

D 7.4 – Policy Synthesis and Integrative Report on Youth Self-Employment in Europe

Maura Sheehan*, **Andrea Mc Namara****, **Renate Ortlieb*****, **Silvana Weiss*****
Edinburgh Napier University*, **National University of Ireland, Galway****,
and **University of Graz*****

Jaan Masso, Kadri Paes, Maryna Tverdostup, Eneli Kindsiko
University of Tartu

Aleksy Poczowski, Beata Buchelt, Urban Pauli
Cracow University of Economics

María C. González Menéndez, Begoña Cueto
University of Oviedo

Robin Hinks, Nigel Meager, Anna Fohrbeck, Sam Swift
Institute for Employment Studies

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- i) to 'advance the knowledge base that underpins the formulation and implementation of relevant policies in Europe with the aim of enhancing the employment of young people and their transition to economic and social independence', and
- ii) to engage with 'relevant communities, stakeholders and practitioners in the research with a view to supporting employment policies in Europe.' Contributions to a dialogue about these results can be made through the project website www.style-research.eu, or by following us on Twitter @STYLEEU.

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About the authors

- Maura Sheehan** - <http://www.style-research.eu/team/maura-sheehan>
- Andrea Mc Namara** - <http://www.style-research.eu/team/andrea-mcnamara>
- Renate Ortlieb** - <http://www.style-research.eu/team/renate-ortlieb>
- Silvana Weiss** - <http://www.style-research.eu/team/silvana-weiss/>
- Jaan Masso** - <http://www.style-research.eu/team/jaan-masso>
- Kadri Paes** - <http://www.style-research.eu/team/kadri-paes/>
- Maryna Tverdostup** - <http://www.style-research.eu/research-organisations/university-tartu/>
- Eneli Kindsiko** - <http://www.style-research.eu/research-organisations/university-tartu/>
- Aleksy Poczowski** - <http://www.style-research.eu/team/aleksy-poczowski-professor/>
- Beata Buchelt** - <http://www.style-research.eu/team/beata-buchelt/>
- Urban Pauli** - <http://www.style-research.eu/team/urban-pauli/>
- María C. González Menéndez** - <http://www.style-research.eu/team/m-c-gonzalez-menendez/>
- Begoña Cueto** - <http://www.style-research.eu/team/begona-cueto/>
- Robin Hinks** - <http://www.style-research.eu/team/robin-hinks/>
- Nigel Meager** - <http://www.style-research.eu/team/nigel-meager/>
- Sam Swift** - <http://www.style-research.eu/team/sam-swift/>
- Anna Fohrbeck**- <http://www.style-research.eu/research-organisations/institute-employment-studies/>

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The authors retain the full responsibility for the research findings.

Key words:

Self-employment trends; characteristics of self-employed workers; entrepreneurship; types of self-employment; characteristics of self-employed enterprises; employment creation challenges and opportunities; innovation; quality and sustainability of self-employment, assistance and policy interventions to encourage self-employment.

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Abbreviations

BBS Chrome	University of Brighton
‘CCI’	‘Creative and Cultural’ Industries
CIS	Community Innovation Survey
DG	Directorate General
D7.1	Deliverable 7.1
D7.2	Deliverable 7.2
D7.3	Deliverable 7.3
D7.4	Deliverable 7.4
ETUI	European Trade Union Institute
EU	European Union
EU-LFS	European Union Labour Force Survey
EU-SILC	European Union Statistics on Income and Living Conditions
EU-27	European Union 27 countries
EU-28	European Union 28 countries
EWCS	European Working Conditions Survey
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GEM APS	Global Entrepreneurship Monitor Adult Population Survey
‘ICT’	‘Information and Communications Technology’
ILO	International Labour Office
‘IT’	‘Information Technology’
NUTS	Nomenclature of Territorial Units for Statistics
OECD	Organisation for Economic Cooperation and Development
OSE	Observatoire Sociale Européen
REFLEX	International Survey of Higher Education Graduates
SOLIDAR	European network of Non-Governmental Organizations working to advance social justice in Europe
STYLE	Strategic Transitions for Youth Labour in Europe
UK	United Kingdom
WP7	Work Package 7: Business Start-Ups & Youth Self-Employment
YSE	Youth Self-employed

