PART I

Promoting Job Creation

CHAPTER I.1

Boosting job creation through self-employment and entrepreneurship ([1])

1. Introduction

Promoting entrepreneurship and self-employment is high on the agenda of European, national and regional policy-makers because it has a strong potential to create jobs, strengthen the EU's innovation capacity and give unemployed and disadvantaged people an opportunity to fully participate in society and the economy.

The Europe 2020 strategy (adopted in 2010) recognises that entrepreneurship and self-employment are crucial in promoting employment growth by addressing opportunities and challenges stemming from ongoing structural changes (including accelerating technology progress, globalisation, ageing of society and greening of the economy) ([2]). Likewise, the Small Business Act ([3]) (adopted in 2008) anchored the 'Think Small First' principle in policy-making ([4]).

In addition, the Employment Package (adopted in 2012) recognised the potential of self-employment and entrepreneurship in contributing to a job-rich recovery, while the Entrepreneurship 2020 Action Plan (adopted in 2013) ([5]) outlined a strategy to reignite the entrepreneurial spirit in Europe and the Green Action Plan for SMEs presented ways for SMEs to turn environmental challenges into business opportunities ([6]).

This chapter contributes to the policy debate by examining to what extent labour market and social policies can boost job creation through self-employment and (self-employed) entrepreneurship in the face of ongoing structural change, such as the further digitisation, globalisation and greening of the economy.

The chapter is structured as follows. The first section summarises key developments in self-employment and self-employed entrepreneurship and their capacity to create jobs in the EU since 2000. The second section highlights the role of a select set of framework conditions in supporting self-employment and nascent entrepreneurship. The third section elaborates on labour market and social policies which have the potential to support sustainable start-ups. The fourth section pays special attention to labour market and social policies that have the potential to help under-represented groups (such as disabled and young people) in their transition to self-employment. The fifth section explores how these policies can strengthen the potential for additional sustainable job creation following a one-person, micro or small enterprise start-up. The last section draws some conclusions.

This chapter complements the ongoing work on 'Job creation in SMEs' by Eurofound and the 'Annual Report on European SMEs' ([7]); it does not provide an exhaustive list of European Commission policies ([8]).

([1]) By Eric Meyermans, Giuseppe Piroli, Guy Lejeune, David Arranz, Emmanuel Joseph and Radek Maly, and with a contribution on measuring self-employment, working conditions and social dialogue by Isabella Biletta (Eurofound) and Agnès Parent-Thiron (Eurofound).

([2]) More particularly, self-employment and entrepreneurship can play an important role in meeting the Europe 2020 targets of employment, social cohesion, and research and innovation, as well as the targets of climate change.

([3]) See http://ec.europa.eu/growth/smes/business-friendly-environment/small-business-act/index_en.htm

([4]) The 'Think Small First' principle requires that legislation takes SMEs' interests into account at the very early stages of policy-making in order to make legislation more SME-friendly. See http://europa.eu/rapid/press-release_IP-08-1003_en.htm

([5]) Promoting investments in changing the public perception of entrepreneurs, in entrepreneurship education and to support groups that are under-represented among entrepreneurs are indispensable if we want to create enduring change. See http://ec.europa.eu/transparency/regdoc/rep/1/2012/EN/1-2012-795-EN-F1-1.Pdf

([6]) By improving the resource efficiency of European SMEs, supporting green entrepreneurship, exploiting the opportunities of greener value chains, and facilitating market access for green SMEs. For more details, see http://ec.europa.eu/growth/smes/business-friendly-environment/green-action-plan/index_en.htm

([7]) See, for instance, European Commission (2014).

([8]) This chapter focusses on developments in the European Union, for a comprehensive overview of self-employment in the US, see, for instance, http://www.bls.gov/careeroutlook/2014/article/self-employment-what-to-know-to-be-your-own-boss.htm

2. ENTREPRENEURSHIP AND SELF-EMPLOYMENT CREATE JOBS

This section reviews recent developments in self-employment and entrepreneurship as well as their impact on EU job creation since 2000. This chapter focuses primarily on entrepreneurship as the process of starting and subsequently expanding a business – rather than the ability to turn ideas into action, which both the self-employed and employee can display ([9]).

For the following empirical analysis, a micro-enterprise is an enterprise employing 10 persons or fewer, while a small enterprise employs up to 50 persons ([10]) and self-employed persons are those who work in their own business, farm or professional practice ([11]). While the self-employed usually perform routine tasks, entrepreneurs attempt to develop something new, hence entrepreneurs are more likely to create additional jobs. People can be pushed into self-employment because no alternative (other than unemployment) is available, 'the necessity entrepreneur', or people can be pulled to self-employment through entrepreneurial opportunities, 'the opportunity entrepreneur'. See, for instance, Bhola et al. (2006).

Start-ups cover a heterogeneous group of self-employees, including: those who aim to remain small and local (e.g. the local drycleaner or hairdresser); those who plan to expand their activities beyond (regional or national) boundaries (i.e. Innovation Driven Enterprises ([12])); and those who are formally self-employed but working under similar conditions to those of dependent employees. Although all three types of start-up have a direct job impact, their potential to create additional jobs differs greatly. The small business owner usually aims for limited growth and job creation, while the entrepreneur starts small with the intention of expanding his/her business and employment by exploiting new ideas (that drive product innovation and process innovation) while coping with unknown risks.

Finally, for the following empirical analysis, it can be noted that since the empirical analysis of entrepreneurship at EU level is often hindered by a lack of harmonised data, self-employment statistics are seen as the best available indicator for comparing entrepreneurial activity ([13]) between EU Member States ([14]). Moreover, ongoing structural developments such as innovations in ICT and trade patterns are likely to reinforce the need for further refinement of the tools and conceptual frameworks for measuring self-employment accurately. See Box 1.

2.1. Recent developments

In 2014, just under 16 % of all employed people were self-employed, with the highest shares in Greece (32 %) and Romania (30 %) and the lowest in Sweden (5 %) and Luxembourg (6 %) ([15]). See Chart 1.

Compared with 2000, the share had decreased by almost 2 percentage points (ppt.) in the EU as a whole, with the largest decreases in Romania (-15 ppt.), Lithuania (-8 ppt.) and Hungary (-7 ppt.), while the strongest increases were in Slovakia (+5 ppt.), the United Kingdom (+3 ppt.) and Slovenia (+2 ppt.).

In Romania (86 %), Portugal (57 %), Poland (49 %), and Croatia (48 %) ([16]) a significant share of the self-employed are employed in the agriculture, forestry and fishing sector. See Chart 2.

In 2014, less than one third of the EU's self-employed engaged other workers to work for them – i.e. they were solo self-employed – but with strong variations across Member States. The highest share of employers among the self-employed is found in Hungary (49 %), followed by Germany (45 %), Austria (42 %) and Denmark (42 %). The Romanian (6 %) share is by far the lowest, followed by the United Kingdom (17 %), the Czech Republic (20 %) and Greece (20 %). See Chart 3.

About 1.5 % of the employees had a second self-employed job in 2014, with the highest share in Poland and Sweden and the lowest share in Bulgaria and Slovakia. See Chart 4.

In the EU, about 5% of the inactive persons in 2013 became self-employed without employees in 2014 (about the same change as in 2007), while 4.5 % of employees and only 2.7 % of the unemployed made a similar transition (compared to respectively 4.8 % and 2.7 % in 2007). See Chart 5. At the same time, 3 % of the employees in 2013 became self-employed with employees in 2014 (compared to about 4 % in 2007), while 1.2 % of inactive persons and only 0.7 % of the unemployed moved to self-employment with employees (about the same as in 2007). See Chart 6.

In the United Kingdom more than 5 % of men who had been unemployed in 2013 became self-employed in 2014, while in Hungary this was only the case for about 1 % of the unemployed. See Chart 7. At the same time, almost 5 % of women in Cyprus who were unemployed in 2013 became self-employed in 2014, while in Hungary, Croatia, Greece, Bulgaria and Germany this was the case for less than 1 % of women. See Chart 8.

([9]) Entrepreneurship comprises creativity, innovation and risk-taking, and the ability to plan and manage projects in order to achieve objectives. See, for instance, European Commission (2006). Along with the ability to communicate in the mother tongue and foreign languages, mathematical competence and basic competences in science and technology, digital competence, learning to learn, social and civic competences, as well as cultural awareness and expression, entrepreneurship is one of the key competences for flexibility, adaptability, satisfaction and motivation in a knowledge-based economy. For more details, see, for instance, http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=URISERV:c11090&from=EN

([10]) And having an annual turnover and/or annual balance sheet total not exceeding, respectively, EUR 2 million and EUR 10 million. See the Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (Text with EEA relevance) (notified under document number C(2003) 1422), available at http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32003H0361

([11]) A self-employed person is considered to be working if he/she meets one of the following criteria: works for the purpose of earning profit, spends time on the operation of a business or is in the process of setting up his/her business. See, for instance, Eurostat at http://ec.europa.eu/eurostat/cache/metadata/en/lfsa_esms.htm. Not to be confused with business owner who owns a company. A distinction also has to be made between the entrepreneur (who finds new ideas and puts them into effect) and the manager (who oversees the ongoing efficiency of continuing processes). See, for instance, Baumol (1968).

([12]) With the Exponential Entrepreneur at its apex. See, for instance, Diamandis and Kotler (2015).

([13]) There are no guidelines on the computation of self-employment income.

([14]) Parker (2009) discusses the advantages and drawbacks of three alternative measures of entrepreneurship, i.e. a new venture creation, small firms and self-employment/business ownership.

([15]) Statistical definition of self-employment: self-employed persons are the ones who work in their own business, farm or professional practice. A self-employed person is considered to be working if he/she meets one of the following criteria: works for the purpose of earning profit, spends time on the operation of a business or is in the process of setting up his/her business.

([16]) Last year for which data is available.

Box 1: Defining and measuring self-employment in a changing world

Differences between the self-employed and employees are cloudy ...

Defining, measuring and describing self-employment is an increasingly difficult exercise, since the boundaries between self- and dependent-employment as well as paid and unpaid work are blurring. Hence it becomes more difficult to accurately measure employment status. Statistical and legal approaches can be difficult to reconcile and an increasing variety of situations are regarded as self-employment. A better understanding of these changes is important for policy-makers, which calls for further work to adapt analytical and statistical tools to provide high-quality information and data.

Hybrid forms of employment are emerging, sharing features of both dependent- and self-employment (see, for instance, Eurofound (2015)), while other forms include 'volunteering' or unremunerated work. There are a number of explanatory factors, such as:

- increasing use of subcontracting, including to micro-enterprises and self-employed workers;
- self-employment offering a viable alternative to unemployment, especially for disadvantaged groups of jobseekers trying to develop and market their services;
- ICT development creating new forms of 'digital'/'virtual' user generated work, both paid and unpaid, shifting the borders between 'play' and 'work' and offering the possibility of 'trying out' self-employment, either alongside another activity or in a more sheltered, less risky way ([1]);
- creation of new forms of 'labour'/'activity'.

The size of this hybrid group is likely to increase in the future.

... calling for innovative data collection methods

Being able to measure employment status in an accurate and policy-relevant way, while understanding the heterogeneity of situations, requires in-depth research. Similarly, more research is needed to identify the most problematic situations and best tools (business support services, training provision, protection, collective representation, revised competition rules, etc.) to address them.

A number of such initiatives are under way. The Labour Force Survey (LFS) is developing an ad hoc module on self-employment. New questions have been added to the 6th European Working Conditions Survey (EWCS) ([2]), specifically on self-employment and blurring situations, enabling documentation of job quality and working conditions for various sub-groups of the self-employed, as well as identifying those workers who are unable to classify themselves as dependent- or self-employed. Eurofound's network will contribute an update on legislation and political discussion in all Member States. Very importantly, the revision of the ISCE 93 classification is underway ([3]).

Current developments are challenging many aspects of standard employment relationships, such as: identification of the 'employer'; determination of the place of work; responsibility for health and safety, etc. Moreover, apart from affecting private lives, the development of mixed, ambiguous, in-between situations will transform the nature of work and the employment relationship.

The technical issues may have to be addressed, since they affect the quality and relevance of information provided to policy-makers and may fail to highlight vulnerable groups of workers.

([1]) See, for instance, Eurofound (2015).

([2]) The 6th European Working Conditions Survey managed by Eurofound is planned for 2015.

([3]) The international classification on status of employment (ISCE 93) adopted through a resolution of the 15th International Conference of Labour Statisticians in January 1993, classifies jobs with respect to the type of explicit or implicit contract of employment between the job holder and the economic unit in which he/she is employed. The following five substantive categories are specified: Employees, Employers, Own-account workers, Members of producers' cooperatives and Contributing family workers. The last four of these categories can be aggregated to form the self-employed. These categories no longer provide sufficient information to adequately monitor changes in employment arrangements that are taking place in many countries.

Micro-enterprises accounted for almost one third of all EU employment in 2011 ([17]). See Chart 9. Almost one third of these were in the wholesale/retail and motor vehicle and motorcycle repair sectors. See Chart 10.

In 2012, net job creation by new firms primarily originated from businesses with up to nine employees. See Chart 11. At the same time, among the firms going out of business, those with up to nine employees shed the most jobs. See Chart 12.

There is a major gender imbalance with regard to self-employment in the EU, with women accounting for only about one third of the total. In all Member States, women were the minority among the self-employed in 2013, with the highest shares in Lithuania (41.6%), Latvia (38%) and Luxembourg (40.3%) and the lowest in Malta (19.6%) and Ireland (20.8%). See Chart 13. Self-employed women also have a lower propensity to hire employees than men, especially in Cyprus and Malta. See Chart 14. In all Member States, the share in total self-employment of young people is very low, ranging from 1% in Slovenia to 6% in Malta in 2013. See Chart 15.

In the EU, about one third of the self-employed have a tertiary education, 45% have upper secondary and post-secondary non-tertiary education, while about 20% have less than primary and lower secondary education. Nevertheless, there are some notable differences across Member

([17]) Last year for which data is available.

States. Portugal (65%), Malta (60%), Romania (47%) and Spain (41%) have a large share of self-employed with low education levels, while Slovakia (75%), the Czech Republic (73%) and Poland (67%) have a high share with upper secondary and post-secondary non-tertiary education. Luxembourg (61%) followed by Estonia (49%), Belgium (48%) and Germany (47%) have the highest share of self-employed with a tertiary education. See Chart 16. Among the self-employed who employ employees, 44% have a medium level of education and 38% tertiary. See Chart 17.

Harmonised data on self-employed earnings across EU Member States is not readily available. Estimates based on EU-SILC data suggest that the reported gross earnings of a significant share of the self-employed are below median gross earnings of employees – with the highest share being found in Estonia, Slovenia and Romania and the lowest share in Bulgaria, Slovakia and Hungary. See Chart 18.

The limited available evidence indicates that, in the Member States for which the data is available, the share of the number of gazelles ([18]) in the total number of enterprises, measured in employment, accounted for less than 2% in the EU in 2012 (or earlier) – highest in Bulgaria, followed by Slovakia and the Netherlands, while lowest in Cyprus, followed by Sweden and Lithuania. See Chart 19. The share of the number of gazelles in the total number of enterprises, measured in employment, was almost the same in manufacturing as in services across Member States (for which the data is available). See Chart 20.

An ECB Survey ([19]) shows that the most pressing problems facing the self-employed and entrepreneurs in 2014 were finding customers, access to finance, regulation, availability of skilled workers and labour cost. See Charts 21 and 22.

([18]) Eurostat-OECD manual on Business demography statistics defines gazelles as enterprises up to 5 years old with annualised growth (in turnover or employment) greater than 20% per annum, over a 3-year period. The cut-off point in terms of growth base varies, but usually varies between 5 and 10 employed persons in the first year. Companies with for example only two persons employed one hiring would already show a 50% growth rate are not included. See Eurostat – OECD Manual on Business Demography Statistics at http://ec.europa.eu/eurostat/ramon/statmanuals/files/KS-RA-07-010-EN.pdf

([19]) See ECB Survey on the access to finance of enterprises (SAFE) at https://www.ecb.europa.eu/stats/money/surveys/sme/html/index.en.html

Box 2: Job creation potential – key empirical findings

A literature review suggests that some broad hypotheses regarding the job creation potential of self-employment and entrepreneurship can be formulated, including the following ([1]).

- Most small start-ups remain small, with limited job growth. See, for instance, Chart 3.
- Innovative companies create more jobs (and lay off fewer employees during a crisis). See, for instance, Kok et al. (2011).
- The younger companies are, the more jobs they create (regardless of size). However, young firms have a much higher likelihood of exit, so job destruction from exit is disproportionately high among them. See, for instance, Criscuolo et al. (2014).
- Net employment growth is mainly generated by a small number of young, high-growth firms, the so-called gazelles. Gazelles are found in all industries. See, for instance, Henrekson and Johansson (2010).
- Among micro-firms, those with strong growth have the highest survival rates. By contrast, among larger businesses the slow-growing firms have the highest survival rates. See, for example, Halabisky (2006).
- Enterprises owned by women are more likely to be small and use less finance. See, for instance, Parker (2009).
- Enterprises of older entrepreneurs tend to be less growth-oriented than those of younger entrepreneurs. See, for example, European Commission and OECD (2012).
- Ethnic minorities are more likely to be self-employed than the overall adult population. See, for instance, OECD (2014).
- Family businesses tend to be less dynamic in job creation. See, for instance, KMU Forschung Austria (2008).
- Business survival is strongly linked to the ability to combine professional life with household responsibilities. See, for instance, Williams (2004).
- Unemployed people who become self-employed are more likely to exit self-employment than those entering from employment. See, for instance, Carrasco (1999) and Pfeiffer and Reize (2000).
- Team-based start-ups are more likely to grow than those of a single entrepreneur – up to an optimal level when coordination problems between team members emerge. See, for instance, Shrivastavay and Tamvada (2011).
- Few dependent self-employed create jobs for others. See, for instance, Böheim and Mühlberger (2009) for the United Kingdom.
- 'Born globals' ([2]) trigger job creation in businesses that supply intermediary goods and services (but not necessarily in the same country). See, for instance, Eurofound (2012b).
- Social enterprises mainly provide job opportunities for people who have difficulty finding work in private, profit-maximising enterprises.
- Geographical location is important, with some areas generating more high-growth firms than others. See, for instance, Mason and Brown (2010).

