Entrepreneurship and Self-Employment

Open. Innovate. Invite.
1. Introduction

Over the last sixty years there has been an evolution in the manner in which governments in advanced countries have undertaken industrial and enterprise policies (Warwick, 2013). Governments across the world are focusing resources on promoting entrepreneurial activity (OECD, 2010; 2013) with the clear goal of job creation and increase innovation. Fostering youth entrepreneurship has gained importance on the global and national policy agenda as a way to expand employment and earning opportunities (OECD, 2017c). Nevertheless, reality is still quite challenging.

The 2017 GEM report suggests that across 61 economies around the world, more than two-thirds of the adult population believe that entrepreneurs are well regarded and enjoy high status within their societies. But the positive effects of this trend are not so straightforward. Acs and Varga (2005) studied 11 countries and found that opportunity entrepreneurship has a positive significant effect on economic development, whereas necessity entrepreneurship has no effect1.

For many young people entrepreneurial activity is the sole entry point to the labour market - yet mostly this activity is informal and more attached to subsistence than performance (OECD, 2017c). The fact that a large majority of youth are still failing to succeed as entrepreneurs casts doubts on how much hope policy makers can place on youth entrepreneurship as a solution to the youth employment challenge (OECD, 2017c).

However, there is evidence that that cycle can be changed. There are there are many ways to improve the environment where entrepreneurship is developed, providing more resources and opportunities for young people to transform self-employed necessity ventures. A more welcoming ecosystem were education, managerial capital and business skills are available to young people, will allow entrepreneurs to reach high performance and open the chance to social entrepreneurship as a new way of active and sustainable civic engagement.

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What are the effects of entrepreneurs in economy and society? Should we encourage more young people to become entrepreneurs? How much hope should policy makers place on entrepreneurship programmes as a solution to the youth employment challenge in developing countries? What are the biggest barriers for young people to become high performance business? What are the opportunities for sustainable civic engagement through entrepreneurship? What are the opportunities for young people to create new jobs?

1.1 Objectives

This Task Force will encourage delegates to discuss and make suggestions around the conditions that enable the development of impactful entrepreneurs, the role of the ecosystem and the opportunities for young people to launch their own ventures and reach the highest levels of performance.

Policy recommendations and social innovation projects that address opportunities for entrepreneurship need to consider the multiple components of the entrepreneurial ecosystem and the barriers that prevent specific groups to consider the entrepreneurial path as a viable option.

During the Y20 process we expect to:

1. Reach a common understanding of the main components in today's entrepreneurial ecosystems that can be addressed through public policy recommendations or social innovation initiatives.
2. Identify the role of the different stakeholders involved in entrepreneurial ecosystems with influence to transform them.
3. Propose a series of public policies based on the goals defined and design a theory of action to bridge the gap between policy and practice.
4. Propose a series of social and public innovation projects that can be carried out by individuals, organisations and communities to face the challenges and trends related to the future of work.

2. Definitions

Entrepreneurship is a phenomenon with many different definitions. Y20 2018 will follow the OECD-Eurostat Entrepreneurship Indicators Programme (EIP).
Entrepreneurship is defined by the OECD-Eurostat Entrepreneurship Indicators Programme (EIP) as the “phenomenon associated with entrepreneurial activity, which is the enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets” (Ahmad and Seymour, 2008).

Since the concept is so broad, some distinctions are necessary:

- **Self Employment:** Necessity based ventures, usually considers entrepreneurship as a last resort due to impossibility of finding other sources of income. It may include subsistence and informal business (Braunerhjelm, 2010; OECD, 2012)

- **High Growing Firms (HGF):** is related to opportunity based ventures represents a profitable opportunity as perceived by an individual or association. Usually refers to High Growth Entrepreneurship, highly profitable and innovative formal enterprises (Braunerhjelm, 2010)

- **Small and Medium-Sized Enterprises (SME):** can refer to any enterprise from under 10 to under 250 staff headcount, and a turnover under €50 million (European Commision). Usually they are independently owned and operated, organized for profit and not dominant on its field.

- **Start Ups:** A startup is an organization formed to search for a repeatable and scalable business model (Blank, 2010).