1. Introduction

This report summarises the main objectives and findings underpinning all three deliverables of Work Package 7: Business Start-Ups & Youth Self-Employment (WP7) of the EU STYLE project. Moreover, emphasis is placed on the policy recommendations which are driven by the three earlier deliverables of WP7. In Europe, the rate of youth unemployment is high (20%) and as a response, self-employment is perceived as one way to address it (D7.3). The rate of self-employment in Europe has remained relatively stable in recent years¹ (D7.1 and D7.2), yet across the EU member states, there are significant variations in the rates of self-employment (D7.1). Rates of youth self-employment in the EU, however, are low (D7.1 and D7.2. In D7.1, the rate of youth self-employment across the EU was just over 4 per cent). All of this is set against the backdrop of no standard definition of self-employment at European level (D7.1). The objective of WP7 is to conduct a gender-sensitive analysis of the factors which encourage business start-ups by the youth, the characteristics of such individuals and their businesses, self-employment outcomes and the policies which facilitate business sustainability, business growth and innovation (STYLE, 2016). The first three deliverables of WP7 include:

- D7.1²: Business Start-Ups & Youth Self-Employment: A Policy Literature Review
- D7.2³: Mapping Patterns of Self-Employment: Secondary Analysis
- D7.3⁴: Business Start-Ups & Youth Self-Employment. Case Study Findings

D7.1 provides a review of policy literature on business start-ups and youth self-employment from both national and EU level policy initiatives (Sheehan and Mc Namara, 2015a). D7.2 maps out patterns of self-employment with a particular emphasis on a) profiles and trends of self-employment, b) characteristics of the self-employed and c) the quality and sustainability of self-employment (Masso et al. 2015). D7.3 provides an insight into youth self-employment within the 'Creative and Cultural' ('CCI') and the 'Information and Communications Technology' ('ICT') industries, emphasising business motivations, job creation capacity, innovativeness, assistance and quality of work of start-ups (Mc Namara et al. 2016). D7.1 presents the research questions which are subsequently addressed in D7.2 and D7.3. Whilst D7.2 provides a macro level analysis of the patterns of youth self-employment, D7.3 provides a micro level analysis through firm level case studies of the processes

¹ There is a slight difference in the rate of self-employment for Europe reported in D7.1 and D7.2 which is due to different time periods. In D7.1, the rate of self-employment for the EU-28 was around 15 per cent over the time period, 2004-2013. In D7.2, the rate of self-employment for the EU-27 was around 14 per cent over the time period, 2002-2012. See both reports (D7.1 and D7.2) for further details.

² D7.1: See Sheehan and Mc Namara (2015a). D7.1 includes the national reports of each team partner in the study countries.

³ D7.2: See Masso et al. 2015. D7.2 includes the national reports of each team partner in the study countries.

⁴ D7.3: See Mc Namara et al. 2016. D7.3 is based on the firm level case studies and policy interviews conducted by each team partner in the study countries.

which fuel, in part, the patterns identified in D7.1 and D7.2 (Masso et al. 2015; Mc Namara et al. 2016). Key findings from these deliverables form the basis for the policy recommendations (D7.4).

Three age categories are employed; 16/18-24, 25-34 and 35 and over, corresponding to ‘youth self-employment’, ‘emerging self-employment’ and ‘established self-employment’ (Masso et al. 2015; Mc Namara et al. 2016). ‘Younger youth’ refers to those individuals aged 16/18-24 years whilst ‘older youth’ refer to those individuals aged 25-34 (Masso et al. 2015; Mc Namara et al. 2016). Individuals aged 35 and over are ‘older adults’ (Masso et al. 2015; Mc Namara et al. 2016). Emphasis is placed on six EU countries (referred to hereafter as the study countries)⁵: Estonia, Germany, Ireland, Poland, Spain and the United Kingdom (Sheehan and Mc Namara, 2015a; Masso et al. 2015; Mc Namara et al. 2016).

⁵ Study countries include Estonia (Jaan Masso, Kadri Paes (D7.1 and D7.3), Maryna Tverdostup (D7.2) and Eneli Kindsiko (D7.3), Germany (Renate Ortlieb and Silvana Weiss), Ireland (Maura Sheehan and Andrea Mc Namara), Poland (Aleksy Poczowski, Beata Buchelt and Urban Pauli), Spain (María C. González Menéndez and Begoña Cueto) and the United Kingdom (Robin Hinks, Nigel Meager, Anna Fohrbeck and Sam Swift (D7.3)).