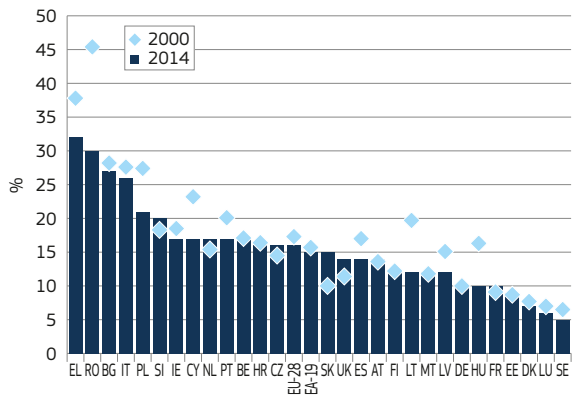
([1]) It should be remembered that although these hypotheses have been tested for particular datasets, they are not necessarily applicable to the whole population of self-employed and entrepreneurs.

([2]) 'Born global' is a company that conducts international business at or near the founding of the firm. See, for instance, Knight (2010).

Finally, Box 2 briefly summarises some key findings concerning job creation through self-employment and entrepreneurship reported in the literature ([20]).

([20]) Forthcoming publications will deal with this in more detail, including Eurofound's forthcoming Annual report of the European Restructuring Monitor and also DG GROW's forthcoming annual SME report.

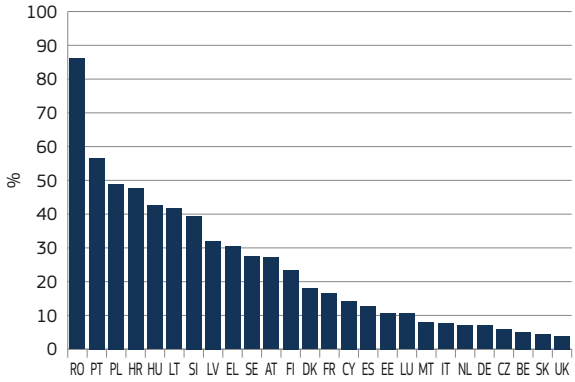
Chart 1: Share of self-employed in total employment



Source: DG EMPL calculations based on Eurostat, national accounts (nama_10_a10_e).

Note: FR and LU 2013 observation, persons aged 15 and over.

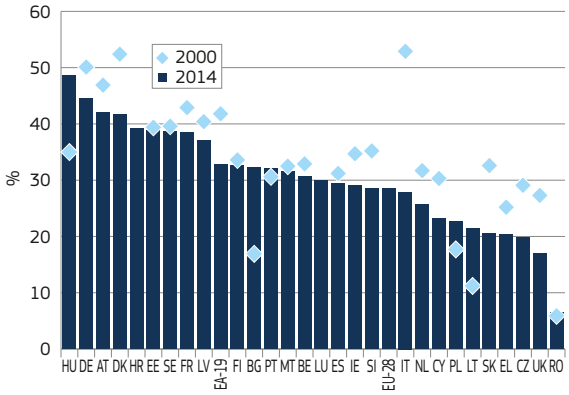
Chart 2: Share of self-employed in agriculture, forestry and fishing – 2014



Source: DG EMPL calculations based on Eurostat, national accounts (nama_10_a10_e).

Note: Persons aged 15 and over.

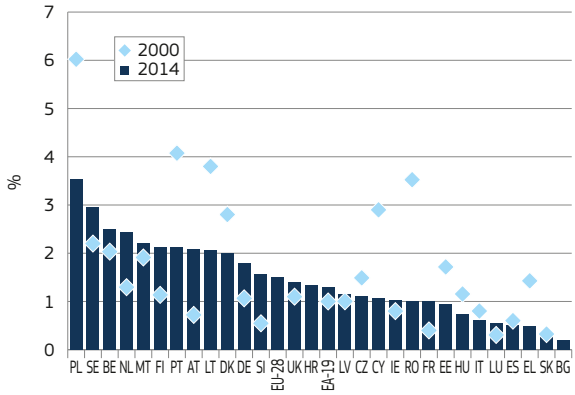
Chart 3: Share of self-employed who engage employees



Source: DG EMPL calculations based on Eurostat, EU-LFS (lfsa_esgais).

Note: From 15 to 64 years.

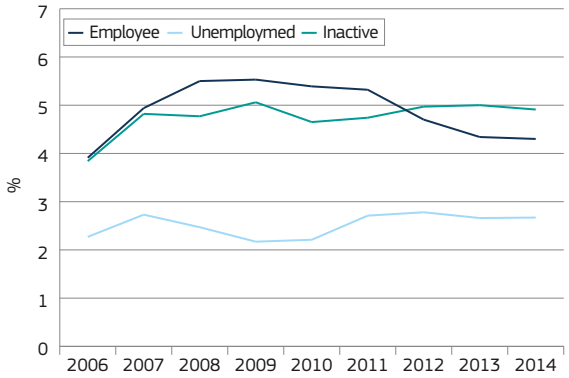
Chart 4: Share of employees with second job as self-employed



Source: DG EMPL calculations based on Eurostat, EU-LFS (lfsa_e2gps and lfsa_eegais).

Notes: Persons aged 15 and over, BG and HR 2000 observation missing.

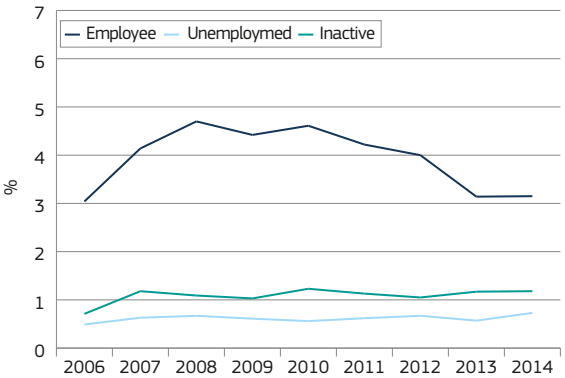
Chart 5: Proportion of unemployed in previous year who were self-employed without employees at time of survey – EU



Source: DG EMPL calculations based on EU-LFS.

Notes: Persons aged 15 and over. FR not included in EU aggregate.

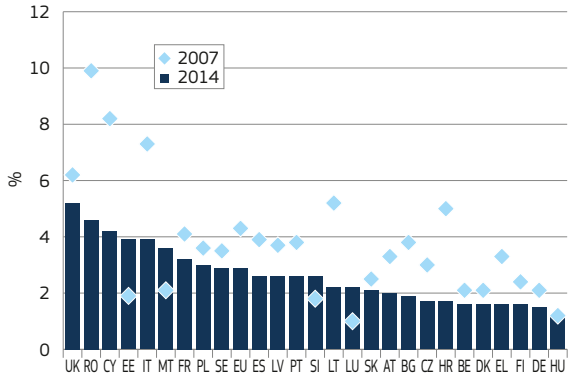
Chart 6: Proportion of unemployed in previous year who were self-employed with employees at time of survey – EU



Source: DG EMPL calculations based on EU-LFS.

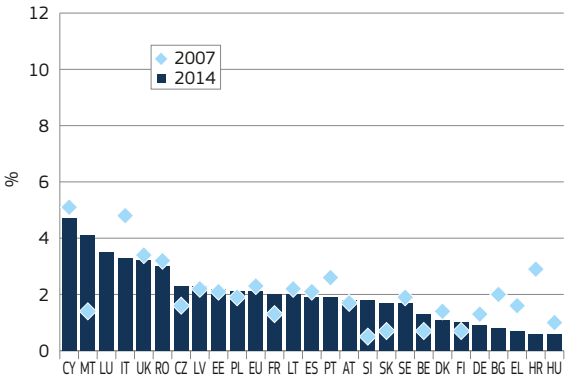
Notes: Persons aged 15 and over. FR not included in EU aggregate.

Chart 7: Proportion of unemployed in previous year who were self-employed at time of survey – Men



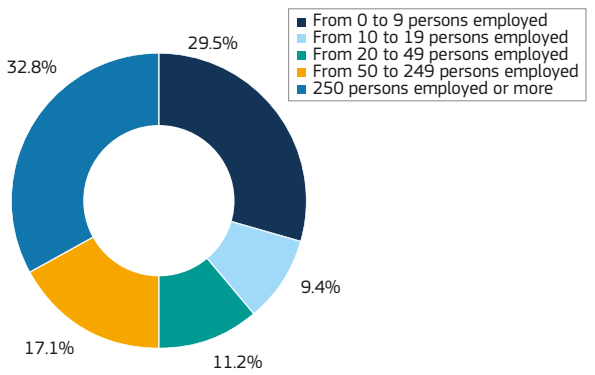
Source: Applica (2015, Table 6) calculations based on EU-LFS.

Chart 8: Proportion of unemployed in previous year who were self-employed at time of survey – Women



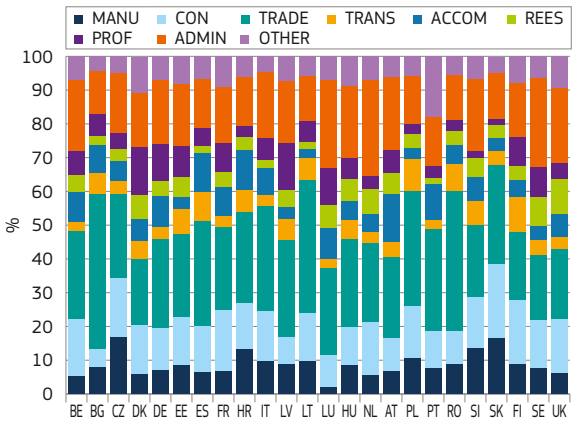
Source: Applica (2015, Table 7) calculations based on EU-LFS.

Chart 9: Share in total employment by enterprise size – EU-28 in 2011



Source: DG EMPL calculations based on Eurostat, Structural business statistics (sbs_sc_sca_r2).

Chart 10: Sectoral employment shares of enterprises of up to 9 employed persons – 2012

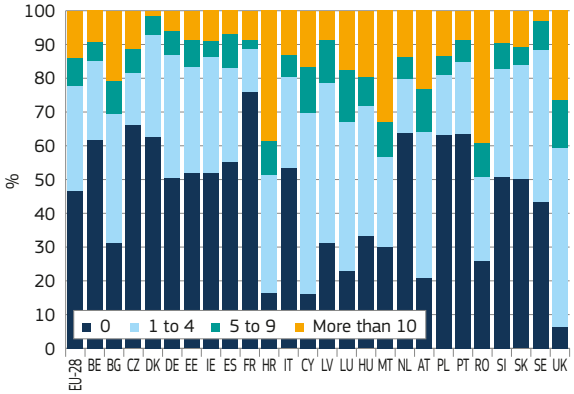


Source: DG EMPL calculations based on Eurostat, Structural business statistics (sbs_sc_sca_r2).

Notes: Total business economy; repair of computers, personal and household goods; except financial and insurance activities. MINE: Mining and quarrying, MANU: Manufacturing, ELEC: Electricity, gas, steam and air conditioning supply, WATER: Water supply; sewerage, waste management and remediation activities, CON: Construction, TRADE: Wholesale and retail trade; repair of motor vehicles and motorcycles, TRANS: Transportation and storage, ACCOM: Accommodation and food service activities, INFO: Information and communication, REES: Real estate activities, PROF:Professional, scientific and technical activities, ADMIN: Administrative and support service activities, COMP: Repair of computers and personal and household goods.

Chart 11: Share in total new job creation by new firms – 2012

(based on enterprise size)

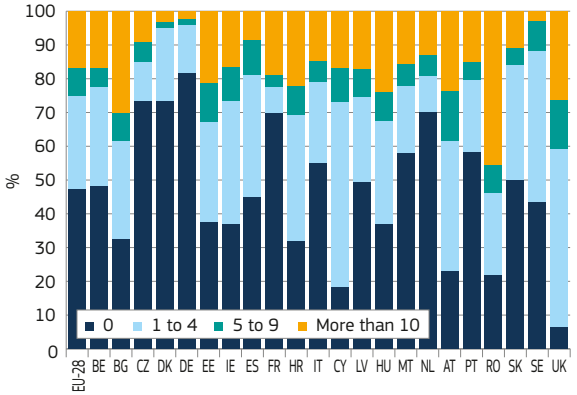


Source: DG EMPL calculations based on Eurostat, SBS Business Demography Statistics (bd_9bd_sz_cl_r2).

Note: Number of employees.

Chart 12: Share in total job loss by firms going out of business – 2012

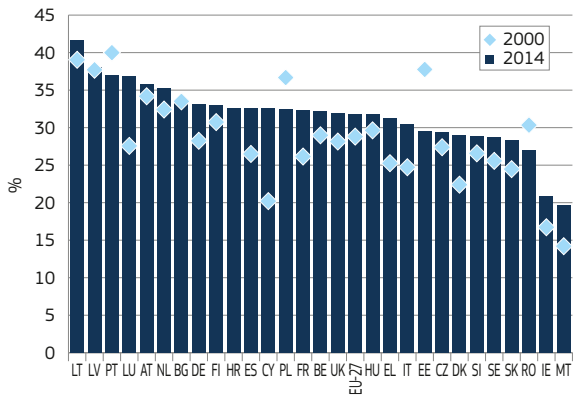
(based on enterprise size)



Source: DG EMPL calculations based on Eurostat, SBS Business Demography Statistics (bd_9bd_sz_cl_r2).

Note: Number of employees.

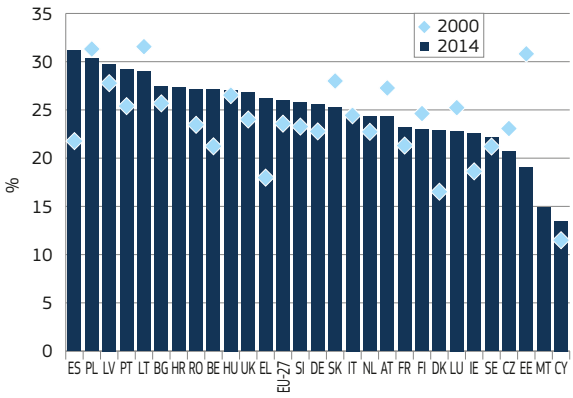
Chart 13: Share of women among self-employed



Source: DG EMPL calculations based on Eurostat, EU-LFS (lfsa_esgais).

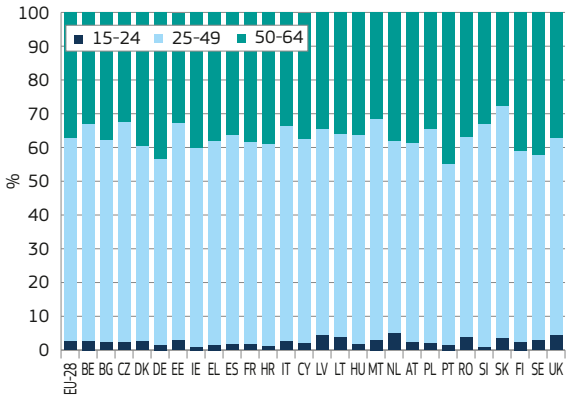
Note: Self-employed with and without employees.

Chart 14: Share of female self-employed engaging employees



Source: DG EMPL calculations based on Eurostat, EU-LFS (lfsa_esgais).

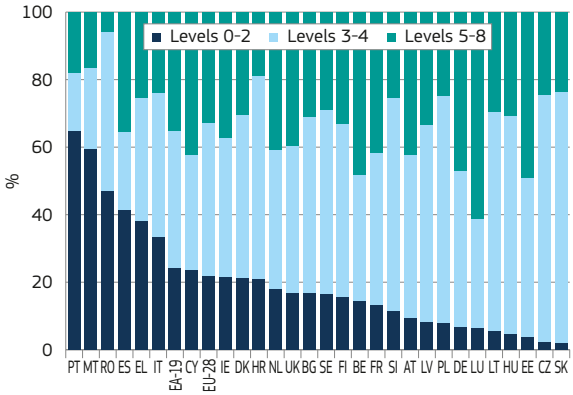
Chart 15: Self-employed persons: age shares – 2014



Source: DG EMPL calculations based on Eurostat, EU-LFS (lfsa_esgais).

Notes: DG EMPL interpolation for missing data for age group 15-24 of LT and LU. EE 2013 observation.

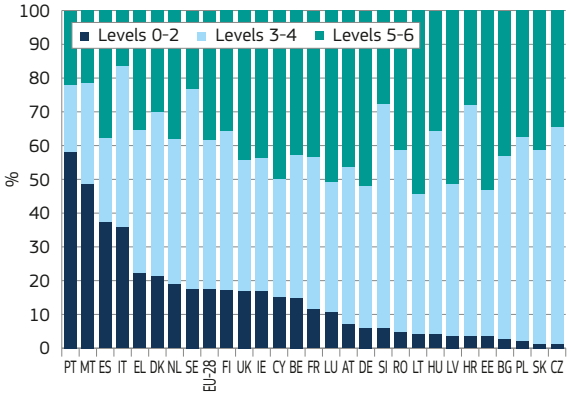
Chart 16: Education level of self-employed – 2014



Source: DG EMPL calculations based on Eurostat.