### 3. Main Trends, Challenges and Opportunities

#### 3.1 Entrepreneurial activity and job creation

According to a recent estimation of the OECD, 600 million jobs need to be created worldwide over the next 15 years to keep employment rates at their current level. This panorama increases the urge for solutions, and promoting the entrepreneurial activity is one of the most followed recipes. In the recent years, policymakers around the world are focusing on promoting the development of entrepreneurial ventures in their countries (OECD, 2010; 2013).

The shift in focus is based mostly on the expected effect of High Growing Firms as drivers for productivity, innovation, employment creation and business internationalization (OECD, 2013; Brown et al, 2014). An influential UK study covering the period 2002-2008 found that HGFs represented about 6% of the total number of
businesses (termed ‘the vital six percent’) but created 54% of all net new jobs in the UK (Anyadike-Danes et al, 2009).

However, HGF are only one of the many faces of entrepreneurial activity nowadays. Other options are not so successful on the same aspect. Several studies have pointed that startups create a jobs with worse pay, or on low-skilled service jobs\(^2\). At the same time, data from developing countries reveals only a tiny portion of youth entrepreneurs record high performance in terms of profits and job creation (OECD, 2017c). In low and middle-income countries, self employment is the dominant form of entrepreneurship and accounts for an important share of youth employment, often the only entry point to the labour market (OECD, 2017c).

A new element to complete the picture of the labour market in the 21st century is the growth in numbers of self-employed working only part-time, many of them attached to new opportunities presented by the "gig economy" i.e. the rising phenomenon of flexible employment arrangements, that complement or substitute for full-time jobs (OECD, 2017c). The discussion is on the connections between self employed, entrepreneurialism and conventional workers, since the gig workers share strong similarities with salaried employment workers, but with greater flexibility, certain time management freedom and often unregulated working conditions.

The contrast between these realities reinforces the need of understanding the elements that enable or limit entrepreneurs (especially young ones) to reach the high performance that will allow job creation and increase in production and innovation.

3.2. The development of entrepreneurial ecosystems

The entrepreneurial spirit needs a very specific combination of conditions, culture and infrastructure to thrive. All them are usually addressed as the entrepreneurial ecosystem.

As defined by Mason and Brown (2014), an entrepreneurial ecosystem is

"a set of interconnected entrepreneurial actors (both potential and existing), entrepreneurial organisations (e.g. firms, venture capitalists, business angels, banks), institutions (universities, public sector agencies, financial bodies) and entrepreneurial processes (e.g. the business birth rate, numbers of high growth firms, levels of 'blockbuster entrepreneurship', number of serial entrepreneurs, degree of sellout mentality within firms and levels of

entrepreneurial ambition) which formally and informally coalesce to connect, mediate and govern the performance within the local entrepreneurial environment” (Mason & Brown, 2014, p5)

Because of its quality to predict the development of high performance entrepreneurs, many initiatives around the world try to assess and compare ecosystems. The **EY G20 Entrepreneurship barometer** ranks each of the G20 countries on the level of support it provides for entrepreneurs. To do so, they consider five pillars:

- **Access to funding.** Seed, Startup, Expansion, Growth Capital
  
  According to the 2013 barometer, 7/10 of entrepreneurs have found access to funding difficult. In Italy and Argentina 45% and 40% of entrepreneurs, respectively, find it very difficult to access funding, whereas only 15% of entrepreneurs say the same in the US.

- **Entrepreneurship culture.** Tolerance of risk and failure, Preference for self employment, Innovation and research culture, Celebration of self-made wealth
  
  Only 15% of entrepreneurs say their country has a culture that fully supports entrepreneurship

- **Tax and regulation.**
  
  84% want tax systems to be simplified.

  38% of entrepreneurs say that they want the ability to voice their concerns on business regulations, making this their top suggestion for how countries could improve their regulatory environment.

- **Education and training.** University, pre-university, entrepreneurship specific training, informal education/lifelong learning.
  
  84% agree or partly agree that they need specific education to become successful entrepreneurs.

- **Coordinated support.** Mentors, Advisors, Networks, Clubs; Business incubators, hubs, parks.
  
