

INCLUSIVE ENTREPRENEURSHIP: INTEGRATED BUSINESS SUPPORT

This document contains a revised and updated policy brief for the business creation theme of EQUAL. This policy brief is part of a series of four on inclusive entrepreneurship:

- culture and conditions;
- integrated business support ;
- appropriate business finance;
- consolidation and growth.

In general the main content and messages in the original brief¹ remains valid today. The original brief was highly appreciated by practitioners and policy makers at different levels. So where there was no need to update the material it has been left the same.

However, in order to be useful during the next round of the Structural Funds it has been necessary to make the following adjustments.

- To update the sections referring to the EU policy context to ensure that the latest initiatives are taken into account;
- To up date some of the evidence referring to the solutions tested by EQUAL projects;
- To slightly reorganise some of the sections so as to make them consistent with the categories used in the “tool for inclusive entrepreneurship” developed by the Community of Practice on Inclusive Entrepreneurship (CoPIE).

On the basis of an analysis of good practice during the two rounds of EQUAL the tool clusters the solutions tested into four main categories concerning inclusive entrepreneurship –culture and conditions, integrated business support, appropriate business finance and consolidation and growth. These categories could be used in the next round of the Structural Funds to analyse the strengths and weaknesses of business support strategies at different levels and for helping the transfer of good practice.

In order to make the policy brief compatible with this methodology it has been necessary to change the title of the brief and include more information on how to create the most favourable conditions for inclusive entrepreneurship.

This document has been prepared by experts and their opinions do not in any way engage the Commission.

BUSINESS SUPPORT SERVICES: TOO DISJOINTED AND INAPPROPRIATE FOR DISADVANTAGED GROUPS?

EQUAL develops high quality support systems for all.

Small businesses and governments in many European countries complain that sources of business support frequently do not respond to the real needs of actual and potential business people, particularly those who face disadvantages in the labour market.

Disadvantaged groups and areas tend to rely on a circuit made up of different public and semi-public agencies working at the boundaries between social security, employment and enterprise policy. Here, one often finds inappropriate and overlapping sources of business support for small enterprises. They rarely form a genuine system capable of effectively accompanying disadvantaged groups along an itinerary towards independent income generating activities. Furthermore, business support staff is seldom trained in how to help disadvantaged groups, while agencies specialised in dealing with these groups may lack business skills and experience.

These problems contribute to lower rates of self-employment and business creation among disadvantaged groups and areas, lower rates of employment and loss of output.

BUSINESSES NEED HIGH QUALITY AND TARGETED SUPPORT

Providing business support is already a major policy priority of the European Union. Business advisory services and shared business services represent approximately one third of the very large sums of money spent on supporting SMEs by the structural funds 2000-2006² (split fairly evenly between pure advice and support involving some kind of business premises). Another third of the total is spent on grant aid but this often forms a package with the business advisory services. The advisory services often play a key role in the access to and allocation of the grant aid.

Since the late nineties this has led to a whole series of initiatives to document good practice in business services, to increase the synergy between the large number of existing projects and to improve quality, relevance and take-up. The Directorate formally responsible for most of these initiatives has been DG Enterprise. Improving the coherence and quality of the business support system is mentioned as a priority in the European Charter for Small Enterprises and its successive national reports.

The Strategic Evaluation of Financial Assistance Schemes to SMEs³ also argues that the "overall rationale of business infrastructure and advice should not be questioned. The cluster responds to practical needs, particularly acute as far as SMEs are concerned, even more if one considers micro and small enterprises which cannot afford to pay for such services, deemed crucial for their survival rate after three to five years". The report endorses the statement that "the development of a one-stop SME shop, capable of providing information regarding all of the services available at national level is urgently needed". Consequently, the report supports "closely aligning SME measures with regional development strategies". In addition, it says targeting should be made "according to geography, size but also particular social groups".