Notes: Less than primary, primary and lower secondary education (levels 0-2); Upper secondary and post-secondary non-tertiary education (levels 3 and 4); Tertiary education (levels 5-8). 'No response' not included.

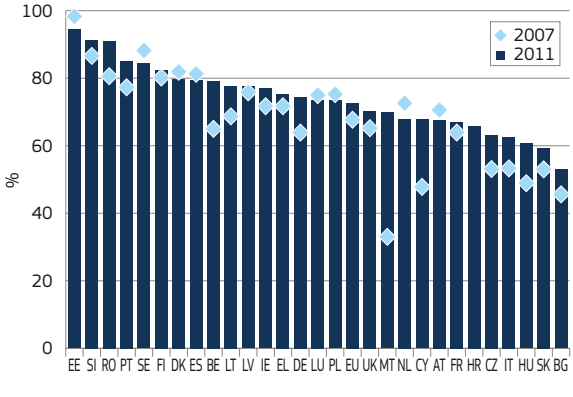
Chart 17: Self-employed with employees – skill level – 2014



Source: DG EMPL calculations based on Eurostat, EU-LFS [lfsa_esgaed].

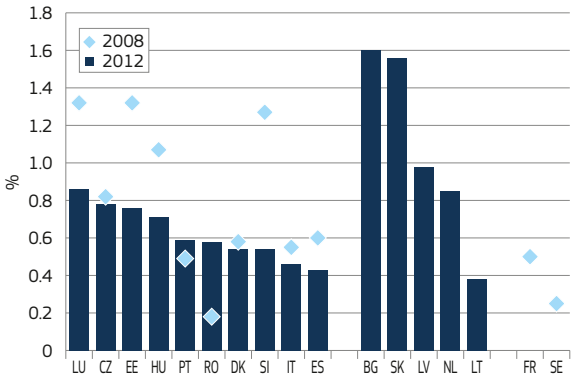
Note: DG EMPL interpolation for missing data for levels 0-2 in BG, EE, LV, LT, LU, RO and SK.

Chart 18: Share of self-employed without employees with gross earnings below employee median earnings



Source: Applica (2015) using EU-SILC micro-data, version August 2014.

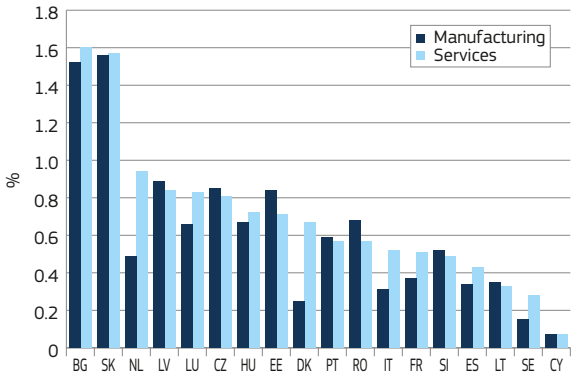
Chart 19: Share of gazelles measured in employment – 2008 and 2012 (or earlier)



Source: Eurostat, EIP (bd_9n_r2).

Notes: Gazelles are enterprises up to 5 years old with average annualised growth greater than 20% per annum, over a 3-year period. In this chart, growth is measured by the number of employees (an alternative measure could have been turnover). The share of gazelles measures the number of gazelles as a percentage of the population of enterprises with 10 or more employees. Business economy except activities of holding companies. Earlier years DK: 2011; FR: 2009; LU: 2011; SI: 2011; SE: 2008.

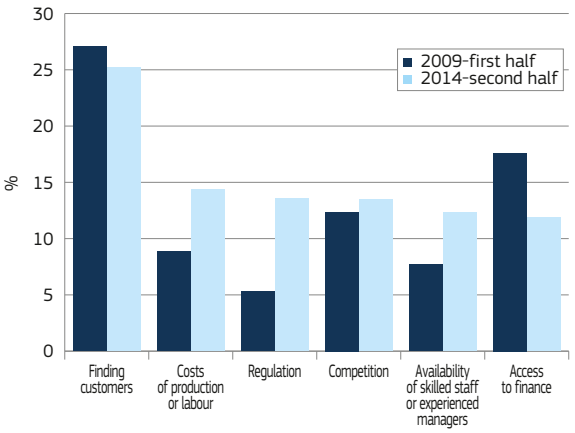
Chart 20: Share of gazelles measured in employment by sector – 2012 (or earlier)



Source: Eurostat, EIP (bd_9n_r2).

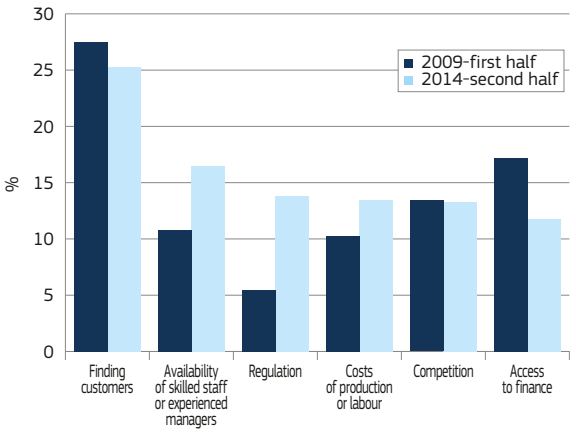
Notes: see note Chart 19.

Chart 21: Pressing problems faced by micro-enterprises



Source: ECB Survey on the access to finance of enterprises (SAFE).

Chart 22: Pressing problems faced by meso-enterprises



Source: ECB Survey on the access to finance of enterprises (SAFE).

3. ENSURING THE RIGHT FRAMEWORK CONDITIONS

Major long-term challenges and opportunities for the self-employed and (self-employed) entrepreneur stem from ongoing structural changes such as technological progress (including new developments in ICT and key enabling technologies (KETs) ([21])), further globalisation (including expanding global value chains and free trade agreements), demographic change (including ageing and changing family structures) and greening of the economy (including the strengthening of the circular economy).

The right framework conditions can potentially strengthen the incentives and means for individuals (or teams) to start a new business, while ensuring that they can expand their activities in a sustainable (job-rich) way. Specifically, the development of self-employment and entrepreneurship might call for the development of a more entrepreneurial culture, well-designed taxes and social protection, access to finance, business support as well as product markets, few bureaucratic burdens and a stable macro-economic environment.

Providing greater regulatory predictability, removing barriers and reinforcing the Single Market are important in unlocking the full potential of entrepreneurship and self-employment in the EU. This can only be achieved through complementary actions at EU and at country level. The implementation of reforms in the Member States has to accompany the actions at EU level to reinforce the Single Market.

At EU level, further deepening the Single Market remains high on the agenda, notably with initiatives to develop the Capital Markets Union ([22]), to further deepen the Single Market ([23]) in goods and services, to create a Digital Single Market ([24]) and to develop an Energy Union. These initiatives to deepen the Single Market would themselves provide a boost to entrepreneurship. In parallel,

([21]) KETs cover micro-/nano-electronics, nanotechnology, photonics, advanced materials, industrial biotechnology and advanced manufacturing technologies. See, for instance, European Commission (2012).

([22]) For more details, see http://ec.europa.eu/finance/capital-markets-union/

([23]) For more details, see http://ec.europa.eu/growth/single-market/index_en.htm

([24]) For more details, see http://ec.europa.eu/priorities/digital-single-market/

with its Better Regulation ([25]) agenda, the Commission seeks to simplify the legal framework, to reduce regulatory burdens across the Single Market and to achieve better regulatory predictability.

At national level, a key priority is for Member States to remove country-specific barriers to entrepreneurship. Relevant reforms cover a wide set of measures that aim to improve the functioning of labour and product markets and the framework conditions in which economic actors operate. However, there is a large diversity across countries. Barriers to entrepreneurship are both regulatory and non-regulatory, vary in terms of their restrictiveness, complexity or unpredictability, and have to be put in perspective with investment patterns. There is therefore no one-size-fits-all solution, and action by Member States will be crucial.

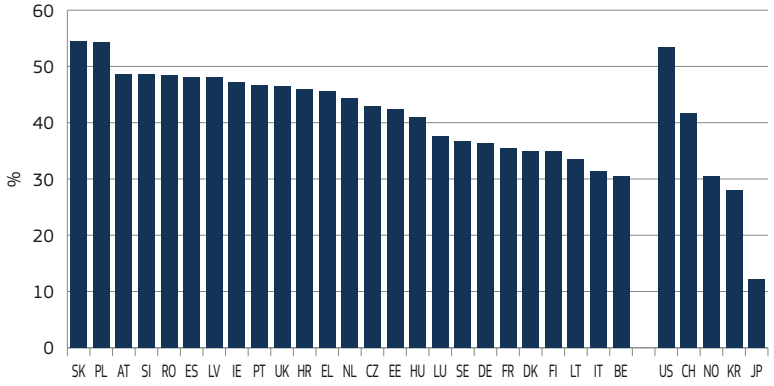
3.1. Towards a more entrepreneurial culture

Looking beyond monetary incentives, people's decision to become self-employed or entrepreneurs is also driven by psychological (such as a desire for more autonomy and self-control ([26])) as well as socio-cultural factors (such as education). For example, Giannetti and Simonov (2004) ([27]) suggest that where the culture makes entrepreneurial activity attractive, more individuals become entrepreneurs even though profits are lower.

In the European Union, several socio-cultural bottlenecks are seen to constrain the development of entrepreneurship and self-employment, as the following examples illustrate ([28]).

The lack of entrepreneurship education (from a young age in school through to universities and vocational education and training) remains a significant bottleneck to stimulating self-employment and entrepreneurship in the EU. On average, less than 50% of 18 to 64 years old in the EU believe that they have the skills and knowledge to start a business, ranging from about 30% in Belgium and Italy to 54% in Slovakia and Poland – which compares to 53% in the United States, 42% in Switzerland and 12% in Japan. See Chart 23.

Chart 23: Percentage of 18-64 population who are believed to have the required skills and knowledge to start a business – 2014



Source: Global Entrepreneurship Monitor database.

Note: HR, LV and KR 2013 observation.

The stigmatisation of business failure has an adverse impact on EU entrepreneurship. For example, Bonnet and Cussy (2010) report that in France only a very limited number of graduates of the prestigious 'Grandes Ecoles' envisage an entrepreneurial career because of the stigma attached to (honest) business failure. Strengthening public views of entrepreneurs' contribution to Europe's welfare, jobs, innovation and competitiveness may help to create a more positive public perception of entrepreneurism and self-employment. See, for instance, the European SME Week ([29]).

Older generations from the new EU Member States – with their background of a centrally-planned economy with a strong emphasis on dependence and conformity – show a strong reluctance to display the key characteristics of self-employment and entrepreneurship (such as self-reliance and individualism). See, for instance, Estrin and Mickiewicz (2010) and Sztompka (1996).

Furthermore, as the world economy further integrates and new business opportunities emerge (propelled by drivers such as 3D printing and crowd-funding which have a strong potential to reduce costs), entrepreneurs will have to start to think on a much broader scale and explore the potential to address the needs of the hyper-connected crowd – which will also require a stronger awareness of cultural differences. See, for example, Diamandis and Kotler (2015).

All in all, developing a more entrepreneurial mind-set across all groups of society (especially among under-represented groups such as the young, women and older people) and promoting a favourable public perception of entrepreneurship will continue to be important challenges. Labour market policies can strengthen entrepreneurship by supporting relationships between businesses and educational systems ([30]), fostering a common understanding of what entrepreneurial skills are ([31]), developing accreditation systems to validate non-formal learning and practical activities favouring entrepreneurial development, as well as promoting networking and mobility of young entrepreneurs. See European Commission (2015), (2014g) and (2008).

3.2. Improving access to finance and capital

Financing needs vary according to the stage of the business's development (such as start-up phase, early development phase, growth and maturity phase) and future objectives (such as remaining local and small or being innovative and going international). However, entrepreneurs do not always have access to traditional finance (such as banks) due to, inter alia: a lack of collateral ([32]); high

([25]) For more details, see http://ec.europa.eu/smart-regulation/index_en.htm

([26]) See, for instance, Eurofound (2015a).

([27]) Using a large sample of the Swedish population between 1995 and 2000.

([28]) Social obstacles will be discussed in more detail in Section 4.

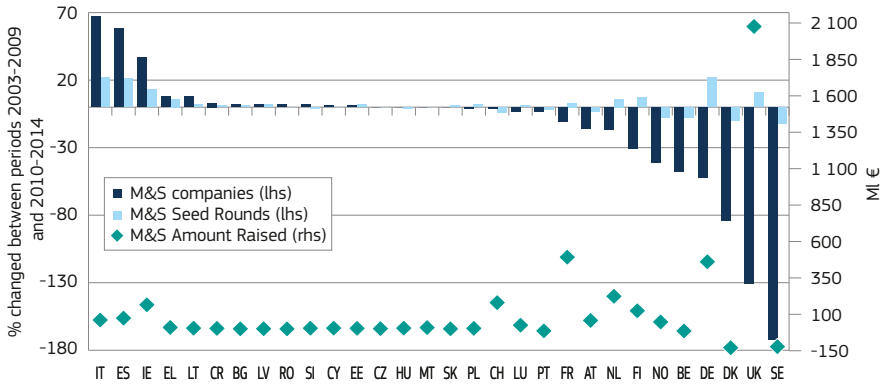
([29]) For more details, see http://ec.europa.eu/growth/smes/support/sme-week/

([30]) On entrepreneurship education in Europe, see, for instance, ICF Consulting Services (2015), 'Entrepreneurship Education: A road to success', DG Growth, Final Report, available at http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8056&lang=en

([31]) The European Commission is defining a common reference framework for key entrepreneurship competences. For more details, see 'Sense of initiative and Entrepreneurship' at https://ec.europa.eu/jrc/en/entrecomp

([32]) See, for instance, Johansson (2000).

Chart 24: Changes between 2003-2009 and 2010-2014 in the number of companies, seed rounds and change in amount raised by country – Micro and Small companies



Source: DG EMPL calculations based on Dow Jones online database VentureSource.

fixed costs for a loan ([33]); gender, age or ethnicity discrimination ([34]); insufficient information on behalf of the lender ([35]); or the companies' fault, e.g. not preparing applications properly or not providing the financial information requested ([36]).

Apart from strengthening competition between financial intermediaries (see, for instance, Kerr and Nanda (2009)), policy initiatives to address these market failures include the promotion of new, alternative forms of financing for start-ups and SMEs (such as crowd-funding), as well as simplification of tax legislation and better design of tax systems to stimulate further development of alternative financial markets (such as business angel investments), while at the same time making use of public funds to set up micro-finance support schemes, initiatives to provide entrepreneurs and businesses with finance through local financial institutions including loans, guarantees and equity funding as well as supporting networking of entrepreneurs and investors. See, for example, European Commission ([37]) and OECD (2014).

At the European level, this involves strengthening the risk-bearing capacity through public money to encourage project promoters and attract private finance to viable investment projects which would not have otherwise happened. In this respect the new European Fund for Strategic Investments provides risk support for long-term investments and ensures increased access to risk-financing for SMEs and mid-size companies ([38]).

Several alternative forms of finance are available – depending on the characteristics of the firm – as the following examples illustrate. Innovative small and medium-sized start-up firms can be supported by business angels who provide equity at an early stage of development, long before they become attractive to venture capital funds ([39]). When access to finance is limited, their investment capacity can be strengthened by co-investment from public funds, such as the European Angels Fund ([40]) under the European Investment Fund ([41]).

High potential growth start-up enterprises can benefit from venture capital (VC). See, for instance, Croce et al. (2013). The effectiveness of venture capital is driven by the venture capitalist's capacity to select firms and business projects with superior potential, as well as the financial and managerial resources they provide to the firm. See, for instance, VICO (2011) ([42]). According to the European Private Equity and Venture Capital Association EVCA (2005), European VC-backed companies created 630000 new jobs between 2000 and 2004 ([43]) and employed 17% of those in portfolio companies ([44]), accounting for almost 1 million jobs.

The available evidence seems to suggest that between 2010 and 2014 ([45]) more Member States are beginning to explore venture capital as an alternative source of funding for micro and small companies ([46]). For example, Chart 24 compares, in absolute values, the number of companies and amount of investment at an early stage (i.e. seed rounds) for micro and small enterprises (MSC) in 2010-2014 with 2005-2009. This chart suggests that

([33]) See, for instance, Duell (2011).

([34]) See, for instance, Eurostat (2012).

([35]) See, for instance, Evans and Jovanovic (1989) and Henley (2005).

([36]) See, for instance, Mazzucato et al. (2012) for financial system reforms aimed at aligning the financial system and its practices with the real, productive economy of value-creation.

([37]) Including the COSME Programme, InnovFin Programme (including Horizon's 2020 SME Instrument), Creative Europe (cultural and creative sectors), Programme for Employment and Social Innovation (EaSI) and European Structural and Investment Funds (ESI funds). More details at http://europa.eu/youreurope/business/funding-grants/access-to-finance/

([38]) See, for instance, European Commission (2014f and 2015).

([39]) Examples include AWS i2 Business Angels Austria (AT) (at http://www.awsg.at/Content.Node/risikokapital/i2-business-angels/46841.php) and Business Angels Netzwerk Deutschland (DE) (at http://www.business-angels.de/).

([40]) See http://www.eif.org/what_we_do/equity/eaf/index.htm

([41]) See http://www.eif.org/index.htm

([42]) See also DG RTD FP7 Project 'VICO Results in Brief', available at http://cordis.europa.eu/result/rcn/90684_en.html

([43]) The number of new jobs rises to 1 million if accounting for both private equity and venture capital financed companies.

