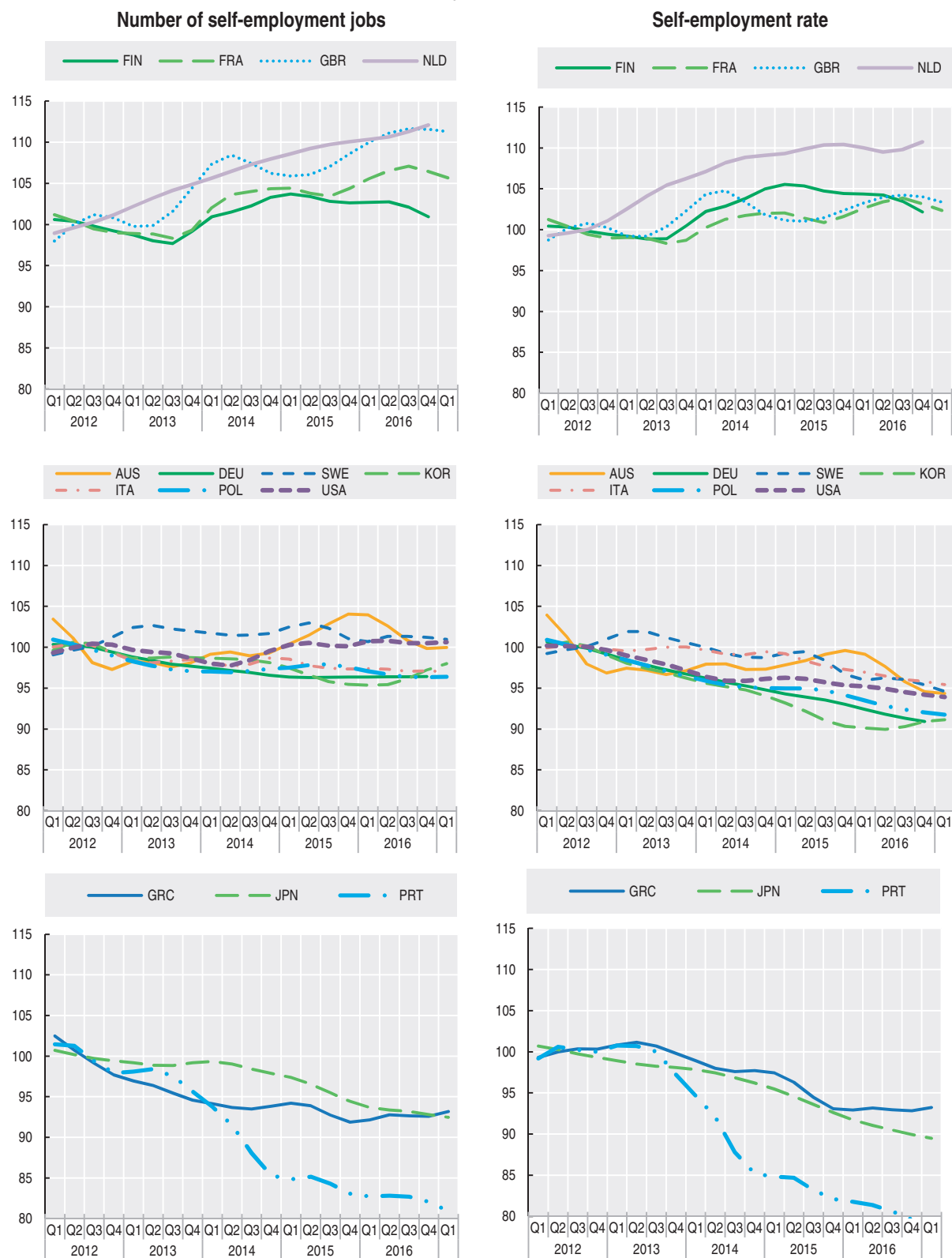
On the contrary, self-employment rates and the number of self-employed in 2016 were well above pre-crisis rates in the Netherlands and the United Kingdom, with trends also pointing strongly upwards. Self-employment rates and the number of self-employed were also significantly above pre-crisis levels in Finland and France, although recent trends are pointing downwards.