This point was also taken up in DG Enterprise's Action Plan on Entrepreneurship⁴. The latter states that "the Commission will keep promoting access to top class support and management training for entrepreneurs from all backgrounds including groups with specific needs such as women and entrepreneurs from ethnic minorities". From the point of view of employment policy, the report of the Employment Task Force chaired by Wim Kok and the Joint Employment Report also stress the importance of further developing advisory services for start-ups⁵. Finally, in a recent Communication⁶, DG Enterprise argues that "the structural funds will contribute directly to promoting entrepreneurship by investing in actions such as increasing the range and quality of business advisory services and shared business services". Business support services are specifically mentioned in the first two objectives of the new ERDF regulations and support for entrepreneurship is raised under two of the three priorities of the ESF regulations for the period 2007-13.

ENSURING HIGH QUALITY BUSINESS SUPPORT FOR ALL

EQUAL strategies for ensuring a high quality business support system *for all* can be summarised in several lines of action, which are interlinked and reinforce each other:

STRATEGIES FOR GETTING OUT INTO HARD-TO-REACH COMMUNITIES (OUTREACH)

Disadvantaged groups will rarely take the first step of coming into a business support office. Therefore a number of outreach strategies have been developed in EQUAL to overcome this problem:

- First approach: offices are set up in the middle of the hard-to-reach communities, while at the same time creating a style attractive to the target public with good referral networks from both social services and representative groups (i.e. youth groups). In Germany, the EQUAL Project Verbund Enterprise⁷ calculated that such a service to young people costs around €6,000 in an inner city location and €8,000 in a rural area. Given unemployment benefits of €750 a month, this means that the costs are covered after eight months self-employment in the city and 11 months in rural areas. A variation on this approach, when the region is very large, is to create mobile offices.
- Second approach: subcontract part of the service in a "hub and spoke" model to specialist agencies more firmly enrooted in the communities supported and therefore able to engage far better with its client group by providing tailor-made services. Users are, however, to be referred to mainstream support agencies at an agreed point. In Wales, the Welsh Development Agency, lead partner of the Cyfenter EQUAL project⁸ has used this model to create 700 companies and 1,400 jobs among hard-to-reach groups;
- Third approach: train local NGOs to provide business advice themselves, thereby building on the trust they have acquired within their communities. EQUAL projects like Reflex⁹ have used this training to allow workers from ethnic community organisations to acquire recognised business support qualifications.

HYBRID SOLUTIONS – SOCIAL ENTERPRISE MODELS HELP THE TRANSITION FROM THE INFORMAL ECONOMY

EQUAL has also been active in supporting "Business Employment Cooperatives"¹⁰ which provide potential business people with an easy transition from inactivity to self-employment. Entrepreneurs pass through three stages: first, they remain technically unemployed but develop their business idea under the wing of the cooperative; next, if it looks like being a success, they become a 'salaried entrepreneur' with the security of a part-time employment contract; finally they become a self-sufficient business, sharing in the ownership and management of the co-operative. Since the first CEP was started in 1996, a wave of some 70 has sprung up across Europe.

SPECIALISED SUPPORT FOR SETTING UP AND RUNNING A BUSINESS

EQUAL provides a strong case for giving specialised support to key target groups, notably women, young people, ethnic minorities, people with disabilities, people over 50, social economy organisations and so on. In Germany, for example, training designed specifically for women led to survival rates of around 80% compared to an average of 30% on normal courses. In Wales a series of specialist pre-start agencies have contributed to an increase of 20% in yearly start-up rates. However, it is clear that there is also a common core of skills and competences that are necessary for anyone to set up any kind of business. For example, according to DG Enterprise, 80% of the problems faced by ethnic minorities in setting up a business are common to all entrepreneurs. Similarly, social economy organisations need sound financial and business management, in the same way as ordinary SMEs.

In order to balance the advantages of specialist support (for example, greater understanding and affinity with the client group) with the additional costs and the risk of marginalising people even more, specialist organisations (often NGOs) within EQUAL have focused on the phases before

the launch of the business. This allows them to concentrate on issues specific to certain disadvantaged groups such as language, confidence and trust, caring responsibilities and work-life balance, and collective methods of working.

Regarding social economy businesses, specific support is needed throughout all phases of business development, not just pre-start. It includes cooperative management structures, dealing with voluntary workers, disabled workers and other disadvantaged personnel, managing public-private funding mixes, public procurement, social auditing, social franchising and so on.