([44]) In this case, the portfolio companies are the companies invested in by European private equity and venture capital funds.

([45]) The source of data is the online database VentureSource by Dow Jones, which is the most accurate global database on venture capital industry providing information, at financing round level, on VC-backed companies and investors in every region, industry and stage of development. Because the data was downloaded for the last time in April 2015, the figures for the year 2014 may be slightly underestimated.

([46]) In this exercise it is assumed that a micro-company is a company which employs fewer than 10 persons, while a small company is a company which employs fewer than 50 persons, but, at least, 10 persons. The analysis is restricted to the typical VC rounds: seed, first stage, second stage, later stage and restart. Seed rounds are investments at very early stages of a company, while the successive rounds follow an ordinal nomenclature. Restart rounds are very rare and involve firms in severe difficulties that survive in a new form, often changing their business significantly.

the best performing Member States are among those most affected by the last economic crisis: Italy, Spain, Ireland, Greece and Lithuania. By contrast, Member States with more developed venture capital markets such as the United Kingdom, France and Germany, show negative values, but they still increased the value of funds raised through such deals, in particular the United Kingdom.

Vulnerable groups, micro-enterprises and social entrepreneurs that lack access to traditional capital and finance channels can be served by micro-credit providers. In turn, such organisations could be supported by funding from public sources ([47]), such as the Microfinance and Social Entrepreneurship axis of the EU Programme for Employment and Social Innovation (EaSI) ([48]) and the European Social Fund ([49]).

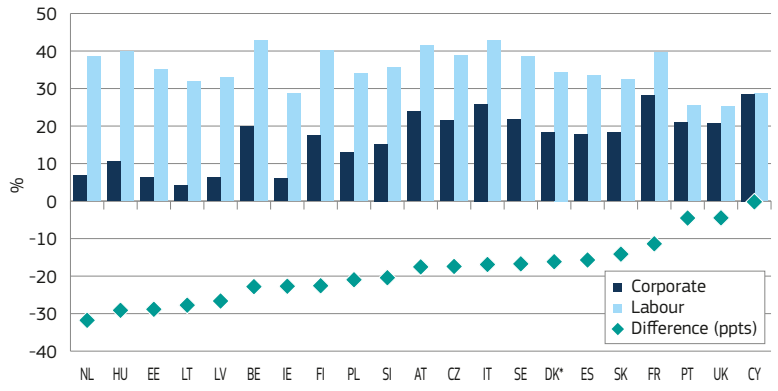
Another alternative form of finance for small and medium-sized companies is crowd-funding whereby capital is raised from a large number of people, typically via the internet. Although this may help entrepreneurs gather knowledge of customers and media exposure, several barriers may hinder the full exploitation of their potential such as a lack of awareness and understanding, challenges of protecting intellectual property, fraud and consumer protection concerns. See European Commission (2014e).

All in all, reducing fragmentation in the EU's financial markets (as would happen with full implementation of a Capital Markets Union) and strengthening the risk-bearing capacity of financial markets for micro and small enterprises, while at the same time improving the financial literacy of the population, could be factors that help develop a more diverse supply of finance to SMEs.

3.3. Well-designed taxation

The level and composition of taxes are also important drivers for the start-ups of one-person, micro and small enterprises as well as their growth since they have a direct impact on incentives and on tax compliance costs ([50]). The following analysis highlights some of the transmission channels via which tax conditions affect start-ups. It would be beyond the scope of this chapter to focus on a broader set of tax issues such as tackling tax avoidance, securing sustainable revenues and supporting a better business environment in the Single Market, and their impact on job creation ([51]).

Chart 25: Implicit tax rates – corporate and labour income, 2012



Source: Taxation trends in the European Union at http://ec.europa.eu/taxation_customs/taxation/gen_info/economic_analysis/tax_structures/index_en.htm

3.3.1. Tax incentives

Taxes relevant to one-person, micro and small enterprises include income, payroll, corporate, capital gains and inheritance taxes. See, for instance, Parker (2009). From a labour market perspective, income tax can be an important factor in influencing whether a person becomes self-employed (unincorporated or incorporated) ([52]), continues to work as an employee, disappears into the undeclared economy or becomes inactive.

Chart 25 shows strong variances in taxation between labour and corporate income across the EU Member States for which data is available, with the implicit tax rate on labour income being higher than on corporate income in all Member States: the largest differences being found in the Netherlands and Hungary, while the smallest differences are found in Cyprus and the United Kingdom.

Nevertheless, when labour and corporate income are taxed at different rates there may be an incentive to choose the form of employment that involves the lowest tax rate, as the following examples illustrate. First, if it is easier to under-report taxable income when self-employed (through an incorporated business) than as a wage earner, then people may be incentivised to become self-employed – particularly in cases of weak tax law enforcement. See, for instance, Torrini (2005). Moreover, where tax-deductible business expenses are suitable for both business and private use (such as a car) there may be an additional incentive to become self-employed.

Finally, as small enterprises and especially start-up companies often face difficulties in attracting finance that is needed to invest in R&D activities in the face of capital market imperfections (such as asymmetric information), offering a preferential tax treatment to SMEs and/or young start-up companies may be an efficient way to boost employment, access to finance and innovation for young and very small businesses. See, for instance, CPB (2014).

([47]) While giving due regard to the complementarity with other EU policies and programmes, as well as national activities, and the fine-tuning of the financial instruments. See 'Interim Evaluation of the European Progress Microfinance Facility' at http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7760

([48]) See, for instance, http://ec.europa.eu/social/main.jsp?catId=1084

([49]) See http://ec.europa.eu/social/main.jsp?catId=952&intPageId=3510&langId=en

([50]) Such as keeping records, preparing tax returns and dealing with tax auditors. See, for instance, Turner et al. (1998).

([51]) For a comprehensive overview of the relative position of SMEs vis-à-vis larger enterprises with respect to corporate income taxation, see VVA and ZEW (2015). See also the Action Plan for Fair and Efficient Corporate Taxation in the EU (at http://ec.europa.eu/taxation_customs/taxation/company_tax/fairer_corporate_taxation/index_en.htm) which identifies five key areas for action to reform the corporate tax framework at EU level, i.e. re-launching the common consolidated corporate tax base, ensuring fair taxation where profits are generated, creating a better business environment, increasing transparency and improving EU coordination.

([52]) Unincorporated (personal) business income is subject to personal income tax rates, while incorporated business income is subject to corporate and personal shareholder-level taxation. See, for instance, OECD (2009). It would be beyond the scope of this chapter to cover all these taxes, so the analysis in this chapter will be limited to a select set that has a direct impact on incentives and labour market costs.

3.3.2. Tax compliance costs

Tax compliance costs also affect people's decision to become (incorporated) self-employed – even when tax rates are themselves favourable for self-employment. See, for instance, Schuetze and Bruce (2004). Tax compliance costs stem from a variety of sources, including: complexity of tax systems, different tax administrations, incomprehensible tax laws and forms, frequent changes of tax laws and short and inflexible deadlines for tax payments (resulting in cash flow problems). See, for instance, Expert Group on Taxes (2007).

These costs can be very high, for example, the European Commission (2004) reports that for European SMEs the ratio between total tax-related compliance costs and paid taxes is about 31 %, while for large companies this ratio is around 2 % because larger companies have the capacity to use additional resources to increase efficiency ([53]). In other words, the burden decreases as the business size increases ([54]). However, the business may be caught in a vicious circle as a high tax burden reduces the opportunities for internal finance, which in turn limits business expansion – when access to external financing is limited. See, for instance, Brown et al. (2004).

Moreover, for new enterprises, tax compliance costs will be higher than older enterprises because they lack the necessary experience. See, for instance, Eichfelder and Schorn (2008). Finally, micro and small enterprises that operate across borders need to cope with the separate tax systems in EU Member States.

Important steps towards reducing the compliance cost for small enterprises could include: electronic tax filing adapted to the needs of small enterprises, timely information on tax changes, certain filing exemptions, special departments in tax administrations to deal with young enterprises and one-stop shops for business registration that also deal with tax registration. See, for example, Expert Group (2009).

All in all, while the case for lower compliance costs for SMEs is fairly clear-cut, efforts also seem necessary to move to a modern and simple tax environment by, inter alia, removing tax barriers to financing, as well as designing well-targeted tax incentives such as tax incentives for R&D and for young and innovative companies.

3.4. Stronger social protection arrangements

3.4.1. Ensuring adequate social protection

In general, there are notable differences across EU Member States in terms of social security systems for the self-employed people. See, for example, MISSOC (2014). For example, in the Netherlands self-employed workers do not have any benefit in case of sickness and incapacity for work nor do they have access to unemployment benefits. In Belgium and France there is no unemployment insurance scheme for the self-employed. In Spain they are entitled to out-of-work benefit, in case of unemployment, but only if they opted for insurance coverage ([55]).

Self-employment and entrepreneurship carry several risks for which private market insurance is not always readily available (e.g. unemployment following a fall in demand due to a severe economic downturn). Where social and labour market policies can temper these adverse externalities, self-employment and entrepreneurship could become more attractive. Nevertheless, stronger insurance against, for example, income loss may also trigger moral hazard risks – leading to a reduced effort to be successful resulting in an increased probability of becoming unemployed. See, for instance, Ejrnæs and Hochguertel (2008).

3.4.2. Designing adequate labour market institutions

Social protection of the self-employed may also be affected by labour market institutions creating adverse incentives in terms of labour demand. For example, overly-rigid labour markets and high levels of taxation may create a strong incentive for employers to outsource work to their own employees in a formula of dependent self-employment. Employees may take up such positions either because they have weak bargaining power, or because they want to benefit from lower taxes as well as subsidies or tax allowances designed to promote self-employment – despite such employment carrying adverse risks, especially, in terms of social security coverage. See, for instance, Roman et al. (2011) ([56]) and Werner et al. (2013).

Nevertheless, this type of employment may create opportunities for people at the margin who would otherwise be excluded, such as the low skilled whose productivity is below the minimum wage. See, for instance, van Es and van Vuuren (2010). Moreover, the ongoing structural changes place a stronger emphasis on flexibility, which provides opportunities for self-employment in non-standard forms, such as iPros – as discussed in Section 4.1.

Harmonised data on the economically dependent self-employed is not readily available ([57]). See Box 3. Available evidence indicates that dependent self-employment mainly occurs in construction, transport, insurance and accounting. See, for instance, Werner et al. (2013). Moreover, few dependent self-employed create jobs for others. See, for instance, Böheim and Mühlberger (2009) for the United Kingdom.

3.5. Strengthening business development services

The availability of adequate business development services is a necessary condition to promote start-ups, assess the feasibility of projects, boost innovation capacity, strengthen expansion opportunities (and create jobs) and facilitate

([53]) Not clear-cut to assess possible selection bias in these estimates. Indeed, European Commission (2004) notes that some companies that have high total compliance costs are more eager to participate in surveys on compliance costs, but on the other hand, that some companies may be less likely to participate in surveys as they already have to meet many compliance requirements.

([54]) PWC (2015) estimates that on average a company spent 176 hours complying with taxes in the EU and EFTA region in 2013, compared to 213 hours in North America. In the previous decade, hours to comply with the tax codes had reduced by 62 hours in the EU and EFTA region.

([55]) See Applica (2015).

([56]) Using micro-data from the European Community Household Panel from 1994 to 2001, Roman et al. (2011) report empirical evidence supporting the hypothesis on strictness of employment protection legislation and the potential severance payment on transitions to dependent self-employment.

([57]) Estimates reported in the literature suggest that dependent self-employment amounts to 69 % in Bulgaria (see Javier Orche Galindo (2014)), 20 % in Finland (see Statistics Finland (2014)), 26 % in France, >30 % in Slovakia (see Dáša Rachelová (2013)), 3.6 % in Slovenia (see Statistical Office of the Republic of Slovenia, Labour Force Survey (2013)), and 28 % in Spain (see Javier Orche Galindo (2014)).

their day-to-day operation. Such services cover a broad range of activities including accounting and legal services, financial services, standardisation and certification, advisory and consultancy services, business and management training, support for feasibility assessment purposes and demonstration purposes ([58]) as well as recruitment, payroll and social security. Integrated packages that combine counselling, coaching and mentoring (preferably from within the appropriate target group) with financial support, should be designed to support entrepreneurs through the pre-start-up, start-up and post-start-up phases. See, for instance, OECD/EC (2014a) and Altenburg and Stam (2004).

Business development services are of special interest to small start-ups with few buffers to absorb set-backs, and their cost-effectiveness can be strengthened by fostering the development of one-stop shops that provide all business support services. See, for instance, OECD/EC (2014a).

Business development services can be provided by private as well as public providers. Public business development services may address social issues such as the inclusion of under-represented groups of workers. See, for instance, Foundation for SME Development (2002).

3.6. Cost-effective access to product markets

Starting and expanding a business can only be successful if domestic as well as foreign product markets can be easily accessed. For example, Scarpetta et al. (2002) (using a firm-level database for 10 OECD countries) and Cincera and Galgua (2005) (covering nine EU Member States) show that, in the past, product market regulations have had an important impact on decisions to start businesses. Nevertheless, it should also be recognised that further opening of markets implies that competition in the local market is likely to intensify competition as well as opportunities for both start-ups and existing businesses.

Several factors that affect the access to product markets are relevant to labour market and social policies, including the following. Firstly, further deepening of the single market (including strengthening the free movement of goods and services, public procurement and the digital economy ([59])) provides new opportunities for self-employment via outsourcing and offshoring of tasks, – to the extent that such vertical disintegration requires smaller, more specialised enterprises engaged in interdependent business networks. Nevertheless, realisation of this potential can require a specific set of management skills (such as intercultural awareness) and business services (such as searching for new markets abroad ([60])) that might not be automatically provided by markets. Moreover, such flexibility and fragmentation of the production process may have adverse effects on the job security and bargaining power of the self-employed and micro-enterprises.

Secondly, collaboration across borders may have positive impacts on business

Box 3: Measuring dependent self-employment

At the national level, some Member States attempt to clarify the definitions of dependent- and self-employment, to reduce the possibility of 'disguising' dependent employment as self-employment. A variety of approaches are implemented through changes in legislation, court cases and codes of good practice. See Eurofound (2010) for a comparative overview.

Data on employment status comes from three different sources: self-reporting by workers, coding by an interviewer on the basis of answers to a limited list of categories and administrative records. Some workers find it hard to answer such questions. Ensuring the validity of answers requires an alternative query process to be in place and research into the development of quality practice and statistical norms.

In 2010, Eurofound's 5th edition of the European Working Conditions Survey implemented a new exploratory approach to analyse the boundaries between self- and dependent-employment. Their approach built on a comparative analysis of self-employed and economically dependent workers, and aimed to identify the self-employed with employees and distinguish 'real' self-employed – own-account workers – from 'Economically dependent workers'.

To this end, the specific group of self-employed without employees were interviewed on economic risks ('generally, my firm has more than one client') and authority/autonomy ('if my workload requires it, I could hire employees who work for me'; 'I make the most important decisions on how to run the business'). A self-employed person without employees meeting fewer than two of these three criteria was defined as an 'Economically dependent worker'. The size of the group accounted for about 1 % of all workers, making it a non-negligible group at European level.

Analysis of the working conditions and job quality of these workers compared to other self-employed groups confirmed the blurring of boundaries in their work; indeed, in several ways their working conditions are similar to those of the self-employed without employees but in other dimensions they are closer to dependant employees. An in-depth study of developments relating to this category of workers, especially during the crisis, is needed to better understand the place and role they play in the increasing diversification of status in labour markets.

These difficulties were clearly acknowledged at the 19th international conference of labour statisticians which adopted a resolution for the revision of the ISCE93 classification of employment status. The resolution indicates that status of dependent employment can be unclear 'because they are in a situation similar to paid employment but which is disguised as a self-employment or they can be in hybrid forms of employment which share features of both dependent employment and self-employment or are working in triangular arrangements in which it's not clear who the real employer is, what are the workers' rights and who is responsible for them'. It also suggests addressing the heterogeneity of the self-employed group. Indeed, the group of self-employment covers an increasing range of situations.

([58]) See, for instance, https://ec.europa.eu/programmes/horizon2020/en/h2020-section/sme-instrument

([59]) See, for instance, Pataki (2014).

([60]) For example, Belgian economic mission led by Prince Philippe to visit Russia at http://www.diplomatie.be/moscowfr/default.asp?id=44&mnu=44

opportunities via knowledge spill-overs, input-output linkages and labour market pooling, etc.([61]). See, for example, Delgado et al. (2010). However, an absence of adequate transport and ICT interconnectivity may hinder business expansion.

Finally, to the extent that the public sector expands its activities such as education and health, it may crowd out opportunities for self-employment.

3.7. Less red tape and more red carpet

Excessive bureaucracy and red tape are time-consuming and resource-draining procedures that may discourage start-ups and the expansion of existing businesses, especially micro and small firms which lack the capacity to absorb such a burden.

For example, the High Level Group on Administrative Burdens (2014) estimates that exempting micro-entities from the European accounting and auditing rules could yield annual savings of EUR 6.3 billion in the EU. Ciriaci (2014), covering 17 EU Member States during the period 2004-2011, estimates that a 1 percentage point decrease in the cost of starting a business may give rise to a 0.2 % increase in start-ups, while a decrease of 1 day in the time needed to conclude the export procedures may increase start-ups by 0.3 %. They also note that the time needed to start a new company ranges from less than 5 days in Belgium, Portugal, the Netherlands and Hungary to more than 20 days in Malta, Poland, Spain and Austria ([62]). Furthermore, higher entry costs strengthen the possibility of corruption and undeclared work. See, for instance, Djankov et al. (2002).