Despite cross-country differences in the evolution of the level of self-employment, a common trend across most countries has been the growth in numbers of self-employed working only part-time, and of their shares in self-employment (Figure 1.10). In many OECD countries, part-time self-employment has increased considerably in the past decade, in part reflecting new opportunities presented by the emergence of the “gig economy” in several countries (OECD, 2016). Indeed, the actual numbers of individuals engaged in the gig economy is likely to be higher than those figures shown below, as these only include those individuals who identify first and foremost as part-time self-employed and not those individuals in paid employment (employees) who also engage in self-employment activities for a secondary source of income (see Chapter 6).

The emergence of “gig workers” raises new questions on the appropriateness of self-employment rates or levels as proxies for the size of entrepreneurialism (Box 1.2). There has been a long standing awareness that care is needed in this regard, particularly with respect to those self-employed engaged in purely subsistence, low-growth activities and those pushed into self-employment by necessity. But gig-economy workers have compounded these concerns. In many instances, gig-economy workers have little discernible difference to classic employees, with the sole difference being that they have less access to rights and benefits typically associated with employees, and in some countries gig workers are taking legal action to contest their employment status as self-employed (see Sundararajan, 2015, and Balaram et al., 2017, for an overview of the controversy over the employment status of gig workers and the implications for tax and welfare).

Figure 1.9. **Self-employment, selected countries**

Trend-cycle, 2012 = 100



Source: Eurostat: EU Labour Force Survey, <http://ec.europa.eu/eurostat/web/microdata/european-union-labour-force-survey>; Japan: Labour Force Survey, <http://www.e-stat.go.jp/SG1/estat/eStatTopPortalE.do>; United States: Current Population Survey, www.census.gov/cps/.


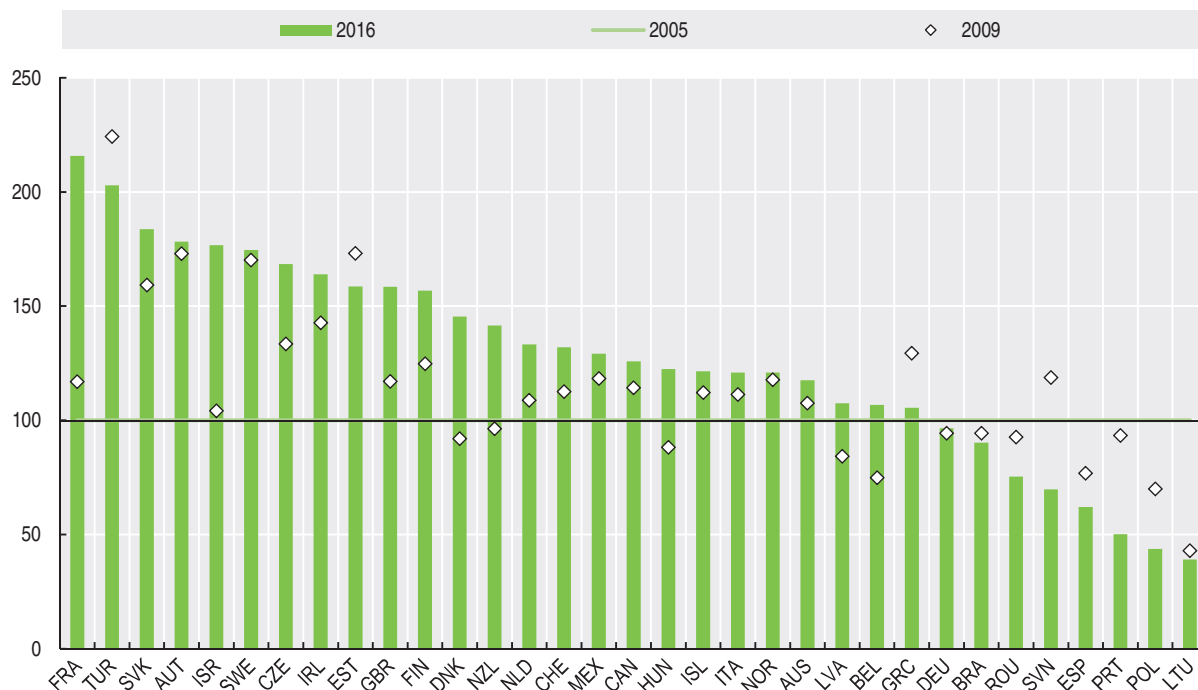
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Figure 1.10. **Part-time self-employment**