  Nearly half (46%) have used entrepreneur clubs and support groups to improve skills. Business incubators are a top ranked tool for accelerating entrepreneurship, according to 36% of entrepreneurs surveyed.
Moreover, the 2017 Global Entrepreneurship Monitor Report assess and identifies the quality of entrepreneurship ecosystems around the world. They take into consideration a range of conditions and components:

- Entrepreneurial financing.
- Government policies: support and relevance, policies regarding taxes and bureaucracy.
- Government entrepreneurship programs.
- Entrepreneurship Education at school stage, entrepreneurship education at post school stage. Entrepreneurship training.
- Research and Development (R&D) transfer.
- Commercial and legal Infrastructure.
- Internal market dynamics, internal market burdens or entry regulations.
- Physical infrastructure.
- Cultural and social norms.

The 2017 Report identifies the main factors constraining entrepreneurship in different economic development levels. Factor driven and Efficiency driven ventures are usually constrained by Entrepreneurship education at school age, R&D transfer, Government policies on taxes and bureaucracy, government entrepreneurship programs and burdens or entry regulations on internal markets. In Innovation driven enterprise, education, government policies, R&D transfer and entrepreneurial finance are amongst the more difficult to overcome (GEM, 2017).

The elements outlined on both these initiatives are useful to orientate policy recommendations and the development of social innovation solutions during the Y20 process.

3.3 Promoting diversity in Entrepreneurship

Women, young people and immigrants can make a huge contribution to the entrepreneurial economy, yet today they are often under-represented in the this community (EY, 2013). Young people typically face extra obstacles to access funding, while skilled immigrants may be discouraged to start a venture. Many of the businesses operated by women, youth, seniors, the formerly unemployed and immigrants are small, have low levels of turnover and lower survival rates than those started by the mainstream population (OECD, 2017).

To increase the quantity and quality of entrepreneurship activities by these groups it is important to understand the barriers that they face in business creation (OECD, EU, 2017), and their expansion. Often the journey starts with self employment, and only a
few have opportunities to engage on business creation. Public policy aiming to improve self-employment opportunities for minorities in urban and rural areas need to consider not only the entry barriers, but also the evidence that many of those business "tend to be small, with low levels of turnover and lower survival rates than those started by the mainstream population". How can public policy support entrepreneurs that come from difficult contexts? How can we promote the innovation and the development of the right skills to survive the difficult task of starting an entrepreneurial venture? And how should it be taught?

Promoting the development of people involved in self-employment towards business building can have a direct impact on the entrepreneur’s life by increasing their income, standard of living, and well-being. The expected effect is this translating into their business growing and creating jobs for other people (EY, G20 Young Entrepreneurs Alliance, 2013).

**Young entrepreneurs**

With over half the world's population being under 30, undoubtedly the youth population is heterogeneous, with some significant differences across different groups in their potential for entrepreneurship and the barriers they face (OECD, 2012). Some groups that face particularly strong labour market challenges include: ethnic minorities, those living in deprived areas, those from low income families, and those with low education levels (OECD, 2012).

Young entrepreneurs generally operate smaller business than older adults: in the EU, only 12% had employees, which is half the proportion of adults (OECD, 2012). Other characteristics of youth operated business are that they are more likely to be concentrated in certain industries with low barriers to entry and low capital requirements and tend to focus on narrow product lines (OECD, 2012).

The proportion of youth involved in self-employment varies across countries in close relation with barriers, opportunities and labour market conditions. In the developing world, most of the young entrepreneurs start necessity-based ventures, unincorporated, with no employees and own-account workers (OECD, 2017c). The majority of youth entrepreneurs operate as small, informal businesses in petty trade and services, and few possess basic business skills/training. Integration with the market is another barrier to performance of youth-led business. In most cases, youth businesses rarely interact with larger private companies, and in particular with the public sector. By and large, they buy and sell products or services to individuals and other small businesses (OECD, 2017c).

Most young self-employed are poorly educated, and often engage in entrepreneurial activities for lack of a better job (OECD, 2017c). Only 13% of young entrepreneurs in
the Latin America possess tertiary education, compared to 33% in OECD countries (OCDE/ECLAC/CAF, 2016). Lack of skills and experience in the labour market is one of the major barriers for young people to consider starting and scaling their business.