In other words, streamlining and simplifying excessive bureaucracy and red tape can give an important boost to start-ups and their expansion while making public administration more business-friendly.

3.8. Ensuring macro-economic stability

The business cycle can have an ambiguous impact on self-employment and entrepreneurship. On the one hand, self-employment may be an escape route for some individuals if regular jobs are unavailable – especially in the absence of a strong safety net in case of job loss. See, for instance, Fairlie (2010) for the case of the United States. Moreover, start-ups may be boosted when capital goods (such as real estate) of bankrupt businesses (the number of which increases during a downturn) can be acquired at a low price. At the same time, the new businesses may trigger a self-reinforcing increase in demand (for intermediary goods and services), which may in turn trigger new start-ups. On the other hand, a persistent lack of aggregate demand ([63]) and limited access to credit (in the wake of the financial and sovereign debt crisis) may discourage new entrants and induce flows away from self-employment.

Nevertheless, the impact of the business cycle on self-employment will vary with the specific business characteristics, such as the nature of activity and the firm size. For example, in sectors that are particularly sensitive to the business cycle (such as construction), flows out of self-employment will be stronger than in less sensitive sectors (such as food). Firm size matters also – albeit not unambiguously. For example, Pal et al. (2014), covering Swedish textile-related SMEs over the 1989-2010 period, provide evidence that the self-employed without employees show the strongest ability to adapt to changes in demand, but Ejermo and Xiao (2014), using a sample of Swedish firms covering the period from 1991 to 2007, report that being active in new technologies during recessions is particularly risky for small firms because of their lack of access to capital.

3.9. Summary

This section has reviewed the framework conditions that can affect movements into self-employment, and identified several channels through which labour market and social policies (in close coordination with other policies) could shape these framework conditions. More particularly, it highlighted the potential roles of:

- fostering a more entrepreneurial culture via promoting, inter alia, entrepreneurial education and skill formation from a young age and a more positive public perception of self-employment and entrepreneurism;
- addressing market failures in financial markets by facilitating, inter alia, access to finance for vulnerable groups such as young people as well as access to risk-financing for small businesses;
- alleviating tax compliance costs for solo self-employed and small businesses;
- ensuring adequate social protection in the face of new emerging forms of self-employment such as independent professionals;
- ensuring free access to (domestic and international) markets;
- promoting a clear, stable and predictable regulatory environment;
- promoting suitable business support services such as fostering one-stop shops that provide all business support services;
- creating a stable macro-economic environment.

4. GEARING LABOUR MARKET AND SOCIAL POLICIES TO BOOST SELF-EMPLOYMENT AND ENTREPRENEURSHIP

Ongoing structural developments will create new opportunities for self-employment and entrepreneurship. For example, further digitalisation of the economy will create new opportunities, such as e-commerce in the app-economy. At the same time, as the EU's capacity to generate knowledge is expected to intensify, spin-offs from knowledge centres (such as universities) will create new opportunities for entrepreneurs to transfer knowledge into market action, while the further greening of the economy and tackling of social problems will create new business opportunities.

([61]) Commission initiatives to foster transnational collaboration include the Your Europe Business Portal, Enterprise Europe Network, and the SME Internationalisation Portal.

([62]) By late 2014, see http://ec.europa.eu/enterprise/magazine/articles/smes-entrepreneurship/article_11103_en.htm

([63]) See, for instance, Davidsson and Gordon (2015).

Nevertheless, these developments carry the risk that ongoing trends in labour market polarisation may be reinforced to the extent that the number of successful entrepreneurs at the top (such as successful app-entrepreneurs and free professionals in services) and the number of precarious self-employed at the bottom (such as dependent self-employed) increase, while mid-level opportunities are absent. Moreover, starting a business carries the risk of failure, which may stigmatise and discourage entrepreneurship.

This section will identify labour market and social policies to facilitate the realisation of the job potential of these ongoing structural changes.

4.1. Smarter use of ICT as an enabler of entrepreneurship

Ongoing ICT innovations (such as cloud computing ([64]) or digital platforms to buy and sell goods and services) reduce business start-up costs ([65]), create new business opportunities when products and services get a global reach ([66]) and may attract crowd sourcing, whereby tasks (such as data management and software development) are outsourced to micro-enterprises via online platforms ([67]).

Nevertheless, this potential will not be realised automatically since entrepreneurs face several barriers in the EU, including limited access to capital, slow internet access across the EU, inconsistent regulatory policies across the EU, as well as a lack of clarity and knowledge regarding relevant legal frameworks. See, for instance, European Commission (2012a) and Breslin et al. (2014).

More specifically from a labour market perspective, barriers to entrepreneurship and self-employment in the digital economy include a lack of e-skills (such as app development and e-leadership), finance and the low bargaining power of single digital entrepreneurs. These barriers call for labour market policies that promote e-skills and digital entrepreneurship (to exploit new technologies and markets) as well as knowledge of cloud computing and relevant social platforms. See European Commission (2012a).

Furthermore, by promoting networking, small enterprises can exchange experience and achieve the critical mass needed to negotiate preferential terms with key business partners (such as financial companies), reduce social and professional isolation and improve skills. See, for instance, European Commission (2012a), YEA (2015), Eurofound (2015) and the Watify platform ([68]). Finally, promoting the use of alternative forms of financing for early-stage technology start-ups should be strengthened by improving, inter alia, financial literacy.

Ongoing ICT innovations will create opportunities for highly skilled self-employed individuals who work without employees, such as journalists, consultants, etc. (i.e., the independent professional or iPros) ([69]). See, for instance, Rapelli (2012) ([70]). A basic characteristic of their work ([71]) is that they are flexible and innovative and operate in high-value, high-knowledge professional sectors, thereby offering cost efficiency for their clients. However, while iPros behave entrepreneurially they do not plan to employ people but their activities can lead indirectly to additional job creation if they improve the clients' growth potential. See, for instance, Leighton (2015) and Eurofound (2015).

This type of employment primarily attracts the elderly, highly educated as well as women with children. See, for instance, Bosch et al. (2012) and Bosch et al. (2014) for developments in the Netherlands (where tax differences are an important incentive in becoming an independent professional). Nevertheless, as this type of self-employment expands, specific challenges (including developing and maintaining skills, health insurance and retirement schemes) might have to be addressed by appropriate framework conditions. See, for instance, Leighton (2015).

4.2. Supporting business exploitation of spin-offs and networking

In a knowledge- and technology-intensive economy, spin-offs and entrepreneurship are important intermediaries for transmitting knowledge into market action. However, while the phenomenon of spin-offs has a long tradition in the United States, it has only developed in the EU since the late 1990s. Spin-offs derive from two sources, either from a company or from research activity, usually an academic department ([72]).

Industrial spin-offs are either established by employees from an incumbent firm in the same industry or engaged by a company which can then concentrate on its core business ([73]). Nevertheless, evidence of their growth performance is ambiguous. For example, Veld and Veld-Merkoulova (2004), exploring a sample of 156 European industry spin-offs founded by listed companies between 1987 and 2000, found that spin-offs do not show a stronger long-run performance than other entrants. However, Dahl and Gjerløv-Juel (2010), studying the Danish economy from 1995 to 2004, report that industry spin-offs survive longer and create more jobs compared to other entrants. Klepper (2009), focussing on the United States economy ([74]), reports that firms founded by former employees from incumbent firms in the same industry tend to outperform new entrants and sometimes incumbent firms as well.

([64]) See also 'European Cloud Computing Strategy' at http://ec.europa.eu/digital-agenda/en/european-cloud-computing-strategy

([65]) As costs are only incurred by usage of existing infrastructure owned by others.

([66]) For example, Breslin et al. (2014) estimate that the EU app developer workforce (mainly performing contract work) will grow from about 1 million in 2013 to 2.7 million in 2018 – where 39% will be small independent developers (17% being hobbyists with potential and 16% part-time). Their growth potential will primarily be focussed on hiring a development and sales executive. Moreover, European SMEs embracing ICT would grow two to three times faster.

([67]) See, for instance, Eurofound (2015).

([68]) Available at https://ec.europa.eu/growth/tools-databases/dem/watify

([69]) Leighton (2015) estimates that iPros increased from just under 6.2 million in 2014 to 8.9 million in 2013 (with the strongest growth in the Netherlands, Poland and France and the weakest growth in Italy). Not all iPros choose this route voluntarily.

([70]) In Eurostat's NACE 2 classification it concerns the self-employed without employees in the sectors J to S. See Rapelli (2012) for more technical details.

([71]) Not to be confused with involuntary dependent self-employed – see Sub-Section 4.3.2.

([72]) There are also spin-offs derived from other types of research centres or from R&D departments of large firms.

([73]) In the case of listed companies, the establishment of a spin-off positively affects the value of the parent companies in two ways: increasing the number of securities traded on the market (Habib et al., 1997) and reducing the information asymmetry between the firm and the capital market (Krishnaswami and Subramaniam, 1999). See also the Draft Council Conclusions on 'The promotion of the social economy as a key driver of economic and social development in Europe' at http://data.consilium.europa.eu/doc/document/ST-13766-2015-INIT/en/pdf

([74]) Klepper (2009) provides a comprehensive review of industry spin-offs and a focus on the successful case of Silicon Valley.

Academic spin-offs are another vehicle to take advantage of the high-quality research originating from European knowledge centres, such as universities. For entrepreneurs the challenge is to transmit this knowledge into market actions exploiting technology transfer ([75]) and academic spin-offs ([76]). The previous figures suggest that the real issue might be the sustainability of the spin-off ventures. Some authors argue that there are too few European academic spin-offs (Williams, 2005), while others suggest there are too many (Lambert, 2003).

Factors affecting the survival of spin-offs include the: degree of industry concentration (Nerkar and Shane, 2003); level of the initial patent stock; industry experience; and social and human capital of the founding team – Shane and Stuart (2002), Müller (2006). Egeln et al. (2007) find that Austrian academic spin-offs have a higher survival rate but they do not perform better, in growth terms, than other new firms.

Nevertheless, the relative performance of the academic and non-academic spin-offs is not clear-cut. For example, Ensley and Hmieleski (2005), exploring a sample of 102 high-technology university-based start-ups, report that independent new firms perform better in terms of net cash flow and revenue growth than academic spin-offs, but Egeln et al. (2003) and Dahlstrand (1997) suggest that university spin-offs grow faster than non-academic start-ups.

On the other hand, the additional resources needed to identify and access new markets and business partners may be a strong barrier to starting innovative businesses. Nevertheless, such costs can be tempered by participating in business networks. At the European level such networks are often funded by European public funds and offer highly interactive platforms to help small enterprises fully exploit business opportunities. These networks facilitate: access to information on EU legislation, advice on access to finance (e.g. COSME programme), support for innovation and technology transfer (e.g. LIFE+ programme ([77])), and help to address resource efficiency challenges and turn them into business opportunities (e.g. GreenEcoNet ([78])).

4.3. Greening small businesses

In addition to framework conditions and policies affecting the creation and development of micro and small enterprises in general (as discussed in Section 3), from the labour market and social policy perspective, some very specific conditions are particularly relevant to promoting green self-employment ([79]). First, for micro and small enterprises the administrative burden for monitoring and reporting obligations, imposed by environmental legislation, is disproportionally higher than for larger enterprises, due to high fixed costs and a lack of specialised personnel to deal with the requirements. In that sense, measures such as size-related exemptions, coaching and training, and simplification of obligations could free human resources that can be used to develop the core activity instead. See, for instance, Danish Technological Institute and PLANET S.A. (2010).

Moreover, as eco-innovation is crucial for the further greening of the economy there is a strong need for platforms that allow interaction between small enterprises, policy-makers and researchers and that help identify and develop new business opportunities in the green economy. See, for instance, GreenEcoNet ([80]).

Furthermore, strengthening of the entrepreneurial culture might need to be complemented by the fostering of a green entrepreneurship culture. Likewise, starting in the green economy requires some specific skills, such as communication skills to educate customers about the circular economy in addition to the ability to master technology- or science-intensive processes associated with the greening of the economy. See, for example, European Commission (2014c).

Finally, as activities by green SMEs often lack credible business cases to justify funding by private lenders, there can be a need for public finance of projects that experiment with new green technologies and create new business opportunities.

4.4. Innovating through social enterprises

A social market economy facing ongoing structural changes might need social entrepreneurs, to address pressing social needs that are not tackled by the markets or governments. Key differentiating characteristics of social entrepreneurs are their pursuit of social objectives (usually at a local level including aid for certain categories of disadvantaged persons), re-investment of profits to achieve this social objective and organisation and ownership along participatory principles. See, for instance, European Commission (2014a) ([81]). Social innovation and social entrepreneurship have strong potential to address new social needs driven by, inter alia, demographic changes ([82]) (such as active ageing), technological changes (such as lack of ICT training)

([75]) Technology transfer is another important issue regarding the commercialisation of research results where there is a huge gap between Europe and North America (European Commission, 2007). Rothaermel et al. (2007) provide the most comprehensive literature review of the topic of university entrepreneurship.

([76]) Estimates of academic spin-offs created are not readily available. Wright et al. (2008) report the following numbers: 4 543 in the United States (1980-2003), 1 100 in Canada (1962-2003), 97 in Australia (1984-2005), 320 in Belgium (1980-2003), 1 230 in France (1984-2005), 1 650 in the United Kingdom (1981-2003) and 300 in the Netherlands (1984-1999).

([77]) http://ec.europa.eu/environment/ecoap/about-action-plan/community-funding-programmes/index_en.htm

([78]) http://greeneconet.eu/

([79]) See, for instance, European Commission (2014) for the Green Action Plan for SMEs.

([80]) See at http://project.greeneconet.eu/

([81]) There is no uniform definition of social entrepreneur, social entrepreneurship or social enterprise in the literature. See, for example, Brouard and Larivet (2010) for an overview of alternative definitions. In this chapter 'a social enterprise is one whose main objective is to achieve a social objective rather than make a profit for their owners or shareholders. It operates by providing goods and services for the market in an entrepreneurial and innovative fashion and uses its profits primarily to achieve social objectives. It is managed in an open and responsible manner and, in particular, involves employees, consumers and stakeholders affected by its commercial activities.' See COM/2011/0682 final at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011DC0682:EN:NOT. See also the draft Council Conclusions on 'The promotion of the social economy as a key driver of economic and social development in Europe' at http://data.consilium.europa.eu/doc/document/ST-13766-2015-INIT/en/pdf

([82]) For example, around 30 % of the initiatives documented in the Implementation of the Social Investment Package mapping repository are ICT-enabled social innovations. For more details, see Misuraca et al. (forthcoming).

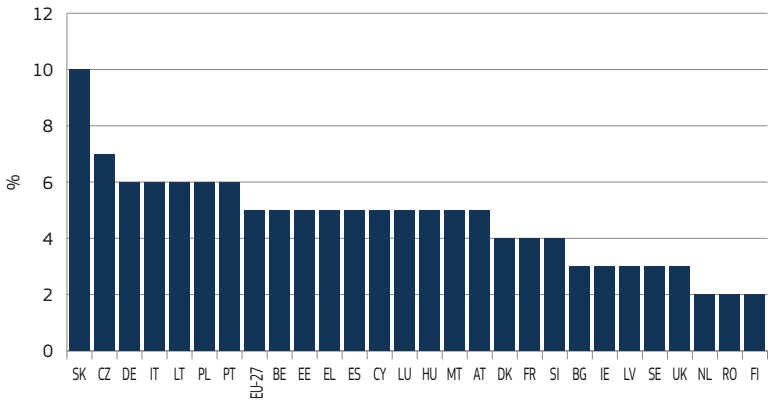
as well as changing social patterns (such as family structures) ([83]).

As national legal frameworks for social enterprises differ across Member States, harmonised data on the number and type of jobs in social enterprises are not readily available ([84]) and one has to use case studies. For example, the BIS definition estimates that, in 2014, 5% of SME employers were social enterprises in the United Kingdom, with 28% in arts/recreation, 18% in education and 13% in health. See BIS (2015) ([85]). Nevertheless, social entrepreneurship is not yet an integral part of the enterprise culture in several new Member States. See, for instance, Borzaga et al. (2008).

In addition to the barriers specified in Section 3 above, specific barriers faced by social entrepreneurs include access to funding, a lack of visibility and an overly complex regulatory environment (such as in public procurement and state aid measures for social and local services), a lack of business support and development structures, training, and workforce development, and difficult access to markets. See, for example, European Commission (2014d).

The underdevelopment of the funding system was also confirmed by a 2013 study on imperfections in the social investment market ([86]) as well as by a number of national studies. For instance, in a United Kingdom survey with 865 social enterprises ([87]), lack of/poor access to/affordability of finance (45%) was ranked first among the barriers for start-ups, before cash flow (22%), lack of appropriate skills/experience (19%) and lack of awareness of social enterprise among customers (15%). As the United Kingdom is one of the most developed markets for social entrepreneurship finance, it can be expected that the demand for capital is not met in most parts of Europe.

Chart 26: Percentage of people saying that the risk of failure and its legal and social consequences are too high



Source: Eurostat (2012) – Flash Eurobarometer 354.

Such specific needs can be addressed through the creation of platforms that enable participants to connect, learn from and share experiences with each other (e.g. Social Innovation Europe ([88])), raise awareness of social innovations (e.g. Social Innovation Tournament ([89])), improve business conditions for social entrepreneurship (e.g. Social Business Initiative ([90])), help access finance (e.g. Employment and Social Innovation (EaSI) programme ([91]) and European Social Fund ([92])), and strengthen incubation structures for social innovation in Europe ([93]) and, where appropriate, simplify organisational and administrative requirements to start activities ([94]).

