

## Chapter 1

# Inclusive entrepreneurship policy

*This chapter describes the objectives of inclusive entrepreneurship policies and discusses their role in addressing social exclusion and stimulating economic growth. It also highlights recent trends in self-employment such as the growth of solo self-employment and the emergence of self-employment work in the digital economy. The chapter sets out the key policy issues that are examined in this report, including the quality of self-employment work and the potential for entrepreneurship policy to be used as a tool for addressing job loss due to major firm restructuring. Key findings and messages from the report are included.*

## Opening up entrepreneurship for all

Entrepreneurship plays an important role in the economy as it is a driver of innovation and job creation (see the Reader's Guide for the OECD-Eurostat definition of entrepreneurship). It also holds potential for strengthening social inclusion by giving another option for earning income and contributing to society. However, this potential will not be realised until everyone has an equal opportunity to start business and be successful in self-employment. This is not yet the case as many social target groups are greatly under-represented in entrepreneurship. Women in the European Union, for example, are only 57% as likely as men to be self-employed.

Inclusive entrepreneurship policies aim to ensure that all people, regardless of their personal characteristics and background, have an equal opportunity to start and run their own businesses. This includes all types of businesses: incorporated and unincorporated businesses, for-profit and not-for-profit businesses as well as social enterprises, full-time and part-time businesses, those in a dedicated premise and home-based businesses. These activities could be undertaken by an individual or a group.

These policies typically target groups that are under-represented in entrepreneurship, or that face greater barriers to business creation and self-employment. These target groups typically include women, youth, immigrants and ethnic minority groups, the unemployed, seniors, and people with disabilities. In some countries, other groups may be of particular importance too, such as the Roma minority in several Eastern European countries.

The objective of inclusive entrepreneurship policies is twofold. First, they seek to ensure that people in these groups are aware of the potential that entrepreneurship may have for them as a labour market activity and to build motivations for pursuing them. Second, they seek to address market, institutional and behaviour failures that disproportionately affect people in under-represented and disadvantaged groups. This includes addressing barriers in financial markets, barriers to acquiring entrepreneurship skills, barriers to building entrepreneurial networks and building an entrepreneurial culture. Addressing these barriers would be expected to lead to an increase in the amount of entrepreneurship activities by these groups, as well as increasing the quality of the businesses created so that they are more sustainable and innovative.

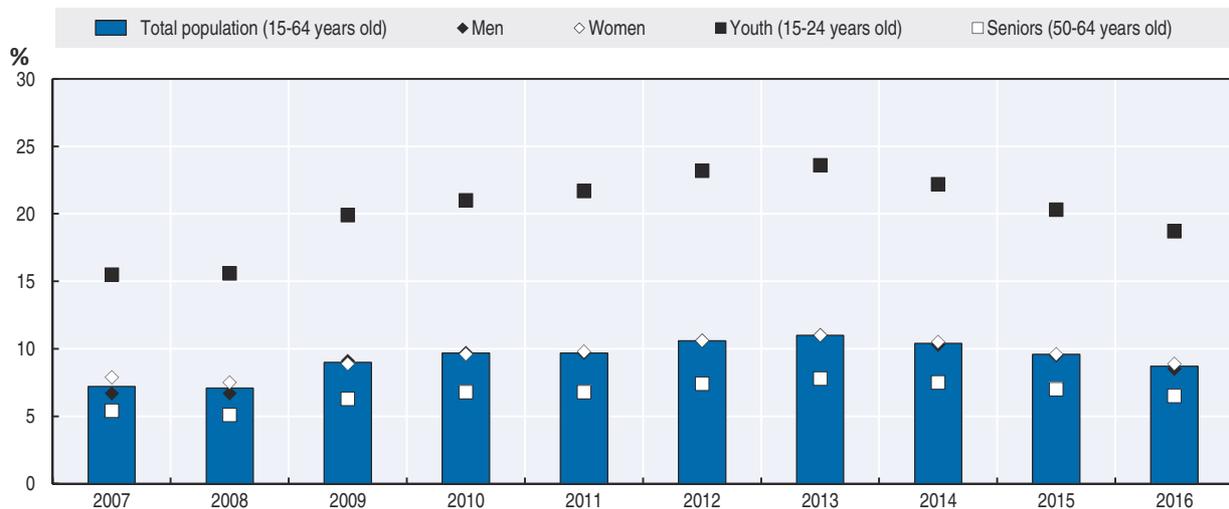
However, another outcome sought is to improve labour market attachment. By helping people acquire skills and work experience, and build networks, they also become more employable. Moving people from these groups into employment is a desirable outcome as entrepreneurship is not appropriate for all as a career path. The success of inclusive entrepreneurship policies can therefore not only be measured in the number of new entrepreneurs, but also in terms of labour market attachment and employment outcomes for those who receive entrepreneurship support or gain new skills through the experience of business creation.