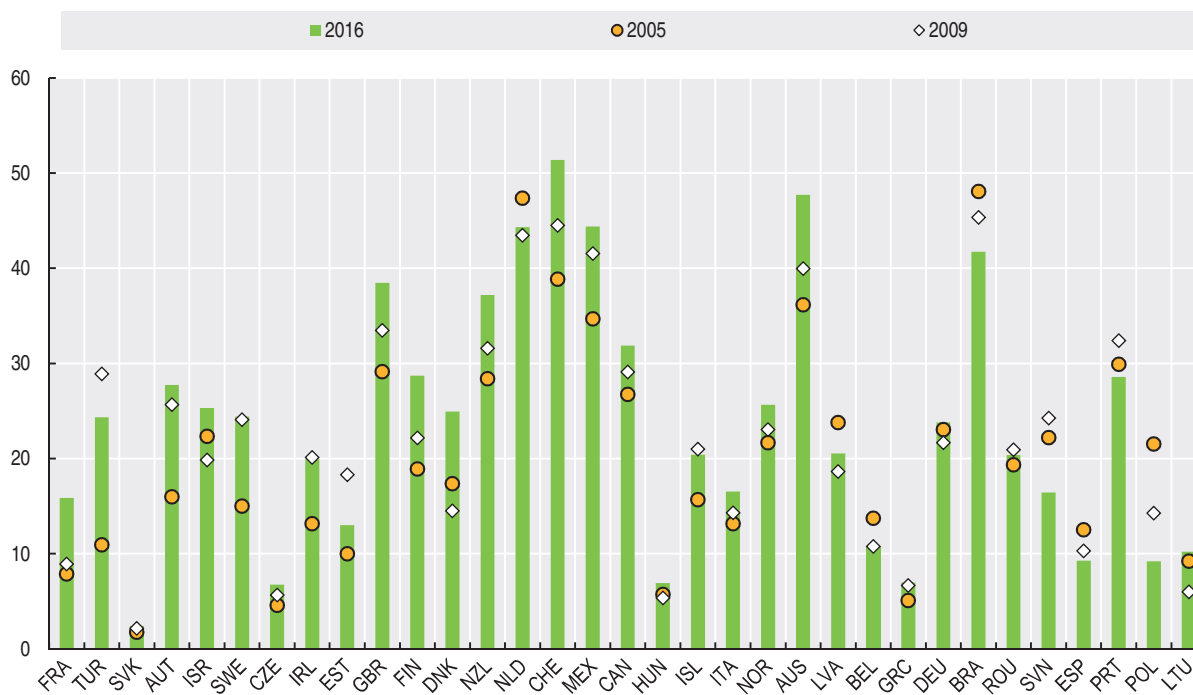
Index, 2001 = 100

Share of total self-employment


Number of part-time self-employed (2005=100)



Share of part-time self-employed among all self-employed (%)



Source: OECD (2017), "Labour Market Statistics: Full-time part-time employment - common definition", OECD Employment and Labour Market Statistics (database), <http://dx.doi.org/10.1787/data-00298-en>.

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Box 1.2. How entrepreneurial is the “gig economy”?

The term “gig economy” is typically taken to mean the rising phenomenon of flexible employment arrangements, or gigs, that increasing numbers of people engage in. While a formal definition of the “gig economy” does not exist, a recent UK study refers to it as the “trend of using online platforms to find small jobs, sometimes completed immediately after request (essentially, on-demand)” (Balaram et al., 2017). These flexible arrangements complement or substitute full-time jobs, and also offer a way into the labour force for those who were previously absent. Gigs themselves are not new; certain professions, notably in the entertainment industry, have always relied on them as an important source of income. But today they are being offered and demanded by a larger and more diverse group of people and cover a wider range of services than ever before.

The rapid popularisation of gigs has been fuelled by technology and is largely associated with the rise of online platforms such as Uber and TaskRabbit that connect buyers and sellers for one-time transactions.