Three key specialised support services have received particular attention: business incubators, mentors and "one-stop shops".

BUSINESS INCUBATORS

Most *business incubators* focus on the higher technology end of the market and are often closely related to universities and research centres. EQUAL has developed incubators that support disadvantaged groups in different ways:

- The first puts young, unemployed people through a rigorous selection process so as to support business start-ups in fashionable growth sectors like graphic and internet design, film, music, public relations and so on. In Hamburg, Germany, the Garage Incubator is run by one of the partners of the EXZEPT DP has achieved a success rate of 82% into self-employment and a survival rate of nearly 90% after two years¹¹.
- At the other extreme, some incubators explicitly aim to attract people that face particularly severe disadvantages in the labour market, such as single mothers, unskilled women or women from ethnic minorities, by providing longer and more flexible opening hours, space for part-time working, longer incubation periods, access to public transport, security, and childcare. In some incubators, potential entrepreneurs continue to receive benefits and test trade using the legal status of the incubator. Partners of the AWE EQUAL project in the UK carried out their own benchmarking exercise of women friendly incubators of this kind.¹² The CEFT and WEE transnational partnerships have both produced European reports and guidelines in this area. REFERENCE.

MENTORING

Mentoring has been tried and tested as a means of introducing both business realism and a degree of individual empathy into what sometimes risks becoming a rather academic business planning process. EQUAL has demonstrated the importance of matching mentors and business promoters in two key areas: firstly, their experience and background not only in terms of sector and type of business but also according to age, sex and ethnic origin; secondly, the mentor's interpersonal skills and the personal "chemistry" between mentor and business promoters are important. These conclusions lead to a clear set of methodological recommendations, such as the need for trial periods and the integration of mentors into well-defined packages of business support. One of the largest mentoring organisations in Europe, the Princes Trust, in the UK has been involved in two EQUAL projects and has developed recognised quality standards for mentors¹³.

ONE STOP SHOPS AND "BRAIDED" SUPPORT SYSTEMS

EQUAL "one-stop shops" have developed beyond the idea that the client should find all services under one roof and are instead designing a set of guidelines for recognising a genuine support system made up of clearly defined stages like profiling, planning, start-up, consolidation and growth.

In Germany, the German Start-up Association¹⁴ has developed a four stage model based on experience tested by EQUAL projects. Each stage has a fixed duration (ranging from 4 weeks for profiling to 5 years for growth) and involves the provision of different services (such as counselling, training and qualification, mentoring and access to micro-credit) that help the entrepreneur acquire the personal competences, the skills as well as the resources necessary for

success. Then, based on a predefined division of labour, both specialist and mainstream providers, such as banks, provide different parts of the support package in each stage. Systems have been developed to record the progress made by the entrepreneurs along this itinerary in a way that is recognised by banks and other agencies. Survival rates after two years can also be over 80% using these systems and the costs of support are estimated at around two thirds of the annual cost of unemployment.

QUALITY STANDARDS AND TRAINING FOR INCLUSIVE BUSINESS SUPPORT

EQUAL has found that the various integrated support systems described above need to define common methodologies and, above all, recognised quality standards¹⁵, indicators and benchmarks that take account of diversity by breaking down the data to the level of the disadvantaged groups. As we have mentioned, in the UK, this has been applied to produce officially recognised standards and monitoring procedures for business mentors¹⁶. Prowess, a partners organisation of the AWE EQUAL project¹⁷ have also developed quality control systems and related training for women friendly business support services. Similarly, various members of the National Association for Business Start-ups in Germany are developing quality standards for the support system as a whole.

By adding 'social inclusion' to the quality criteria applied to business services, EQUAL has exposed the need for fundamental changes in certain cherished business support methodologies. For example, more accessible and flexible business planning tools may better reflect the more gradual, organic way in which many businesses are started by women and ethnic minorities. However, to ensure that these methods are not restricted to specialist support services, training packages on diversity have been developed for business advisors and used extensively at a national and at regional level for a broad range of disadvantaged groups.