4.5. Giving a second chance after (honest) failure

Starting any new business carries a risk of failure and insolvency, which may stigmatise entrepreneurs and discourage new start-ups. For example, Chart 26 shows that the risk of failure and its legal and social consequences deters a not insignificant number of citizens from starting their own business – ranging from 2% in Finland, Romania and the Netherlands to 10% in Slovakia. Nevertheless, ('honest') failure could be seen to be part of the learning curve and may result in the next start-up being more successful ([95]).

Several measures could help reduce stigmatisation of (honest) business failure, including informative, educational programmes on bankruptcy, keeping the liquidation period as short as possible (in cases of no own criminal fault), provision of advisory services to manage debt as well as the development of networks for 'second starters' ([96]).

4.6. Summary

This section discussed labour market and social policies that can strengthen start-ups of one-person, micro and small businesses in an economy subject to ongoing structural changes. More particularly it emphasised the opportunities and

([83]) For a comprehensive overview of the current state, size and scope of social enterprises in Europe, see ICF Consulting Services (2014), 'A map of social enterprises and their eco-systems in Europe', available at http://ec.europa.eu/social/BlobServlet?docId=12988&langId=en. DG RTD FP7 research projects on social entrepreneurship analyse and compare the specificities of social entrepreneurship in EU countries including the historical development across various policy fields and the specific barriers (EFESEIIS, SEFORIS, TSI, SIMPACT, CRESSI). See also Stephan, Uhlaner and Stride (2015), Baglioni and Chabanet (2015), Salamon and Sokolowski (2014), Nicholls and Edmiston (2015), and Rehfeld and Terstriep (2015).

([84]) See for instance the estimates in the country reports available at http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=soc entcntryrepts&mode=advancedSubmit&langId=en&policyArea=&type=0&country=0&year=0&orderBy=docOrder

([85]) GEM (2009) estimates that in 2009 on average 3% of the working population in Western Europe and 2.7% in Eastern Europe was engaged in social entrepreneurship, compared to 5% in the United States, and 3% in Latin America.

([86]) Spiess-Knafl, W. (2013).

([87]) Social Enterprise UK (2011).

([88]) For more details, see https://webgate.ec.europa.eu/socialinnovationeurope/

([89]) For more details, see http://institute.eib.org/programmes/social/social-innovation-tournament/

([90]) For more details, see http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0682:FIN:EN:PDF

([91]) For more details, see http://ec.europa.eu/social/main.jsp?catId=1084&langId=en

([92]) For more details, see http://ec.europa.eu/esf/main.jsp?catId=531&langId=en

([93]) For more details, see http://ec.europa.eu/regional_policy/sources/docgener/presenta/social_innovation/social_innovation_2013.pdf

([94]) See, for instance, http://data.consilium.europa.eu/doc/document/ST-13766-2015-INIT/en/pdf

([95]) It is estimated that up to 18% of successful entrepreneurs actually failed in their first try. See, for instance, Enterprise Europe Network at http://www.brusselsnetwork.be/eu-regulations-m/1703-second-chances-for-entrepreneurs.html

([96]) On the European Commission's actions on giving a Second Chance, see http://ec.europa.eu/growth/smes/promoting-entrepreneurship/advice-opportunities/bankruptcy-second-chance/index_en.htm

challenges created by a further expansion of the digitised economy, the transmission of new knowledge into market action, the greening of the economy and the tackling of pressing social issues.

Addressing these specific challenges and opportunities might involve a series of integrated labour market and social policies that could:

- contribute to a further strengthening of entrepreneurship skills, including in the field of the digital and green economy as well as social entrepreneurship;
- tackle administrative barriers for the self-employed and small businesses;
- facilitate and encourage the creation of platforms to share experience and knowledge, especially for the young, old, migrants and women;
- address the needs of emerging forms of self-employed work including social entrepreneurship and independent professionals;
- reduce the stigmatisation of business failure.

5. Targeting under-represented groups

This section identifies labour market and social policies that can facilitate and encourage the transition of under-represented groups (such as women and the young) towards self-employment, thereby strengthening social cohesion.

Labour market and social policies ([97]) have the potential to mitigate adverse starting conditions caused by unfavourable personal (such as long-term unemployment) or household (such as family responsibilities) conditions, while at the same time making self-employment and entrepreneurship a more attractive career opportunity. Of particular interest to the analysis in this chapter are labour market policies that support start-ups for the unemployed and under-represented groups, who often face strong barriers in terms of finance, training, coaching and mentoring. See, for instance, OECD/EC (2014a).

([97]) Including active labour market policies and social cohesion policies. See for instance http://pdf.mutual-learning-employment.net/pdf/en9910.pdf

Labour market polices promoting start-ups by unemployed persons can have a strong potential to create jobs which integrate the most vulnerable in society. See, for instance, Zouhar et al. (2015). It would appear that their effectiveness is largely determined by their design (including non-monetary support, such as helping identify opportunities), the persons targeted, the framework conditions (including the business cycle), potential displacement effects (whereby business is taken away from other entrepreneurs) and deadweight losses (if, for instance, the start-up would have been started without support). See, for instance, Kelly et al. (2002).

In order to strengthen their effectiveness, it would appear that such programmes should not be too complicated to understand or too costly to be administered. See, for instance, Parker (2009). Relevant stakeholders should be consulted early on in the design and the programmes should be evaluated before implementation. Once implemented, they should be monitored, evaluated and corrected over time. See, for instance, European Commission and OECD (2012d). However, in the EU, the capacity to assess their effectiveness is rather limited. See, for instance, Gruenwald (2014) and Strorey (2008). Moreover, given that failure after participating in such support programmes is a possibility, such failure may further stigmatise the recipient and reduce their access to social benefits. See, for instance, Chahill and Quin (2014) and Halabisky (2014).

5.1. Supporting start-ups by the unemployed

Self-employment is one of the options for unemployed people to get back to work. However, the unemployed (especially the long-term unemployed) often lack the expertise and experience to establish supplier and customer networks, or access finance. See, for instance, Caliendo et al. (2015). In such cases, well-targeted support programmes could help the unemployed with the start-up of a business ([98]).

Several design issues have to be taken into account when launching such programmes. Monetary support can take several forms depending on the beneficiary's characteristics, in which case it is a challenge to determine the amount of the financial support, its duration and eligibility criteria. For example, when the Hartz-reforms were implemented in Germany in the early 2000s, unemployed individuals could choose between two support programmes when starting a business. 'Start-up subsidies' ([99]) were primarily used by relatively less educated females and young males, while 'bridging allowances' ([100]) were primarily used by unemployed individuals with experience in the sector where they launched their business. Nevertheless, while subsidised start-ups show a higher survival rate, they lag behind regular businesses in terms of income, business growth and innovation ([101]). See, for instance, Caliendo and Kritikos (2007), Caliendo and Steiner (s.a.) and Caliendo and Künn (2013).

Non-monetary support is also an important dimension in the design of start-up programmes which can take many forms including promoting entrepreneurship skill formation and coaching – albeit for a limited period to avoid dependence. Important initiatives under the European Social Fund (ESF) in the area of entrepreneurship and self-employment ([102]) include support to entrepreneurship skill formation, access to finance, regulatory and institutional frameworks and efficient policy implementation, complemented by targeted support to women entrepreneurs ([103]) and disadvantaged and disabled people ([104]). In this way ESF contributes (in accordance with the principle of subsidiarity) to reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions.

([98]) See for instance the back to work enterprise allowance in Ireland at http://www.citizensinformation.ie/en/social_welfare/social_welfare_payments/social_welfare_payments_and_work/back_to_work_enterprise_allowance.html

([99]) i.e. lump sum of EUR 600/month for the first year, EUR 360/month for the second, and EUR 240/month for the third.

([100]) i.e. an amount equal to unemployment benefits for a period of 6 months (plus alump sum of roughly 70% of the same, to cover social security contributions).

([101]) The latter may be due to the fact that less qualified individuals self-select into entrepreneurship due to reduced costs of entry, or that subsidised founders might face for example discrimination in capital markets. See, for instance, Caliendo et al. (2015).

([102]) For more details, see http://ec.europa.eu/social/main.jsp?catId=952&langId=en

([103]) See http://ec.europa.eu/esf/main.jsp?catId=533&langId=en

([104]) See http://ec.europa.eu/esf/main.jsp?catId=50&langId=en

The effectiveness of such programmes is also affected by the process to select the beneficiaries since the financial support appeals to two groups of the unemployed. On the one hand, there are those who want to explore their abilities and if successful will remain self-employed. On the other hand, there are those who, without the financial support, face costs that exceed their revenues so that the financial support subsidises start-ups with limited prospects. Other cases are people who applied because their unemployment benefits would expire soon. One way to temper such adverse selections would be close scrutiny of the potential beneficiaries' business plans by independent assessors. See, for instance, Homberty et al. (2013) and Caliendo and Kritikos (2007). Apart from such adverse selection, these programmes may have an adverse effect on beneficiaries' risk taking and efforts since the cost of failure is largely borne by the subsidising authority. See, for instance, Caliendo et al. (2015).

All in all, the literature indicates that while start-up subsidies for the unemployed may help return some of the unemployed back to employment, traditional active labour market policies could be more effective instruments for returning the unemployed back into employment.

5.2. Tackling the gender deficit

Only about one third of the EU's self-employed are women, varying from 17 % in Malta to 41 % in Latvia. See Chart 13 above. Often, personal and household conditions, such as control of work–private life balance or job satisfaction, are more important to women than men in their decision to become self-employed. See, for instance, Hughes (2003) and Piacentini (2013) ([105]). Nevertheless, socio-cultural factors (such as gender stereotyping) have an adverse impact on women's opportunities and choice to become self-employed – though empirical research suggests that lower-educated women are more affected than their higher-educated counterparts. See, for instance, Cloin et al. (2011). Moreover, as women are usually more involved in household duties and childcare than men, their range of activities (including business size) is significantly limited, especially if the necessary framework conditions such as adequate childcare facilities and maternity leave provisions are not available. Consequently, female entrepreneurs are more inclined to start home-based and part-time businesses. See, for instance, Estrin and Mickiewicz (2011) and Raknerud and Rønsen (2014).

Institutions also affect women's decision to become self-employed ([106]). For example, the strong male orientation of existing business networks may hinder women's start-ups and business expansion. See, for instance, GHK and Technopolis (2008). In addition, women's educational choices often limit their opportunities in an economy characterised by an increasing demand for tasks that require STEM skills ([107]) – in which the older age cohorts of women have particularly limited expertise.

Economic conditions also affect women's opportunity to become self-employed. For example, Fraser (2005), focussing on SMEs in the United Kingdom, reports that women often face less favourable credit terms (such as higher interest rates) than men when starting a business. Williams (2009), using data from the European Community Household Panel in 1999-2001, reports that women who receive a lower wage relative to other women are more likely to leave wage-employment for self-employment.

Labour market and social policies to tackle these adverse drivers of the gender deficit in self-employment and entrepreneurship differ from case to case but usually include gender mainstreaming of entrepreneurial education and training, facilitating women's access to finance, and supporting networking between women entrepreneurs and amongst government agencies. See, for instance, GHK and Technopolis (2008) ([108]).

5.3. Helping young people into self-employment

Ongoing structural changes such as the further digitalisation of the economy create new business opportunities for young people ([109]). See, for example, Box 4. Nevertheless, the young face some very specific challenges when starting a business.

First, limited access to finance is often an obstacle for a start-up by young entrepreneurs due to, inter alia, a lack of collateral or incomplete information about the young person's capacity. In such cases, micro-finance loans or grants with a special focus on the young could help start-ups – as discussed in Section 3.4 above.

Young entrepreneurs often see themselves as a major source of technology-driven innovation (due to their flexibility and knowledge) ([110]) but may lack the experience to start a business. See, for instance, YEA (2013). At the same time they also lack the networks and social capital to build 'legitimacy' amongst key stakeholders (e.g. financiers, customers, suppliers). See, for example, Green (2013).

To overcome these barriers, several studies find that (potential) youth entrepreneurs are best helped through integrated packages of support ([111]). For example, the effectiveness of supplying finance will be enhanced when it is complemented by advice, coaching and networking. Moreover entrepreneurship skills should be supported by embedding entrepreneurship teaching throughout the education system, stimulating the sense of initiative and creativity, including among those who choose not to become entrepreneurs.

Eurofound ([112]) finds that self-employment among young people is associated with personality traits, characterised by

([105]) Differences in personal characteristics between men and women such as perceived differences in risk tolerance or management styles are discussed elsewhere in the literature. See, for instance, Minniti and Nardo (2007).

([106]) See chapter III.2 of this review (part on family policies) on the effect of childcare and other institutional factors on mothers' labour market attachment in general.

([107]) Financial literacy of women is often also less than for men. See, for instance, OECD (2012).

([108]) See also http://ec.europa.eu/digital-agenda/en/22-women-smart-growth http://ec.europa.eu/enterprise/newsroom/cf/itemdetail.cfm?item_id=3387 http://ec.europa.eu/growth/smes/

([109]) FP7 Project Strategic Transitions for Youth Labour in Europe (STYLE) provides a comprehensive understanding of the causes of very high unemployment among young people and assesses the effectiveness of labour market policies designed to mitigate this phenomenon. See also Sheehan and McNamara (2015).

([110]) Especially in the field of social media, mobile technologies, data analytics, machine-to-machine connectivity and cloud technologies.

([111]) See EC / OECD (2012).

([112]) See Eurofound (2015a).

creativity and innovative tendencies and lower risk aversion. As a result, effective policy measures should be highly selective, in order to be efficient ([113]). Eurofound concludes that, as entrepreneurship is only a viable career path for those young people equipped with the right skills, attitudes and values, future initiatives should focus on this target group to ensure the best use of public funds. This also implies that youth entrepreneurship is not a panacea for youth unemployment.

5.4. Encouraging self-employment transitions prior to retirement

The EU workforce will continue to age in the coming decennia. Postponing retirement and working longer will be a necessary (but not sufficient) condition to sustain the European social market economy. Facilitating and encouraging older employees' transition to self-employment is one way to strengthen their labour market participation and to help them remain active members of an inclusive society.

Older workers often acquire a unique range of skills during their professional life, knowledge, experience and contacts that they may want to valorise by starting their own business. At the same time, older workers may be looking for more flexibility to accommodate specific needs in terms of workload and work organisation. These may be a strong incentive for older workers to become self-employed entrepreneurs. However, older workers may also be pushed into self-employment, as in the case of layoffs following company restructuring and not being offered a new job or another option (such as pre-retirement).

Specific barriers (compared with mid-aged workers) that may deter older workers from starting a business include age stigmatisation (leading to, for example, a limited access to finance – especially in the case of unemployed older persons), a lack of specific training and knowledge (such as of recent technological developments), a poorer (physical and mental) health and pressing family responsibilities (such as provision of elderly care to a dependent family member). See, for instance, Kibler et al. (2012).

([113]) This is also a conclusion from EC/OECD (2012).

Box 4: Young ICT entrepreneurs

ICT evolves at such a fast pace that there is always a demand for knowledge in specific tools or programming languages that did not even exist two years ago. It is very difficult for professionals to keep up-to-date with the technology. Full-time workers in this demanding sector have limited time to learn and develop new skills. This is one opportunity window for youngsters, who could become the experts and leaders that the economy demands. Such 'state-of-the-art' knowledge is potentially the main asset for innovative start-ups rather than financial capital.

This has been the case with the boom of new businesses in 'apps' and social networks in recent years, such as Whatsapp, Instagram and Uber, all of which have exceeded USD 1 billion in value and were founded by people in their 30s. Institutional support and guidance could improve the survival rate of these companies and their growth potential, such as increasing practical entrepreneurial skills amongst students (e.g. STARTIFY7 ([1])), mapping acceleration services delivered to start-ups (e.g. OpenAxel ([2])), building bridges between ICT researchers and entrepreneurial-minded individuals (e.g. ICT2B ([3])), and delivering legal services to start-ups (e.g. iLINK ([4])).

([1]) For more details, see https://ec.europa.eu/digital-agenda/en/news/introducing-startify7-summer-academy-system-young-future-ict-entrepreneurs

([2]) For more details, see http://www.openaxel.com/

([3]) See http://www.ict2b.org/

([4]) See https://ec.europa.eu/digital-agenda/en/news/launch-ilinc-portal-help-ict-startups-face-their-legal-challenges

Adequate measures to address these barriers are ensuring that tax and social security systems do not contain disincentives to entrepreneurship for older people, the provision of well-targeted advice (especially for those who have not previously worked in self-employment), guidance and support, the development of online platforms where experience can be shared, ensuring that older entrepreneurs have access to financing schemes, the strengthening of ICT and financial literacy and awareness-raising about the value-added of entrepreneurship by older workers. See, for instance, European Commission and OECD (2012a).

Finally, older entrepreneurs' business and entrepreneurial experience acquired during their business career can contribute to the mentoring and advising of young entrepreneurs. See, for instance, the Entrepreneurship 2020 Action Plan.

5.5. Promoting self-employment among ethnic minorities

Generally speaking, ethnic minorities show a higher propensity to be self-employed than the local population, albeit in sectors with low entry cost and poor prospects for growth and diversification, such as collecting and selling discarded materials for recycling and street vending. Apart from cultural differences, such outcomes are driven by a variety of factors, including discrimination, language barriers, a lack of access to finance, an absence of targeted support services and limited entrepreneurship skills.

The impact of discrimination on ethnic entrepreneurship is ambiguous. On the one hand a lack of job offers due to employment discrimination against ethnic minorities may push migrants into self-employment. On the other hand, if consumers discriminate against ethnic sellers, the minorities may have little incentive to become self-employed. See, for instance, Borjas and Bronars (1989).