## The importance of inclusive entrepreneurship policy

Labour markets in the European Union are showing signs of recovery following the economic crisis that began in 2008. The unemployment rate has declined for the past three years, falling from a peak of 11.0% in 2013 to 8.7% in 2016 (Figure 1.1) and is at its lowest level since 2008. Moreover, youth unemployment has fallen after peaking at 24% in 2015 at the EU-level and more than 50% in some Member States.

This fall in the unemployment rate has been coupled with a slight increase in labour market activity rates. In 2016, 72.9% of adults in the European Union (15-64 years old) were active in the labour market, up from 70.3% in 2007 (Figure 1.2). However, the activity rate for youth has declined slightly since the economic crisis and the proportion of youth who are not in employment, education and training (NEETs) remains above the pre-crisis level.

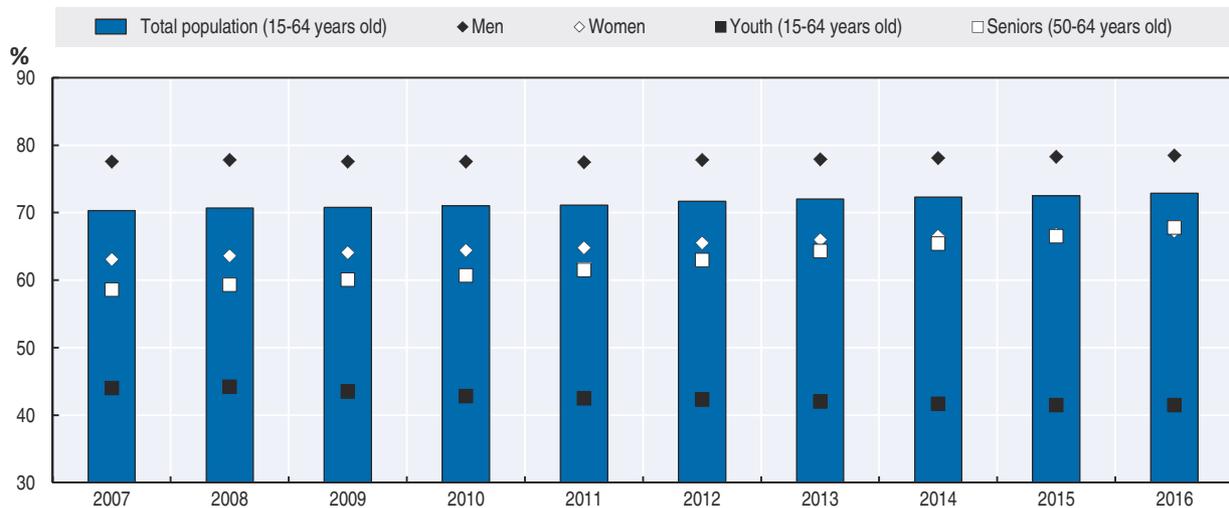
Figure 1.1. Unemployment rates in the European Union, 2007-16



Source: Eurostat (2017a), Labour Force Survey, available at: <http://ec.europa.eu/eurostat/web/lfs/data/database>.

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Figure 1.2. Labour market activity rates in the European Union, 2007-16



Source: Eurostat (2017a), Labour Force Survey, available at: <http://ec.europa.eu/eurostat/web/lfs/data/database>.