The relative novelty of the gig economy means that assessments of the number of “gig workers” in OECD countries are mostly unavailable. Balaram et al. (2017) estimated that the number of gig workers is currently 1.1 million in the United Kingdom, with only 12% working every day and only 8% working for more than 35 hours or more per week.

The relationship between the gig economy and entrepreneurial activity is by no means obvious. Participants in the gig economy may be small-scale entrepreneurs: on the platform Etsy, for example, artisan retailers can easily sell their hand-crafted jewellery, clothing, and accessories around the world. But many may not be in the purest sense, in that they may for example be contractually tied to providing services uniquely to one firm and so have strong similarities with conventional employees. On the other side, the flexibility gigs offer do contrast with traditional salaried employment and may encourage nascent entrepreneurs to implement their start-up ideas while still being able to cover living expenses (indeed, this view is often advertised by digital matching firms themselves) and so in that respect their emergence cannot be immediately discounted from measures of entrepreneurialism.

In addition, some evidence is emerging that suggests that the gig economy may sometimes decrease entrepreneurial activity. Burtch et al. (2016) for example looked at how the entry of Uber (a taxi service) and Postmates (an on-demand delivery service) into local markets affected the level of local entrepreneurship as indicated by the volume of local crowdfunding campaigns launched on Kickstarter, the world’s largest crowd-funding platform. The authors found that the volume of campaigns decreased significantly, and that this decrease was driven primarily by a reduction in unsuccessful campaigns. This led them to conclude that gig economy platforms act primarily as a substitute for low-quality entrepreneurship and less as a complement to high-quality entrepreneurship.

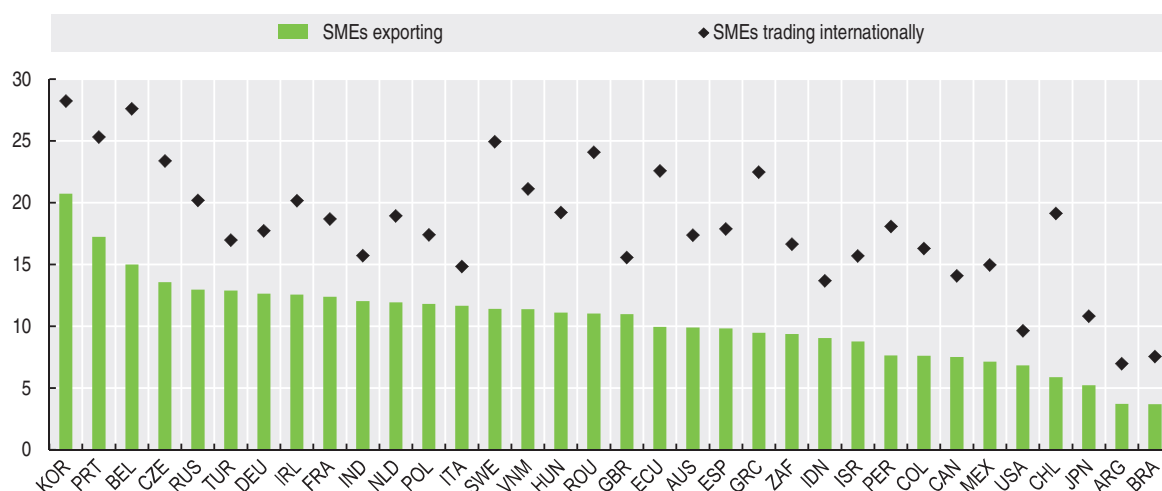
Digitalisation has opened new pathways and markets for entrepreneurial growth

The development of affordable digital tools and platforms has provided new opportunities for micro-enterprises to tap into foreign markets in a way that would previously have been unimaginable.

New data from the *Future of Business Survey*, a joint Facebook-OECD-World Bank collaboration, show that even “just me” entrepreneurs (i.e. self-employed with no employees) can engage in exports as a major activity for their business, by capitalising on digital tools, despite their small scale (Facebook, OECD, World Bank, 2017). In the past, only large multinationals could, effectively, scale globally. Today, small businesses have a menu of digital tools that allow them to leverage global connections and market directly to potential customers all over the world, overcoming in turn barriers to trade which typically weigh more heavily on smaller firms with lower economies of scale.