POLICY RECOMMENDATIONS

The good practices tested under EQUAL address and reinforce the policy orientations and priorities at EU level by addressing the business needs of under-represented groups.

National and regional business support programmes (particularly if these are co-financed by the Structural Funds) would increase their effectiveness and efficiency by:

- Ensuring that there is adequate provision of certain specific services for particular groups and types of enterprise. Some of the main tools include mentoring, incubators and one-stop shops or centres;
- Using partnerships to negotiate integrated systems of business support which link specialist and mainstream provision into coherent support itineraries that respond to the business needs of disadvantaged groups and areas;
- Including quality standards and systems of control which take account of diversity. A common European core for these quality systems could provide a useful tool for ensuring that business support systems financed by the structural funds are really inclusive;
- Business support staff would benefit from recognised training in all the above;
- Aiming for better coordination between relevant government departments, agencies responsible for business support and regional actors like business organisations - through integrated strategies for inclusive entrepreneurship¹⁸.

ENDNOTES

¹ http://ec.europa.eu/employment_social/equal/policy-briefs/etg2-better-business_en.cfm

² Estimated at €16 billion according to the Commission Staff Working Paper. Creating an Entrepreneurial Europe. The Activities of the European Union for small- and medium-sized enterprises (SMEs) 2005. http://ec.europa.eu/enterprise/entrepreneurship/promoting_entrepreneurship/doc/sec_2005_170_en.pdf
However more recent estimates in the Communication Implementing the Community Lisbon Programme. Modern SME Policy for Growth and Employment. COM (2005) 551 Final. Brussels 10.11.2005 puts the figure at €21 billion http://eur-lex.europa.eu/LexUriServ/site/en/com/2005/com2005_0551en01.pdf

³ Strategic Evaluation of Financial Assistance Schemes to SMEs. DG Budget. Final Report. 2003.

⁴ Action Plan: the European Agenda for Entrepreneurship COM (2004) 70 final
http://ec.europa.eu/enterprise/entrepreneurship/promoting_entrepreneurship/doc/com_70_en.pdf

⁵ Communication from the Commission to the Council. Draft Joint Employment Report 2003/2004 http://eur-lex.europa.eu/LexUriServ/site/en/com/2004/com2004_0024en02.pdf
Jobs, Jobs, Jobs. Creating more employment in Europe. Report of the Employment Task Force chaired by Wim Kok. November 2003. http://ec.europa.eu/employment_social/employment_strategy/pdf/etf_en.pdf

⁶ Implementing the Community Lisbon Programme. Modern SME Policy for Growth and Employment. COM (2005) 551 Final. Brussels 10.11.2005
http://ec.europa.eu/enterprise/entrepreneurship/docs/com_2005_en.pdf

⁷ http://ec.europa.eu/employment_social/equal/data/document/etg2-suc-verbundentrep.pdf

⁸ http://ec.europa.eu/employment_social/equal/practical-examples/entrep-cyfenter_en.cfm

⁹ http://ec.europa.eu/employment_social/equal/practical-examples/entrep-reflex_en.cfm

¹⁰ See article Feb.2007 on http://ec.europa.eu/employment_social/equal/news/200702-bec_en.cfm or the NGO « Coopérer pour entreprendre » web site on www.cooperer.coop

¹¹ http://ec.europa.eu/employment_social/equal/data/document/etg2-suc-exzept.pdf

¹² http://ec.europa.eu/employment_social/equal/data/document/etg2-suc6-awe.pdf

¹³ <https://webgate.ec.europa.eu/equal/jsp/dpComplete.jsp?cip=UKgb&national=9> and http://circa.europa.eu/Public/irc/empl/equal_etg/library?l=/etg2/01_documents/etg2_doc_prince/EN_1.0_&a=d

¹⁴ As in footnote 7

¹⁵ http://ec.europa.eu/employment_social/equal/practical-examples/entrep-awe_en.cfm

¹⁶ As in footnote 12

¹⁷ As in footnote 11 and <http://www.prowess.org.uk/flagship/whatisflagship.asp>

¹⁸ http://ec.europa.eu/employment_social/equal/practical-examples/entrep-strategic-framework_en.cfm