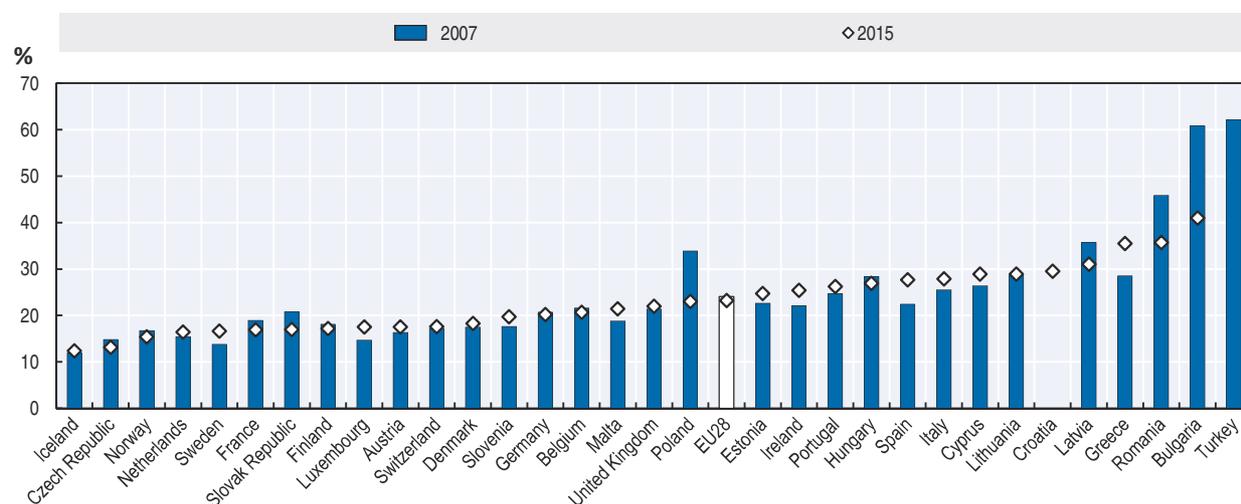
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With the exception of continued challenges for youth in the labour market, these indicators are quite positive but they hide some underlying trends. Labour productivity is declining and growing inequality in terms of income, wealth and well-being across EU and OECD countries raises concerns.

In this context, it cannot be assumed that technological advances and innovations will lead to productivity growth as cyclical and structural factors such as weak investment in physical capital and skills mismatches impede economic growth. It is also becoming apparent that even when growth is achieved, not everyone reaps the benefits. On the contrary, a growing dispersion has been observed in productivity growth between frontier and non-frontier firms, which can be partially attributed to the leading firm's capacity to attract highly-skilled labour (OECD, 2016a). This highlights the greatest risk that economies now face, i.e. how to avoid the trap of low-skilled people with poor access to opportunities being unable to escape low-productivity and precarious jobs, often in the informal economy.

Although the proportion of people at-risk of poverty and social inclusion increased during the economic crisis, it has declined slightly in recent years. Nonetheless, 23% of people over 16 years old in the European Union in 2015 were at-risk of poverty and social exclusion. That was 96.6 million people. Furthermore, more than one-third of people over 16 years old face poverty and social exclusion in four Member States (Figure 1.3). Such staggering numbers have led the European Commission to adopt a proposal for a European Pillar of Social Rights, which is designed as a compass for a process of upward convergence towards better working and living conditions in the European Union. The European Pillar of Social Rights sets out a number of key principles and rights to support fair and well-functioning labour markets and welfare systems. The proposed measures are intended to support equal opportunities and access to the labour market, fair working conditions, and social protection and inclusion. Active support to employment, which includes improving self-employment prospects for under-represented groups as well as adequate

Figure 1.3. **Proportion of the population at risk of poverty or social exclusion, 2007 vs. 2015**  
Percentage of people at least 16 years old



Note: The EU28 figure for 2007 excludes Croatia.

Source: Eurostat (2017b), Statistics on Income, Social Inclusion, and Living Conditions, available at: <http://ec.europa.eu/eurostat/web/income-and-living-conditions/data/database>.

StatLink  <http://dx.doi.org/10.1787/888933623818>

unemployment and sickness protection mechanisms are explicit principles of the Social Rights Pillar. While it is the responsibility of the EU Member States to deliver measures on the Pillar, first actions have been undertaken by the European Commission, notably on drafting a proposal aimed at improving work and family reconciliation and two social partner consultations on labour contract rules and access to social protection (EC, 2017).

Inclusive entrepreneurship policies can have an important role to play in addressing these challenges by creating opportunities for people to participate economically and socially. These policies and programmes can benefit individuals as they acquire skills, build networks and generate income for themselves, either by starting a business or acquiring skills and experience to help them move into employment. They also offer an avenue for economies to grow as unutilised or under-utilised resources contribute economically.

### The changing nature of self-employment

Although the proportion of workers who are self-employed has remained fairly constant at approximately 15% over the last decade, there have been some changes in the nature of self-employment in the European Union. First, there has been an increase in the proportion of self-employed workers without employees (Figure 1.4). There were 19.0 million solo self-employed workers in 2002, accounting for 65.8% of the self-employed, and the number of these self-employed workers increased to 20.0 million in 2016, accounting for 71.5% of the self-employed. This increasing share of solo self-employment is significant because these businesses are less innovative and contribute less to productivity growth.