Although there is a wide variation in the percentage of small and medium-sized enterprises (SMEs) trading in each country and region, in most economies approximately one in five SMEs with a digital presence surveyed between March and May 2017 reported trading internationally, including 6% importing and exporting, 5% exporting exclusively, and 8% importing exclusively (Figure 1.11). For the purpose of the survey SMEs are defined as enterprises with less than 250 employees. Cross-country variations partly reflect differences in the representativeness of surveyed SMEs - the survey by design only covers those firms with a Facebook presence, and in advanced economies this cohort of firms is likely to be more representative of the general population than in developing and emerging economies.

Figure 1.11. **International trade and SMEs with digital presence**
Share of survey respondents, March-May 2017



Note: Responses from enterprises with a Facebook Page over the period March-May 2017. Traders are defined as businesses being involved in import and/or export, whereas exporters include two-way traders and exporters only.

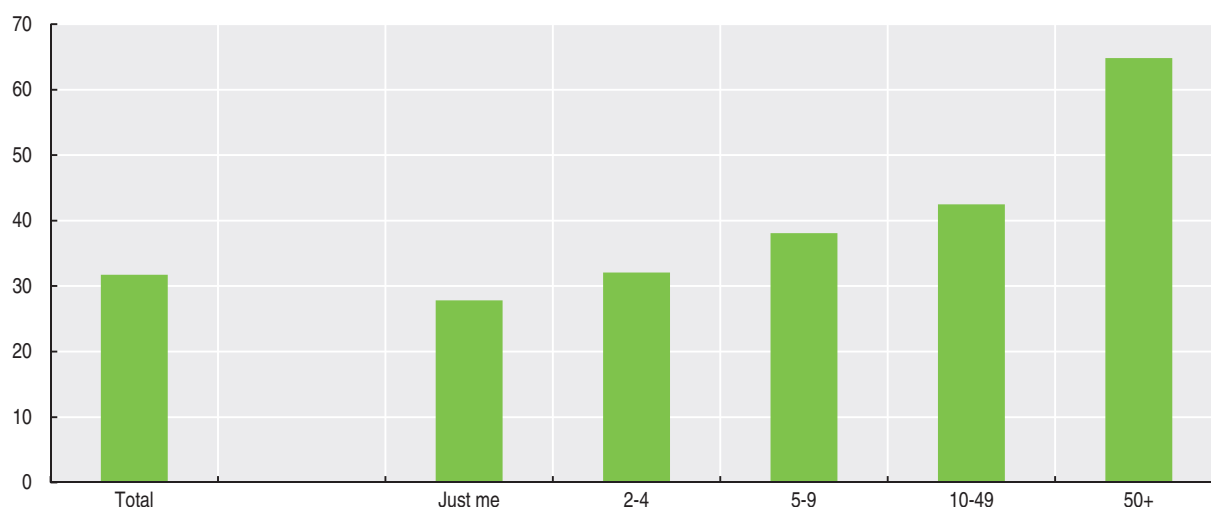
Source: Facebook-OECD-World Bank Future of Business Survey (database), June 2017.

StatLink <http://dx.doi.org/10.1787/888933590644>

The survey findings reveal that among firms that export, exports represent a key element of the business model not only for significant shares of small enterprises (with less than 50 employees), but also for many just-me enterprises. Close to a third (28%) of just-me entrepreneurs who export indicate that more than 25% of their total revenue comes from international trade (Figure 1.12). Also, two in three exporting SMEs reported that more than 50% of their international sales depend on online tools, with export activities most common among manufacturing SMEs, followed by retail/wholesale businesses.

The most recent data from the *Future of Business Survey* also confirm previous findings on the relation between business confidence and international trade. Businesses that trade internationally appear more confident in the current state and future outlook of their businesses, and are also more likely to have positive prospects of job creation (Figures 1.13 and 1.14). This is true also for just-me entrepreneurs, although positive evaluation of current or future situation as well as prospects of job creation are typically higher for larger firms.