2. Key Findings of the Policy Literature Review (D7.1)

Providing an overview of policies at both EU and national level i.e. six study countries, D7.1 finds policies are categorised by 1) financial ('hard') assistance, 2) non-financial ('soft') assistance or 3) 'hybrid' assistance (combination of 'hard' and 'soft' support). While financial support may be a necessary intervention to assist an individual into self-employment, 'soft' support may also be critical for the success and sustainability of start-ups. Types of 'soft' support include counselling/coaching, networking opportunities and in particular for young people, entrepreneurial education and programmes to enhance the entrepreneurial 'mind-sets'. Policies also target particular groups (self-employed females, self-employed youth, self-employed migrants and unemployed persons). Where a target of a policy is identifiable, 34.2 per cent of policies specifically target young people and 9.6 per cent specifically target the unemployed. All of the study countries have at least one programme to promote self-employment for young unemployed persons.

Access to finance is perceived as a fundamental barrier to starting up a business, particularly so for females, youth, unemployed and ethnic minority groups (OECD/European Commission, 2014a). Thirty-two per cent of policies (65 of the 203 policies examined) in the six study countries specifically target the financial constraint issue. Moreover, education, e.g. financial education, is an important part of 'soft' support. Developing an entrepreneurial mind-set and skills generally involves an emphasis on entrepreneurial education which is found to be widely used in the EU and in the six study countries. 53.2 per cent of all policies provide 'soft' assistance only.

There is a growing recognition that the most effective types of policies will include both financial and soft support (OECD/European Commission, 2012). While financial and soft support are fundamental to strengthening self-employment and entrepreneurship, the perception of each support as being mutually exclusive may exert more of a short term impact whereas an integrated policy (financial and soft support) may help to contribute to a more sustainable and long term effect of policy interventions (D7.1). Yet, only 15 per cent of policies (30 of the 203 policies examined) in the six study countries reflect this 'hybrid approach'.

To facilitate the transition, especially for young people, from unemployment into self-employment, the OECD/European Commission (2014a) presents recommendations to include the provision of unemployment benefits for a certain time period, in particular at the start up stage, targeting the needs of those from specific groups of unemployed, the provision of financial and non-financial

support which are complementary to each other, the involvement of local partners in facilitating the unemployed in business start-ups, and the alignment of support schemes with tax and social security schemes. Indeed, given the need for greater integration and a more holistic approach to tackling youth unemployment and young people's transition, trajectories into employment (dependent employment, self-employment, becoming an entrepreneur), the OECD's call for a "youth convener" responsible for collaborative policy making within governments and better co-ordination at national level' (OECD 2014b, pp. 9) should be given serious consideration.

Despite the presence of significant EU and national policies targeted at promoting self-employment, evaluations of these policies have been minimal. Without timely, valid and reliable evaluations, the relevance and adaptability of policy coupled with the efficiency of resources deployed will be undermined. Forty-four per cent of policies in the six study countries did not have identifiable or targeted groups (e.g. the unemployed, women) which would make evaluations of these policies difficult. Moreover, given the potential difference between self-employment and entrepreneurship⁶ and the absence of a standard definition of self-employment at European level, it becomes increasingly difficult to develop and implement policy targeted at self-employment and thus, conduct appropriate evaluations. The absence of a European level definition also raises concern over the growth in 'bogus'/disguised self-employment, in particular for vulnerable young people. Given young people's lack of experience and the high rates of unemployment they face in many countries, they are potentially particularly vulnerable to being forced into bogus self-employment. Such employment also often leaves the self-employed with no or minimal employment protection and social welfare entitlements.

Although many governments have encouraged young people to become self-employed as opportunities for dependent employment declined in the aftermath of the crisis, the data show that self-employment is still not common among young people. The rate has increased quite significantly in Spain and the UK since the crisis, but has remained relatively stable and even declined slightly in the past year in Germany and Ireland. In addition to cultural and institutional factors, these trends are

⁶ "The concept of **self-employment** refers to an employment situation where the employed person is working on his/her own account with or without employees.....The concept of **entrepreneurship** refers to the type of activities entrepreneurs are performing: recognising business opportunities and introducing them to the market. This may require innovations, but not necessarily.....Not all self-employed can be, or should be, regarded as entrepreneurs. The distinction between self-employment and entrepreneurship are concepts that, on one hand, have overlapping associations, but that can also be mutually exclusive: the creation of business and business ownership is not always intertwined with entrepreneurial activity (OECD/European Commission, 2013a). The OECD and Eurostat define entrepreneurs as 'those persons (business owners) who seek to generate value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets' (OECD/European Commission 2013a, pp. 20). Indeed, the self-employed may not be entrepreneurial as per the OECD-Eurostat definition in that they may not be business owners who identify and exploit new products, processes or markets and thus behave 'entrepreneurially' (OECD/European Commission, 2013a). Moreover, the self-employed may not perceive themselves as entrepreneurs or business owners given 'self-employment is more a form of employment than a form of business ownership' (OECD/European Commission 2013a, pp.19). One way to better understand and differentiate between self-employment and entrepreneurship is to examine the various motivations for becoming self-employed." Extract from D7.1