Other barriers less experienced by the local population include language, education and labour market institutions ([114]). Although poor knowledge of the national language would not be a barrier to starting a business in an ethnic enclave, it may be an important barrier to expansion beyond the enclave. See, for instance, Clark and Drinkwater (2000) and Constant and Zimmermann (2004). Other barriers include the fact that the education and experience acquired in the country of origin are often not recognised by local employers, which raises migrants' likelihood of becoming

([114]) It is beyond the scope of this chapter to elaborate on legal obstacles to the establishment of businesses by legal migrant entrepreneurs.

self-employed in low value-added activities ([115]). See, for instance, Kanas et al. (2009). Furthermore, labour market institutions such as minimum wages may form an additional barrier into waged employment thereby pushing migrants whose skills are not fully recognised into self-employment. Moreover, strong tradition, custom and family ties may drive new ethnic entrepreneurs along the path taken by their parents – adapted to their changing circumstances. See, for example, Ibrahim and Galt (2011).

Adequate labour market policies can address these barriers by measures such as the provision of guidance and support by public employment services, improving credential recognition for immigrants and offering specialised training schemes to develop more solid business projects and become more aware of financing opportunities. See, for instance, OECD/EC (2014a).

5.6. Promoting self-employment among disadvantaged and disabled people

Self-employment has some potential to integrate disadvantaged and vulnerable groups, such as ex-offenders, recovering drug abusers and the homeless, into society. However, market forces will not address such pressing socio-economic challenges, so that well targeted labour market and social policies have a strong potential to strengthen social inclusion.

For the disabled, self-employment may be an appropriate way into the labour market because of its potentially high flexibility in terms of workload, work schedule and work location. Appropriate policies to support this transition could include raising awareness about the desirability and feasibility of entrepreneurship by disabled people, adapting existing training and start-up programmes to the needs of these people, and making full use of ICT connectivity. Just like in the case of the unemployed, policies should also address an appropriate transition from access to benefits to labour market participation. See, for instance, European Commission and OECD (2012e).

([115]) Though, the higher the level of origin-country education, the less likely they are to be self-employed.

To improve the effectiveness such needs have to be addressed at the local level as this allows for better-targeted counselling, training and education in support of self-employment among the disadvantaged and vulnerable groups.

5.7. Summary

This section explored the potential of well-targeted social and labour market policies that address the challenges faced by the groups of people who face adverse starting conditions and are currently under-represented in self-employment, including women and the young. Such policies might include:

- the further strengthening of facilities for child and elderly care;
- promoting access to network platforms adapted to the specific characteristics of the targeted groups;
- financial support (including well-designed transition from benefit eligibility for unemployed);
- promotion of role models;
- tackling gender and age stigmatisation as well as discrimination.

Nevertheless, this section also emphasised that such policies carry several downside risks such as adverse selection and deadweight costs and that a timely evaluation of such policies is crucial to make informed decisions regarding their design, implementation and development.

6. Labour market and social policies to foster job creation through self-employment and entrepreneurship

Micro-businesses are crucial for job creation in the European Union – as discussed in Section 2. Key factors that have a direct impact on their potential to expand include their productivity and innovation capacity, as well as cost and non-cost competitiveness – which are often affected by country-specific conditions. In other words, strengthening their job growth potential calls for labour market and social policies (in close coordination with other policies such as the creation of more integrated and competitive product and services markets ([116])) that promote the survival of start-ups, strengthen their innovation capacity, reduce hiring costs and provide better working conditions and that take into account country-specific characteristics such as catching-up potential and economic specialisation.

6.1. Labour market and social characteristics affecting start-up survival

Surviving as self-employed or an entrepreneur is not straightforward in an ever changing world ([117]). For example, Chart 27 shows that in 2012 there were strong variations across Member States in the probability that a self-employed person would survive the first year, with the highest probabilities in Cyprus and Sweden and the lowest in Lithuania and Portugal – where it is significantly lower than for large enterprises (with 10 or more employees). Chart 28 shows that there are strong differences in the 5-year survival rates, but that these correlate more with those of larger enterprises.

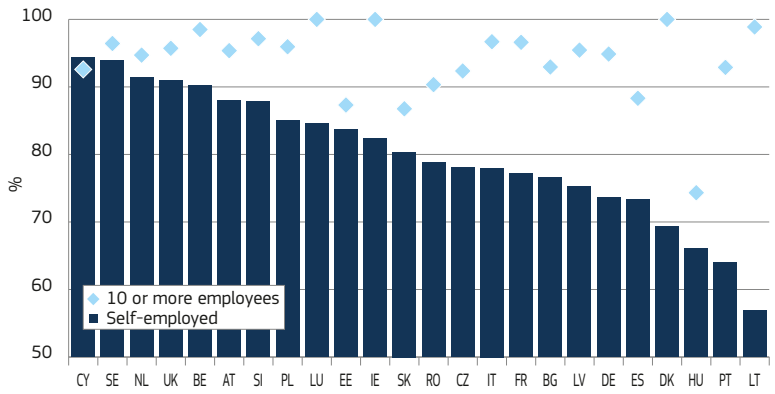
An exit from self-employment may be voluntary or forced depending on a broad range of factors, including personal (such as dissatisfaction with the job) and household (such as childcare responsibilities) characteristics, industry-specific characteristics (such as lack of market growth) as well as institutional (such as lack of business support services) and macro-economic conditions (such as insufficient aggregate demand in an economic downturn). See, for instance, Millán, Congregado and Román (2012) ([118]). More specifically, a non-exhaustive overview of relevant empirical research indicates the following.

([116]) As highlighted in the Annual Growth Survey 2016, improving the functioning of product and services markets remains a challenge for many Member States, and includes improving the flexibility of product and services markets, improving the quality of research and innovation, reducing regulatory and administrative burden, strengthening public administration and improving the judicial system and insolvency frameworks. For more details, see http://ec.europa.eu/europe2020/making-it-happen/annual-growth-surveys/index_en.htm

([117]) As individuals can operate successive businesses, surviving as self-employed or an entrepreneur should not be confused with venture closing. See, for example, Parker (2009).

([118]) Estimating the impact of variables on survival is done in the context of duration models. Nevertheless, these estimates should be interpreted with due care because of several problems, such as selection problems whereby samples often cover only the firms that survived. See, for instance, Parker (2009).

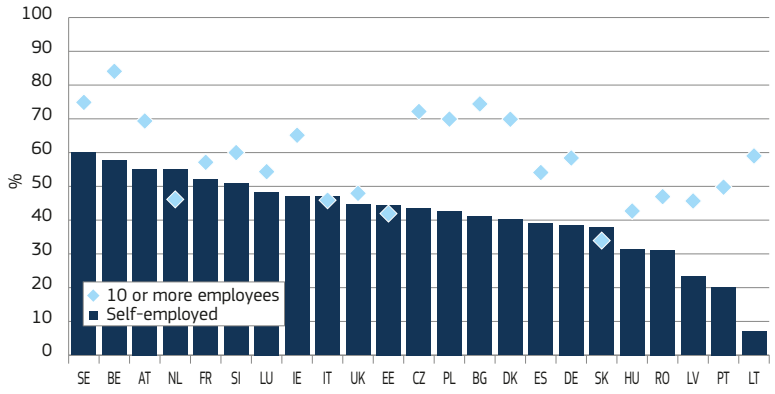
Chart 27: Survival rate of the self-employed without employees after 1 year – 2012



Source: DG EMPL calculations based on Eurostat (bd_9bd_sz_cl_r2).

Note: Number of enterprises in the reference period (t) newly born in t-1 having survived to t divided by the number of enterprise births in t-1.

Chart 28: Survival rate of the self-employed without employees after 5 years – 2012



Source: DG EMPL calculations based on Eurostat (bd_9bd_sz_cl_r2).

Note: Number of enterprises in the reference period (t) newly born in t-1 having survived to t divided by the number of enterprise births in t-1.

6.1.1. Personal characteristics

Personal characteristics can have an important impact on survival in self-employment as they have a direct impact on a person's motivation, ability, effort and risk-taking. Empirical research has identified the following. More years of education increases survival prospects significantly. See, for instance, Boden and Nucci (2010). Employees who learn more about their business before starting have a stronger likelihood of surviving. See, for instance, Raffiee and Feng (2014). Opportunity entrepreneurs have a stronger probability of surviving since they are usually better prepared than necessity entrepreneurs. Nevertheless, necessity entrepreneurs' likelihood of surviving increases significantly if the venture is connected with previous professional expertise. See, for instance, Block and Sandner (2009) ([119]).

It would appear that women's self-employed survival is adversely affected by their more limited access to capital than men. See, for instance, Boden and Nucci (2010). Moreover, in cases of self-employment with a history of unemployment, women's survival seems to depend mainly on individual characteristics (marital status, education) while men's survival is predominately related to the economic situation (main source of household income). See, for instance, Cueto and Mato (2006) ([120]).

Finally, businesses established by teams are more likely to survive than those established by individuals. See, for instance, Shrivastavay and Tamvada (2011).

([119]) Using the German Socio-Economic Panel Study for the 1990-2003 period.

([120]) Studying self-employment subsidies in Spain.

6.1.2. Household characteristics

Self-employment survival is also strongly related to the possibility of combining professional life with household responsibilities. Nevertheless, while in the absence of adequate childcare provisions very young children may limit parents' opportunities for self-employment, as older children start to help parents in their business or take care of the younger siblings, the self-employed may be able to stay longer in self-employment.

It would appear that a person's social capital ([121]) also matters for business survival. For example, Davidsson and Honig (2003), inferring from a sample of Swedish adults, suggest that inter- as well as intra-firm networks can make an important contribution to firms' survival.

6.1.3. Industry-specific characteristics

Industry-specific characteristics are also important, including the following. In emerging industries (such as new high-technology products) there is usually more room for start-ups to experiment and benefit from the expansion of the industry and stay longer in business. See, for example, Agarwal and Gort (1996). Moreover for start-ups with high entry costs, growth reduces average costs per unit output so that they are less likely to exit as the market expands. See, for instance, Ghosal (2002). Furthermore, a small firm's ability to survive is often adversely affected by limited access to international markets, finance, technology, management skills and knowledge, so a small firm's survival can also be strengthened by integrating its activities into global value chains. Finally, spin-offs within an industry seem to have a stronger survival rate – especially when knowledge is embodied in human rather than physical capital ([122]). See, for instance, Garvin (1983).

Institutional settings, such as adequate business development services can have a direct impact on the survival of a business as better counselling can help

([121]) i.e. the ability of actors to extract benefits from their social structures, networks and memberships. See, for instance, Portes (1998).

([122]) Nevertheless, such spin-offs may also destroy employment in the incumbent firms – although the empirical assessment of such impacts is not straightforward. See, for instance, Gjerløv-Juel and Dahl (2011).

inexperienced starters to avoid entry mistakes. See, for instance, Santarelli and Vivarelli (2007). Finally, it is to be expected that small businesses are more likely to survive and expand their activities in a stable macro-economic environment (when aggregate demand is high).

6.2. Shaping drivers of additional job creation

Hiring and firing by one-person, micro and small enterprises will occur when they expand their activities (e.g. due to an expanding market) or reorganise their production process (e.g. due to product and production process innovation). Several factors affect an enterprise's growth, including the entrepreneurs' ability to identify opportunities, innovate and develop effective human resources strategies as well as his/her financial management abilities. See, for instance, Janczak and Bares (2010). Moreover, firms which are active in innovation networks have a stronger capacity to transfer ideas and knowledge into market action. See, for example, Mitusch and Schimke (2011). Furthermore, in countries which are far from the world's technological frontier there is strong potential for growth catching-up, which can in turn be strengthened by the presence of a skilled work force and access to export markets. See, for instance, OECD (2010). Nevertheless, in order to manage such change successfully the self-employed need the right managerial skills, adapted to digital networks and international value chains, as well as the ability to reallocate labour in a flexible but secure way and offer high-quality jobs. Labour market and social policies have a specific role to play in this process, including the following.

6.2.1. Strengthening entrepreneurial skills

Several personal factors affect entrepreneurs' decisions to hire labour. While these cannot be affected directly by labour market policies, other personal characteristics which are crucial to expanding a business, such as entrepreneurial skills, can be promoted by labour market policies.

In a continually changing world, entrepreneurial skills are crucial to identifying and exploiting new opportunities and mitigating entrepreneurial risks. Improving the availability of entrepreneurial skills covers a wide area of policy domains, including education, industrial and labour policies. More specifically, it might be necessary for such policies to create the right framework conditions and incentives to raise awareness and motivation for entrepreneurship, define what the entrepreneurial skills are ([123]) and develop such skills to support citizens in transforming ideas into entrepreneurial action.

It would be beyond the scope of this chapter to discuss such policies in detail but from a labour market and social perspective it should be emphasised that access of all students, including women, as well as disadvantaged and disabled people, to entrepreneurship education is important and that a shortage of human resources and funding for this type of education should be addressed in an efficient and equitable way. Moreover, the literature underlines that such education and training should be well-tailored. Indeed, at the one extreme, some entrepreneurs need the skills to manage 'born-global' enterprises, (see, for instance, Eurofound (2012b), Gundling (2007)), while at the other extreme, low-skilled people who wish to get back into work want to establish small businesses (such as small shops or food processing) that do not require high skills.

Finally, it should be recognised that as small firms expand and plan to hire workers they often need to offer their new staff an opportunity to acquire firm-specific skills. Nevertheless, such capacity often involves high fixed costs which may be a significant barrier. From this perspective, SMEs can receive support and guidance to better bridge (green) skills gaps including distance learning schemes as well as consultancy and advisory services. See, for instance, European Commission (2014c).

6.2.2. Supporting innovative entrepreneurship

The interaction between entrepreneurship and technological progress runs in both directions. On the one hand, entrepreneurs are micro-drivers of innovation, which in turn affects their potential to create jobs. On the other hand, ongoing technological developments in, for example, the digital world create new business opportunities such as taking part in value-adding networks of small enterprises.

The capacity of small enterprises to innovate is driven by a variety of conditions (most of which they have in common with larger enterprises), such as an adequate supply of skilled labour (including researchers), enforceable intellectual property rights, favourable tax regimes, etc. ([124]). Nevertheless, for small enterprises to strengthen their innovation capacity it is especially important to face low entry costs and be able to penetrate niche markets without too much bureaucratic burden, while at the same time having the opportunity to collaborate with other firms in knowledge networks ([125]). See, for instance, Vaona and Pianta (2006) and Dahlstrand and Stevenson (2010).

While labour market policies can contribute to the setting of the right framework conditions for innovation, they should also address the direct impact of innovation on job creation. Indeed, from a labour market perspective, a distinction has to be made between three types of innovation. First, there is sustaining innovation that replaces old goods and services and has (almost) no impact on the quantity of jobs. Second, there is efficiency innovation that allows production of the same output with fewer resources (including labour) which may induce a job loss (at the level of the enterprise) ([126]). Third, there is market creating innovation that creates new goods and services and has the potential to create new jobs (at the level of the enterprise).

In this process, some enterprises will succeed while others will fail and to the extent that success and failure are associated with high employee churn, labour market policies could complement this

([123]) On the definition of entrepreneurship as a competence, the European Commission is carrying out work to define a common reference framework for the key competence; see 'Sense of initiative and Entrepreneurship' available at https://ec.europa.eu/jrc/en/entrecomp

([124]) See, for instance, 'How to succeed as an SME in the internal market: Innovation strategies for cross-border business' at http://eurofound.europa.eu/observatories/emcc/articles/other-business/how-to-succeed-as-an-sme-in-the-internal-market-innovation-strategies-for-cross-border-business

([125]) See also FP7 project VICO results; available at http://cordis.europa.eu/publication/rcn/14044_en.html

([126]) Nevertheless, to the extent that the innovation reduces output prices, demand may increase – which may offset the initial fall in jobs.

rising need for flexibility by strengthening employment security – so that employees become more receptive to change following innovations.

Furthermore, in order to be able to attract new employees, micro and small enterprises will have to be able to offer quality jobs. However, the rapid pace at which innovations (such as new green building techniques) are expected to be adopted carries the risk that their impact on job quality gets more difficult to monitor in a timely fashion. This will be especially the case for micro and small enterprises that do not have the necessary resource to make adequate assessments of new processes and products (e.g. larger firms have better access to financial resources and technologies, benefits from scale, access to information, internal human resources, and access to skills programmes).

Innovation will also affect job composition. For instance, innovations in Key Enabling Technologies (KETs) at the SME level are expected to carry a relatively stronger growth potential for high-skilled workers than for medium- or low-skilled workers. Such outcomes may then strengthen ongoing labour market polarisation, which will call for labour market policies that tackle all kinds of traps and promote upward mobility, such as active labour market policies and lifelong learning.

Finally, it should be noted that technological progress that involves economies of scale can limit the opportunities of micro and small enterprises to the extent that they operate below the minimum efficient scale ([127]). For example, Congregado et al. (2014), using data for 23 OECD countries over the period 1972-2008, report results that suggest that economies of scale and scope continue to play an important role in advanced economies.

6.2.3. Preparing for an interconnected world economy

Talent is one of the main drivers of successful start-ups, especially in the ICT sector which is extremely knowledge intensive. Talent is a natural ability or a certain aptitude for certain tasks. In today's highly technical world talent is probably a more important asset than experience, due to the uncertainties that fast technological change imposes ([128]).

Two types of talent are required for a healthy ICT start-up: entrepreneurial and technical, both are complementary and inter-dependent.

There is a fair amount of technical talent within the EU: Five EU Member States are among the 10 countries with top developers ([129]). London, Paris and Berlin are among the cities with the highest numbers of developers ([130]). But the EU lags behind in turning these skills into profitable business: the rate of ICT start-ups per million people in the EU is low compared with the United States and very low compared to Israel, the world leader.