Figure 1.12. **Exports revenue greater than 25% of total revenue, by enterprise size**
Percentage of exporters, March-May 2017



Note: Responses from enterprises with a Facebook Page over the period March-May 2017. Traders are defined as businesses being involved in import and/or export, whereas exporters include two-way traders and exporters only.

Source: Facebook-OECD-World Bank Future of Business Survey (database), June 2017.

StatLink <http://dx.doi.org/10.1787/888933590663>

Figure 1.13. **Digital presence, international trade and business confidence**
Percentage of positive replies among survey respondents, March-May 2017



Note: Responses from enterprises with a Facebook Page over the period March-May 2017. Traders are defined as businesses being involved in import and/or export, whereas exporters include two-way traders and exporters only. *Current status* and *Outlook* respectively report the reply "Positive" to the questions: "How would you evaluate the current state of your business?" and "What is your outlook for the next 6 months on your business?"

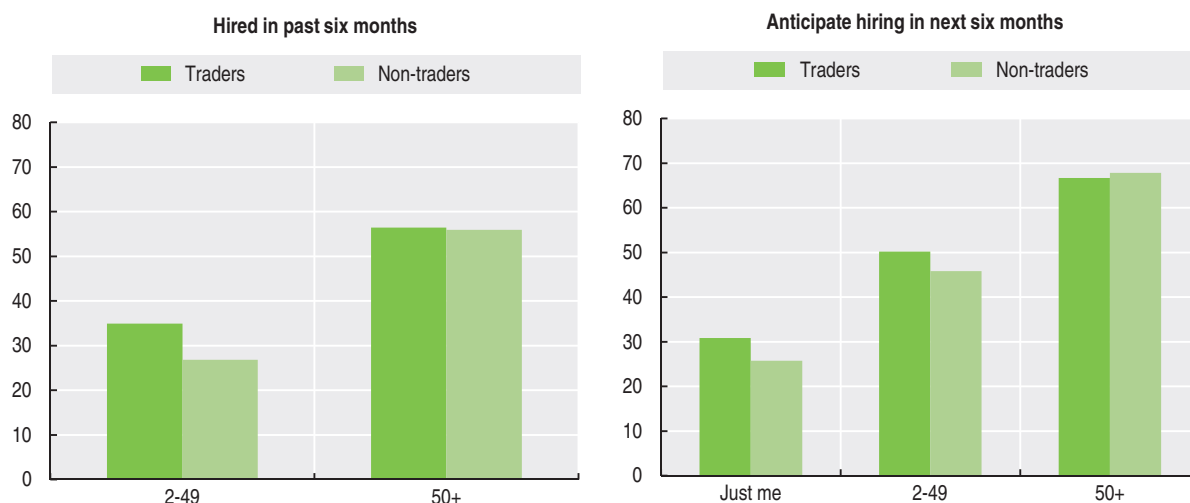
Source: Facebook-OECD-World Bank Future of Business Survey (database), June 2017.

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The establishment of an exporting branch can play a major role in business success and growth as new markets are opened. However, almost half of exporting SMEs identified "selling to foreign countries" as a challenge (and these challenges might be even higher among SMEs that want to export but have not been able to do so). The main export barriers included finding business partners, market access limitations, and regulations. Overcoming challenges for export is a key factor to business success.

Figure 1.14. **Digital presence, international trade and prospects of job creations**

Percentage of positive replies among survey respondents, March-May 2017



Note: Responses from enterprises with a Facebook Page over the period March-May 2017. Traders are defined as businesses being involved in import and/or export, whereas exporters include two-way traders and exporters only. The figure illustrates the reply “Increase” respectively to the questions: “How did the number of employees in your business change in the last 6 months” and “How do you expect the number of employees in your business to change in the next six months?”.

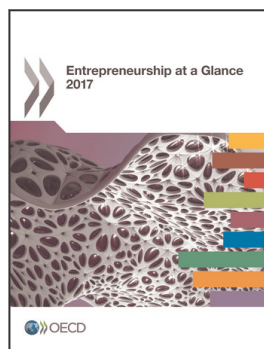
Source: Facebook-OECD-World Bank Future of Business Survey (database), June 2017.

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