Figure 1.4. **Solo self-employment in the European Union, 2002-16**

Number of self-employed without employees and proportion among total self-employment (15-64 years old)



Source: Eurostat (2017a), Labour Force Survey, available at: <http://ec.europa.eu/eurostat/web/lfs/data/database>.

StatLink  <http://dx.doi.org/10.1787/888933623837>

As presented in Chapters 2, 3, 4, 5 and 6, people from under-represented and disadvantaged groups are more likely to be self-employed without creating additional jobs for other people. It is therefore important for inclusive entrepreneurship policies to not only support people in business creation, but increase their chances of success by providing them the skills needed to sustain and grow their business. Good practice indicates that inclusive entrepreneurship policies and programmes should offer integrated

packages of support to all and more intensive supports to those with innovative ideas and the greatest chances to succeed.

A second important self-employment trend in recent years has been the emergence of the digital economy (see Box 7.4 in Chapter 7). While data on self-employment in digital markets is scarce, it is likely that these workers account for a small but growing share of workers (OECD, 2016b). Technology advancements have had a strong role in facilitating these new work methods, including collaborative work arrangements that take place online and short-term work that is organised and managed through online platforms and mobile applications. At the same time, technology has made people more mobile, allowing self-employed workers to work from anywhere, at any time.

For some workers, these changes have provided for forms of high value-add self-employment, e.g. freelancers or independent professionals. These workers are sometimes referred to as “I-pros”, who are self-employed workers without employees engaged in creative, intellectual and service-orientated industries (Rapelli, 2012). Within the European Union, I-pros tend to be highly educated and geographically located in Northern Europe. Among the self-employed in Northern Europe, a disproportionately high share of high-skilled occupations (e.g. IT consulting) is observed. For example, more than 60% of the German self-employed are in high-skilled occupations while in Poland 41% of the self-employed are found in low-skilled occupations in the agriculture, forestry and fishing sectors (Hatfield, 2015). Moreover, it is estimated that there has been a 45% increase in the number of I-pros in the European Union since 2004 so that they now represent nearly approximately 9 million people, or 1.1% of employed people (Leighton, 2015).

At the same time, the digital economy appears to have created opportunities for dependent self-employment, which are those self-employed workers that work for one client and have work arrangement that is essentially the same as an employee despite being registered as self-employed. Dependent self-employment can be difficult to detect and assess given that this form of work frequently goes undeclared to statistical, tax or relevant labour authorities. While only a small number of workers (1.3%) struggle to identify their employment status (Eurofound, 2016a), increasingly unclear boundaries between newer forms of self-employment (e.g. sole director of own business, partner in a business or professional practice, working for oneself, working as a sub-contractor, and doing freelance work) make it difficult to assess whether the 8% of workers who hold multiple jobs are better defined as independent self-employed workers or dependent employees (Eurofound, 2016a).

## Current inclusive entrepreneurship policy issues

This edition of *The Missing Entrepreneurs* follows the same structure as the earlier editions. The first section of the report presents updated data on the self-employment and entrepreneurship activities by the key target groups of inclusive entrepreneurship policy, i.e. women (Chapter 2), youth (Chapter 3), seniors (Chapter 4), the unemployed (Chapter 5) and immigrants (Chapter 6). Internationally comparable data are presented for a wide range of indicators for European Union Member States and OECD economies, including self-employment and entrepreneurship activity rates, business performance metrics and barriers to business start-up. Part II includes two chapters on current policy issues in inclusive entrepreneurship policy. Chapter 7 examines the quality of self-employment and tries to respond to the first question below. Chapter 8 examines the potential of

entrepreneurship policy to help unemployed people move back into work following job loss due to major firm restructuring. Finally, Part III contains country profiles for each of the 28 EU Member States. Each profile presents a brief overview of recent trends in entrepreneurship activities by women, youth and seniors and presents recent policy actions.

### ***Is self-employment quality work?***

Policy makers and researchers are increasingly interested in measuring the quality of work since there are strong links between work, lifestyle and standard of living (OECD, 2015). Moreover, there is evidence that job quality can be an important driver of labour force participation, productivity growth and aggregate economic performance (Cazes et al., 2015).