Nevertheless, Latin America and the Caribbean demonstrate the highest levels of youth entrepreneurial activity (16.5%), followed by North America exhibiting a relatively high rate of above 14% in this age group (GEM, 2017)

**Women entrepreneurs**

An analysis of new venture scenarios over the past 20 years highlights the underrepresentation of female entrepreneurs across countries, especially in new firms within knowledge-based sectors (Arenius and Minniti, 2005; Davidsson and Honig, 2003; Delmar et al., 2003). Even though more and more women are starting businesses globally - over 163 million women were starting business across 74 countries worldwide in 2016 (GEM, 2017), they still manage fewer businesses than men, and run businesses that are in less profitable sectors, that grow more slowly and are ultimately more likely to fail.

Although intentions increased globally, self-perceptions around opportunity and capability vary significantly between development levels. Women are less likely to report that they have the skills and knowledge to start a business than men (34.1% vs. 49.9% for men in the European Union between 2012 and 2016, and 36.8% vs. 51.2% for men in OECD countries).

Data of the 2016/2017 Women's Report of the GEM, women exhibit a 20 percent or greater likelihood of citing necessity as a motive for starting a new business when compared to men. 57 percent of women in factor-driven economies believe there are good opportunities around them for starting a business, while only 39 percent of women in innovation-driven economies hold these same beliefs. 67 percent of women in the factor-driven group believe they have the capabilities to start a new venture. Under 35 percent of women in the innovation-driven group feel the same (GEM, 2017).

Both women and men face challenges in setting up their own businesses, but for women the barriers are often greater and harder to overcome. The 2013 UNIDO Gender Report mentions some of the most common hurdles women face in different parts of the world (UNIDO Gender, 2013):

- A lack of government support in terms of policy, laws, and services

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- In some countries have only limited access to formal bank accounts, which prevents them from accessing loans or credit.
- In some regions of the world, women have fewer inheritance rights than men.
- In many countries there are legal distinctions between women and men that limit women’s economic opportunities.
- Many women receive limited education, skills training or career guidance.
- The lack of technological know-how or access to modern, affordable technology further stops women from reaching their full potential.
- Cultural values can also hold women back. A UNIDO-led study on barriers to women’s entrepreneurship found that women were influenced more by traditional and internal factors than by legal or regulatory barriers when starting their business.
- There are many countries where entrepreneurship is seen as an inappropriate career choice for women.

If discriminatory barriers against women were removed, it would have direct impact on GDP growth rates, increasing it by as much as 34% in some countries, and countries’ productivity can increase by as much as 25%.

3.4. Social Entrepreneurship and civic engagement: new opportunities for youth participation

Young people represent over 60% of the world’s population. With a world quite different from the one their parent’s lived in, this generation is the one living between new and old challenges: whilst some people in the world still experience hunger, others are working on exponential technologies. This generation is also recognised for having new habits of consumption, more social awareness and a deeper need for "creating real impact and value". It is often said that young people are vital stakeholders for the realization of the Sustainable Development Goals, but are they able to be as active as they could and should be? Is entrepreneurship the way they can achieve it? What resources they need to have available to be able to do it?

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6 UNIDO (2012). “Gender Related Obstacles to Vietnamese Women Entrepreneurs: Research Findings and Policy Implications”
The Global Shapers Annual Survey 2017\(^9\) showed that, for young people around the world, "a startup ecosystem and entrepreneurship" is the most important factor contributing to youth empowerment in a country (40%), before even Access to the Internet (39.6%). Social innovation and the social economy have become another way of civil participation, being involved with real community problems and interacting with different stakeholders and sectors to solve them.

Social enterprises are private and autonomous organisations with innovative business models that meet social and economic objectives\(^10\). Usually they work around social, cultural or environmental problems, and promote social inclusion and economic development even without specifically pursuing profit. Social satisfaction, community development, energy and sanitation provision are some of the areas where more social entrepreneurs have thrived.

Creativity, non-traditional strategies and a deep interaction with broad areas of community and diverse stakeholders are some of the key distinctions of social entrepreneurs around the world\(^11\).