Therefore, the EU has the potential to improve the creation of ICT start-ups and to support their growth to build global leaders. Talent is the main ingredient in the equation and the EU competes in a global economy for this scarce resource. Policies to develop talent can take many forms, and could focus on, inter alia, alternative forms of education, gender balance and the bridge between tech-ideas and business as the following examples illustrate.

Historically, women have had low participation rates in STEM education ([131]) and jobs. Recent statistics show a change in that trend as junior IT workers (less than 2 years of experience) show a higher share of women than of men ([132]). And even if it is still difficult to find significant numbers of women in 'hard' technical positions, ICT start-ups are creating new types of position, using female talents: community managers ([133]), e-marketing or user experience experts.

The interactions between technology and business can be strengthened by measures such as the development of an entrepreneurial mind-set among those with IT skills and the strengthening of IT comprehension among those with entrepreneurial vision. The complexities of technology make the management of such start-ups different from other types of companies. Innovation or technology without a business approach could explain many of the failures in these kinds of companies ([134]). Therefore specific talent in the management of ICT start-ups must be further developed.

Nevertheless, in a globalised world, talent moves easily across borders and it is not unusual that start-ups founded in Europe move to other countries looking for growth opportunities outside the EU. The main reasons for this talent migration could be the better prospects of finding funds, potential interactions with similar companies and access to bigger markets. A response to talent migration can be to facilitate the acquisition of foreign talent ([135]).

6.2.4. Reducing hiring and firing costs

Excessive hiring costs can be an important barrier for one-person, micro and small enterprises to hiring additional labour. For example, Muehlemann and Pfeifer (2013) estimate that in Germany the average hiring costs for high-skilled workers amounts to more than 8 weeks of wage payments and that a 1 % increase in the number of hires increases hiring costs by 1.3 %.

Several factors affect the cost of hiring an employee. It takes time and effort to post a vacancy and process a job interview, which may also involve the cost of external advisors or placement agencies. In that sense promoting ICT developments to improve the flow of information about job vacancies across Europe, such as EURES ([136]), may decrease search costs thereby lowering,

([127]) Including economies of scale in areas such as production, distribution and management, that make it for example more difficult for the local retailer to compete with multinational retail corporations. Nevertheless, developments in ICT have decreased the importance of economies of scale.

([128]) Eesley, C. E. and Roberts, E. B. (2012), 'Are You Experienced or Are You Talented?: When Does Innate Talent versus Experience Explain Entrepreneurial Performance?' Strategic Entrepreneurship Journal, 6: pp. 207–219. http://dx.doi.org/10.1002/sej.1141.

([129]) http://goo.gl/pwGZj3

([130]) http://stackoverflow.com/research/developer-survey-2015

([131]) 'Of 1,000 women with a Bachelors or other first degree, only 29 hold a degree in Information and Communication Technologies (ICTs) (as compared to 95 men)' (http://europa.eu/rapid/press-release_IP-13-905_en.htm).

([132]) http://stackoverflow.com/research/developer-survey-2015#profile-women

([133]) http://www.adweek.com/socialtimes/community-manager-report/476638

([134]) https://www.cbinsights.com/research-reports/The-20-Reasons-Startups-Fail.pdf

([135]) In the United States around 25% of tech companies are founded by immigrants (see, for instance, http://www.economist.com/news/business/21576101-start-ups-founded-immigrants-are-creating-jobs-all-over-america-jobs-machine), up to 46% according to some surveys (see, for instance, http://www.svb.com/startup-outlook-report/).

([136]) See https://ec.europa.eu/eures/public/homepage

especially for micro and small businesses, an important barrier to the hiring of new employees.

Increasing company size may also carry additional size-contingent regulation costs that may discourage business expansion beyond a certain threshold. For example, in France a firm that expands its size beyond 50 employees must, inter alia, form work councils, give more union representation, and face higher firing costs. See, for instance, Garicano et al. (2013).

Newly hired workers may lack firm-specific human capital and need training – which involves training costs as well as pay during training. See, for instance, Blatter et al. (2012). Moreover, once the employee has received his/her initial training there will be a continuous need for skill development. Nevertheless, micro and small enterprises often lack the capacity to provide this training such that they have to rely on external support mechanisms – which raises the need for external advice, guidance and information on all aspects of learning opportunities. See, for instance, Cedefop (2010).

Stringent employment protection legislation may give rise to high firing costs which may induce employers to outsource tasks. This is especially the case for the smallest firms, since the hiring and firing costs (where it involves fixed costs) are bigger relative to total labour costs than for larger firms. See, for instance, Millán et al. (2013). Nevertheless, while outsourcing may provide some flexibility, it also carries the risk that a reorientation of tasks may require costly renegotiation of contracts. See, for instance, Parker (2009). Moreover, employment protection regulation may also vary with company size thereby affecting enterprises' incentives to expand business beyond a certain threshold. For example, Schivardi and Torrini (2007) estimate that in Italy where firms with a size over 15 employees face substantially more stringent regulations, the probability of firms' growth reduced by around 2 percentage points near the threshold.

Family businesses in which the majority of decision-making rights are in the possession of families may face strong barriers to hiring talented outsiders in the case of a negative perception of nepotistic and paternalistic practices. See, for instance, Family Business Expert Group (2009).

Finally, companies in technology and knowledge intensive activities usually establish their competitive advantage by hiring and retaining talented people. As a consequence, such enterprises need to create working conditions that offer these talented people an incentive to maximise effort and stay loyal to the firm.

6.2.5. Encouraging social entrepreneurship

Most social enterprises have a strong potential to create jobs since they tend to be labour-intensive (such as second-hand clothes shops employing disabled people to collect, sort, clean and resell goods), allow for flexible work arrangements that facilitate labour market integration (such as part-time jobs for persons from single-parent families) and offer professional career guidance and training. See, for instance, Spear (2002) and Davister et al. (2004).

Social enterprises are often small and local and their success in sustained job creation is driven by a large set of factors including demand for their goods and services ([137]), availability of financial instruments ([138]), their interaction with education ([139]), the existence of support and development structures, as well as other factors ([140]). Labour market and social policies can help address some of these barriers, such as providing social entrepreneurs with skill formation in human resource management and marketing, advising local start-ups, supporting the search for financial support for their activities, etc. ([141]). See, for instance, European Commission and OECD (2012c).

Evidence suggests ([142]) that public sector contracting and active labour market policies of the government play an important role in stimulating the creation and development of social enterprise. However, policy frameworks for social enterprises differ widely as far as their forms, scope, content and financial endowment, as well as relevance and imperative for public action, are concerned. A Mapping study covering 29 European countries ([143]) concluded that policy frameworks for social enterprise are sometimes presented within the framework of a broader set of policies targeting the social economy or the civil society/non-profit sector, or within the framework of active labour market policies or social inclusion policies ([144]).

6.2.6. Strengthening working conditions of the self-employed

The group of self-employed is a heterogeneous group in terms of working conditions. For example, Green and Mostafa (2012) ([145]) report clear differences between the two main categories of self-employed workers: the self-employed with (SEW) and the self-employed without (SEWO) employees. More particularly, in terms of earnings, SEW have the highest level compared to all other employment relations (SEWO, employed on indefinite contract, employed on fixed-term contract, TAW). They also enjoy higher

([137]) See, for instance, OECD (2013).

([138]) In the EU, social enterprises most often combine income from sales with public subsidies linked to their social mission and private donations and/or volunteering. See, for instance, Defourny and Nyssens (2010).

([139]) See, for instance, Glaeser and Shleifer (2001).

([140]) It would be beyond the scope of this chapter to discuss all the barriers that are not directly related to the labour market. For more details, see http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2149&furtherNews=yes

([141]) For more details see, for example, http://ec.europa.eu/esf/main.jsp?catId=531&langId=en

([142]) See country reports available at http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langId=en&policyArea=&type=0&country=0&year=0&orderBy=docOrder

([143]) European Commission (2015b), p. 50.

([144]) The Mapping study outlined some of the components of an enabling policy environment for social enterprise that have already been put in place by countries like Italy and the United Kingdom. They include: the legal recognition or institutionalisation of social enterprise; fiscal incentives for social enterprises; specialist support and infrastructure – business support, coaching, mentoring schemes – that take into account the distinct characteristics of social enterprises; measures designed to facilitate access to markets, notably public sector markets (for example, by creating demand for the services of social enterprises, introducing social clauses in public procurement); measures designed to support access to finance through the creation of dedicated financial instruments and social investment markets more generally; and standardised social impact measurement and reporting systems.

([145]) Eurofound (2012), Trends in job quality in Europe, http://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1228en_0.pdf

intrinsic job quality ([146]), even if the SEWO are not far behind: this is linked to their lesser exposure to physical risks, their higher autonomy and their lesser work intensity. Even more clearly, a divide appears in terms of working time, where the SEWO display the highest quality: they have a higher level of working time discretion, report less work at unsocial hours but have longer working hours.

Self-employed without employees report that their health and safety is at risk more frequently than employees and self-employed with workers, 10% of them not being very well informed about health and safety. The proportion of self-employed without employees reporting a lower subjective well-being and being at risk of medical illness is the highest.

The working conditions of the economically dependent worker (EDW) ([147]) are in between those of the employees and those of the self-employed without employees, sometimes having the worst of each situation. Based on the 5th European Working Conditions Survey, Eurofound (2013) reports that the incomes of the economically dependent workers 'lie, disproportionately often, in the lowest tercile of their country and their households have a correspondingly high level of difficulty making ends meet. At the same time, they have the lowest level of job security, and fewest opportunities for career advancement' ([148]).

([146]) Cf. Eurofound (2012), p. 12: '"Intrinsic job quality" refers to the aspects of the job that concern the work and its environment. Four core sets of features of work are associated with meeting people's needs: the quality of the work itself, the social environment in which workers are situated, the physical environment, and the intensity or pace of the work.'

([147]) The EDW has a status that combines features of self-employment – usually their formal status is self-employed – and work characteristics closer to the employed – such as a real absence of independence and autonomy regarding key decisions for the business, such as hiring staff and the financial and economic strategy. The overall proportion of Economically Dependent Workers in the EU-27 is low, representing 0.9% of all workers, with a relatively high variation between countries. It seems that the highest proportions are found in southern countries (such as Italy, Cyprus, Greece and Portugal) and Central and Eastern European countries (such as Slovakia, the Czech Republic, Latvia, Romania and, to a lesser extent, Hungary and Bulgaria). For more details, see Eurofound (2013), 'Self-employed or not self-employed? – Working conditions of "economically dependent workers"', prepared by Oostveen, A., Biletta, I., Parent-Thirion, A. and Vermeylen, G.

([148]) Eurofound 2013.

6.2.7. Addressing challenges and opportunities for social dialogue

Identifying the workers' employment status is of particular relevance, for the worker him/herself, for society, for potential employers but also in industrial relations terms.

Indeed some key questions are at stake here. The economically dependent worker 'issue is relevant from the industrial relations point of view since economically dependent workers do not generally benefit from the protection granted to employees by both law and collective bargaining, including provisions on health and safety, information and consultation, working time, vocational training and social protection. They also fall outside the traditional reach of trade union representation' ([149]).

Most of these workers face a lack of representation in the regular industrial relations processes. The overall self-employed category is not naturally represented by most of the current social partners' organisations. In a handful of countries, representation has been devised by a few employers' and/or trade unions' organisations. The liberal professionals are often organised in independent interest associations. 'Crafts persons and small entrepreneurs, including those in agriculture, are typically represented by specific trade and employer organisations, while journalists and performing artists have in many countries a long tradition of strong unionisation' ([150]).

Trade unions often have an established representation in construction and in certain countries they have recently included new self-employed workers in their representational domains. Moreover some trade unions do attempt to organise and represent categories of workers, whose status can be found in the blurred zone between self-employment and subordinated employment. This is not an easy task for trade unions, which are mainly structured around the standard employment relationships establishing a contractual link between an individual (worker) and a company (employer), along either occupational or sectoral lines.

([149]) Id.

([150]) Eurofound 2009, 'Self-employed workers; industrial relations and working conditions' http://www.eurofound.europa.eu/sites/default/files/ef_files/docs/comparative/tn0801018s/tn0801018s.pdf

Furthermore, the issue of collective negotiation coverage of these ambiguous and unclear employment relations is very complex. In this regard, as already identified in the 2002 Eurofound study on 'Economically dependent workers, employment law and industrial relations', three options could be explored:

- 'an extension of (most of) the provisions and protections typical of dependent employment to new forms of employment, including self-employed workers who may be regarded as "economically dependent". (...);
- the definition of a third intermediate status which would stand mid-way between dependent and autonomous work and would benefit from an intermediate level of regulation and protection. (...);
- the establishment of a common set of basic rights and protections that would apply to all workers, irrespective of their formal employment relationships (in addition to the existing regulatory framework for dependent employees). (...)'.

Given the complexity of their status and the peculiarity of the applicable regulation, strengthening the working conditions of the self-employed might require participation of all social actors and the self-employed themselves.

6.3. Summary

This section highlighted that a necessary condition for additional job creation is that start-ups survive and expand their activities in a labour intensive way. The survival of start-ups is affected by a variety of factors which can to a large extent be shaped by social and labour market policies (together with other policies), including personal (e.g. education and skill formation) and household (e.g. family responsibilities) characteristics, industry (e.g. maturity of sector) and macro-economic conditions (e.g. aggregate demand) as well as institutional settings (e.g. a well-functioning market for business development services).

Once business activity expands, the demand for labour services may increase so that employees will be hired. However, this will not happen automatically and social and labour market policies have a

strong potential to reinforce this process, inter alia, by:

- strengthening managerial skills (especially among women and youth);
- supporting micro and small firms' innovation capacity (e.g. accommodating trial and error with flexible but secure working arrangements);
- promoting the geographical (e.g. strengthening of cross-border portability of pension rights) and occupational (e.g. recognition of informally acquired skills) mobility of employees;
- reducing hiring costs (e.g. full use of EURES).

Nevertheless, at the same time, micro and small businesses may also fail so that jobs may be lost. This might call for designing labour market policies along flexicurity principles to improve the working of the labour market while at the same time making employees more receptive to change. Moreover, as the group of social enterprises increases there may be a stronger need to improve their business environment by taking into account their specific operating nature.

7. Conclusions

This chapter has investigated the extent to which labour market and social policies, in close coordination with other policies, can strengthen the incentives and means to start up, sustain and expand one-person, micro and small businesses. Its main findings are as follows.

Self-employment and entrepreneurship remain important drivers of job creation. Even though there has been some decline in self-employment in recent decades in most Member States, about 16 % of employed people in the EU were self-employed in 2014, with small and micro-enterprises providing about one third of total employment.

Self-employment varies significantly, however, from one group to another, with significantly lower shares, for women, young and non-EU nationals. Moreover, only about one third of the self-employed actually employ any others.

Ongoing structural changes, such as technological progress, globalisation and the greening of the economy will undoubtedly create new opportunities for self-employment and entrepreneurship. However, the full potential will not be realised unless the right framework condition and policies are in place to accommodate the new ways of production and consumption.

While such general framework conditions are important for large enterprises, these conditions are particularly important for one-person, micro and small enterprises ([151]). For example, for micro and small businesses, fixed costs of tax compliance can be very high relative to their turnover.

In this context, the analysis in this chapter might suggest that labour market and social policies, in close coordination with other policies, could strengthen job creation through self-employment and entrepreneurship by:

- supporting the development of comprehensive, affordable **entrepreneurial education** (especially in schools, vocational institutions and universities);
- strengthening skills, including **e-skill formation** (e.g. to meet the strong growth potential for app-entrepreneurs) and **financial literacy**;
- **giving a second chance** to honest business failures (e.g. by tackling the stigmatisation of bankruptcy via education and information);
- ensuring **appropriate career guidance** (especially for the young and long-term unemployed via, for instance, public employment services);
- achieving a good **balance between work and private life** for the self-employed (e.g. via well-designed child-support facilities);
- helping to **transmit knowledge into market action** (e.g. by facilitating and encouraging academic spin-offs);
- strengthening the **risk-bearing capacity** of financial markets for micro and small enterprises (e.g. by bolstering micro-credit providers' ability to lend);
- addressing the needs of **new emerging forms of doing business** (e.g. the independent professionals (iPros) and crowd sourcing);
- **mitigating adverse starting conditions** caused by unfavourable personal or household conditions (e.g. via well-targeted cost-effective programmes that are evaluated and corrected in due time);
- promoting **innovative entrepreneurial solutions to society's most pressing social challenges** (e.g. via social enterprises that provide jobs for people at the margin of the labour market);
- addressing the risk that not all forms of self-employment will be of **high quality** (e.g. by strengthening the social protection rights of economically dependent self-employed workers);
- **reducing hiring costs** (e.g. by full exploitation of job mobility networks like EURES);
- **matching skills supply** with demand of expanding micro and small enterprises;
- complementing the rising need for labour reallocation by a **strengthening of employment security along flexicurity principles** ([152]) so micro and small businesses can expand by making employees more receptive to change.

Finally, it should be recognised that designing and implementing such policies might require the consultation of the SME stakeholders as well as the necessary capacity to monitor and evaluate these policies in terms of their cost-effectiveness and equity, and to correct them when necessary.

([151]) i.e. 'Think Small First'. See also A 'Small Business Act' for Europe at http://eur-lex.europa.eu/legal-content/EN/ALL/?uri=CELEX:52008DC0394

([152]) Including a further strengthening of active labour market policies, promoting life-long learning, and more flexible and secure contractual arrangements and social security (including the portability of social security rights).

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