Although many international organisations, including the OECD, European Commission, International Labour Organisation and Eurofound, are developing assessment frameworks and indicators to assess job quality, self-employment is often overlooked in these discussions. This is likely due to the high degree of heterogeneity among the self-employed and the difficulty in developing internationally comparable indicators. Chapter 7 adapts existing assessment frameworks and uses available data and evidence to examine the quality of self-employment work according to three main dimensions: earnings, job stability and working conditions.

The main finding is that self-employment work is highly variable in terms of its quality. The self-employed are more likely to be found among both the lower and upper tails of the income distribution than those in wage employment. The self-employed with employees earn more than those without employees, on average, but there are many solo self-employed with high earnings such as highly skilled freelance workers. Relative to employees on indefinite contracts, the self-employed with employees have higher net monthly earnings (EUR 2 590 vs. EUR 1 930 in 2015). But even the self-employed without employees typically earn more per month than some types of employees, such as those on fixed-term contracts (EUR 1 840 vs. EUR 1 150 in 2015). However, self-employment appears less secure than many forms of employment and the five-year survival rate for new businesses operated by the self-employed is typically below 50%.

The working conditions for the self-employed are also highly variable. Self-employment is often characterised by long working hours and the self-employed are more likely than employees to report health-related issues due to their work. These poor working conditions are especially prevalent for some categories of self-employed workers, notably dependent and “false” self-employed people. These workers rely on one or two clients and therefore tend to enjoy few of the advantages of employment (e.g. social security protection), few of the advantages of self-employment (e.g. task diversity) but all of the disadvantages that are associated with self-employment (e.g. low income, financial insecurity, long working hours). Moreover, these workers tend to under-cut those in employment and increase the risk that they will lose their jobs.

The traditional policy response to improve the quality of self-employment has been to improve the business environment and increase the chances of success for entrepreneurs by offering entrepreneurship training, coaching and mentoring, business counselling, and improved access to start-up financing and entrepreneurship networks. Many of these examples are highlighted in the Country Profiles in Part III of this report. It is important to continue to offer such measures to support entrepreneurs in maximising the potential of their businesses.

However, much of the current policy debate surrounding the quality of self-employment is focused on the issue of dependent and false self-employment, including work arranged through online and mobile platforms. Three approaches are typically used by policy makers to minimise false self-employment. The first is to clarify the work status of individuals, i.e. make it more clear who are employees and who are the self-employed. This approach is taken in the Netherlands to address the growing prevalence of false self-employment. Alternatively, policy makers can introduce intermediate work categories that treat this type of work separately. This approach is used by several European Union Member States and the examples highlighted in the chapter are Austria and Italy. Finally, improving access to social security protection for the self-employed can help increase the quality of working conditions and income security for the self-employment, thereby removing incentives for false self-employment. In practice countries tend to take a multi-pronged approach to fighting false self-employment, including the use of measures to make it more attractive for employers to hire an employee over engaging a false self-employed worker.

### **To what extent can entrepreneurship policy have a role in major firm restructuring?**

Globalisation has transformed the world economy over the past half century and the linkages between economies, governments, businesses and people of different countries have never been stronger. This has been beneficial for many as economic growth has been boosted and many millions of people have been lifted out of poverty. However, globalisation has also increased competitive pressures on firms and this can result in restructuring processes that seek gains in efficiency and productivity. Although this can improve firm performance, it can have a negative impact on individuals as they may lose their job during firm restructuring processes. In 2016, there were 88 cases of large-scale restructuring in the European Union that resulted in more than 1 000 jobs lost in each case.

The policy response to help displaced workers is typically to offer a suite of active labour market measures, including re-training programmes and job matching. Entrepreneurship support measures can also be used to help displaced workers start businesses. Recent estimates suggest that between 2% and 5% of displaced workers return to work by starting a business and becoming self-employed and the likelihood of a displaced worker moving into self-employment increases over time.

The discussion in Chapter 8 is built around four case studies of major firm restructuring events in Finland, Sweden, Germany and the United Kingdom. This collection of examples highlights the diverse approaches that can be used to help displaced workers back into work through business creation. These case studies point to four key success factors in helping displaced workers transition into self-employment, namely i) effective partnerships between all actors involved, i.e. the restructuring firm, trade unions, public employment agency, local and national governments; ii) timely interventions since the majority of successful entrepreneurs who started following a job displacement had developed their business idea while working; iii) strong leadership from the local government, including co-ordinating the roles of each actor in supporting workers; and iv) the development of a suite of well-designed programmes that match the context (e.g. local economy, sector of restructuring firm, occupations of displaced workers) and needs of the displaced workers.

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