Social Enterprise is still a concept that refers to several different forms and names, depending on the development of the country's legal structures to promote this type of ventures. B corps, inclusive business, social projects, cooperatives, social innovators, social entrepreneurs are some of the different labels. This diversity makes it more difficult to track the real impact they are having in the global economy. In Kenya, for example, cooperatives account for 45% of GDP and in the US social enterprises are estimated to represent 3.5% of GDP, which is more than Silicon Valley, according to the 2015 *Think Global, Trade Social* Report\(^12\). Job creation is also another mean by which Social Enterprises can show their impact in social inclusion. Social economy in the European Union employed over 6.5% of wage earning population in 2010, but the effect is invisible when considered that a significant proportion of the work undertaken in this sector is unpaid labour\(^13\).

Even though this seems to be fertile ground for the blossoming of young social entrepreneurs, reality is still different. The entrepreneurial sector is not very diverse to start with, especially in terms of visibility on the media. A research from the US Small Business Administration in 2014, less than 2% of Millennials reported self-employment, compared to the 7.6 Generation X and 8.3 for Baby Boomers. Some of the barriers to

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\(^12\) British Council and Social Enterprise UK (2015) "Think Global, Trade Social"

entry for young entrepreneurs are the economy, debt from schooling and the challenges of regulatory compliance. Low salaries compared with the traditional for-profit sector, poor working conditions, short-term contracts and the fact of largely working with customers who cannot afford to pay for products and services make social enterprises highly risky and often unsuccessful.

On one hand, social entrepreneurship can be a way to encourage the development of solutions for some of the most pressing challenges of our times related to the SDG, as a proactive approach to civic engagement. This generation is witnessing the emergence of many entrepreneurs who have developed economically sustainable business models to clean the ocean, promote accessible quality education or use exponential technologies to improve health conditions. On the other hand, developing solutions as entrepreneurial ventures requires a high level of resources, from education and business skills to financial aid. This barrier means that many young people from more disadvantaged backgrounds are most of the time excluded from the opportunity of being protagonists (and not just recipients) of social innovation. Both factors should be taken into account when developing solutions and policy recommendations to improve social entrepreneurship ecosystems. It's not only about building business capabilities, but empowering individuals to make the transformations they want to see in their communities.

3.5. Supporting Entrepreneurial Ecosystems: the role of policy

Decision-makers, entrepreneurs and social innovators have plenty of opportunities to collaborate improving the conditions of the Entrepreneurial Ecosystems. Evidence-based policy decisions, which help to create a nourishing entrepreneurial environment, will be of benefit to entrepreneurs in all phases of their businesses, be it young start-ups, established or repeat entrepreneurs. Inadequate infrastructure leads to a lack of access to markets, jobs, information and training, creating a major barrier to doing business.

Based on the main challenges, trends and opportunities outlined on this document, we list some of the areas that international organisations consider vital to improve Entrepreneurship opportunities.

- There is plenty of empirical evidence that education, managerial capital and business skills are key factors for youth entrepreneurial performance. Favourable operating conditions often lead to higher performance. (OECD 2017c)
- Access to credit is a primary concern for a large number of youth businesses. Youth have to deal with a lack of personal savings and resources; inadequate youth-friendly financial products, including micro-lending and seed funding; high credit and collateral requirements, and excessive restrictions (e.g. age limit to open a bank account); low financial literacy; and limited knowledge of financing opportunities.

- Physical infrastructure seems to be rated the most positive condition of the entrepreneurship ecosystem, followed by Commercial and Legal infrastructure. Quality infrastructure is positively related to the achievement of social, economic and political goals. (OECD, 2017c)

- Youth entrepreneurship is unlikely to be a panacea for solving the youth unemployment problem but it can be a part of the response (OECD, 2017c).

- To maximise effectiveness and efficiency, policy should target resources on young people with the best chance of success, provide sufficient support to allow them to start businesses outside of low entry barrier but high competition sectors, and provide integrated packages of complementary support rather than one-shot instruments (OCDE, 2012)

- Any policies that set out to help women start their own businesses need to make more resources available to them (UNIDO Gender, 2013).

There is no single recipe for success. Around the world different initiatives are leading this movement, focusing on the positive effects of sharing training, knowledge and methodologies whilst considering the importance of local features and needs.

References