likely to reflect the impact of ‘active labour market policies’. For example in the UK, where young unemployed people may be ‘pushed’ into becoming self-employed; in Spain the very high rate of youth unemployment may leave young people with little choice other than to become self-employed – again ‘pushed’ into this status. In other countries, in particular, Ireland and Poland, young people may decide to stay in formal education longer and/or to emigrate, therefore their overall labour market participation rates – whether as a dependent employee or self-employed – will have declined.

D7.1 also emphasises business motivations i.e. whether young people are ‘pushed’ or ‘pulled’⁷ into self-employment where those ‘pulled’ into self-employment are perceived to have an entrepreneurial drive. Throughout WP7, much attention is placed on these business motivations, in particular, whether those ‘pushed’ into a self-employment trajectory have different patterns in terms of sustainability and employment creation compared to the self-employed who are ‘pulled’.

Considering the quality of self-employed work, D7.1 finds the self-employed have less earnings than employees and are subject to poorer working conditions i.e. the self-employed work longer hours and have less access to social ‘safety nets’ than employees. Given the focus of public policy on the promotion of self-employment for the youth, this is a worrying concern. Evidence found in the UK of a potential ‘scarring effect’ of self-employment further compounds this concern where those individuals who transition from self-employment into dependent employment are likely to face lower employment and income prospects (Hinks, Fohrbeck and Meager, 2015a; Meager, 2008). Moreover, the quality of self-employed work is likely to differ for those who are ‘pushed’ or ‘pulled’ into self-employment, again highlighting the importance of business motivations.

Based on patterns found in D7.1, it is recommended that policies which promote self-employment *only* – in contrast to promoting youth entrepreneurship - need to be more carefully evaluated and assessed by policy makers. D7.1 presents the following research questions which are examined in the country-level studies that comprise D7.2 and D7.3 of WP7.

1. D7.2: What are the characteristics of the young self-employed (with and without employees) and entrepreneurs across the EU and with a particular focus on the six study countries?
2. D7.3: Focus was given to the following:
 - Barriers and challenges to becoming self-employed and sustaining self-employment.
 - The capacity to create jobs - potential barriers and challenges.

⁷ “The primary theory development around start-up and/or entrepreneurial motivations has been to classify motivations into categories of ‘push’ and ‘pull’ factors (McClelland et al., 2005; Schjoedt and Shaver, 2007; Segal et al., 2005). Push factors are characterised by personal or external factors (including a poor economic climate, high unemployment, reduced social protection), and often have negative connotations – e.g., the ‘distressed self-employed’. Alternatively, pull factors are those that draw people to start businesses – such as seeing an opportunity (Hakim, 1989); and/or having the desire to implement a product or process innovation. The self-employed who are driven by pull factors are more likely to be entrepreneurial.” Extract from D7.1.

- Motivating factors for becoming self-employed: “push” and “pull” factors.
- Innovation activity (products, services and processes): “new to firm innovation” or “new to market innovation”⁸; the role of innovation for business sustainability and growth.
- Assistance used (financial or ‘hard’, non-financial or ‘soft’, hybrid): the role of assistance for business sustainability and growth.
- Quality of work associated with self-employment – working hours; earnings; job discretion and skills match; work effort; job satisfaction; quality of life/work life balance issues; future plans (linked to innovation/sustainability).

D7.1 has critically assessed self-employment, especially in terms of young people’s labour market trajectories. Although many policies have been targeted at promoting self-employment for young people, this cohort is still a very small share of the self-employed across the EU. The quality of employment and sustainability of enterprises run by the self-employed (both those with and without employees) are also identified as issues for concern. The lack of rigorous and timely evaluations of policies to stimulate self-employment and the lack of more group-targeted policies (e.g., the unemployed and women) are also highlighted. Nevertheless, entrepreneurship - which is also highly correlated to innovation rates - is widely recognised as a key engine of growth for economies (Braunerhjelm, 2010). Thus, policies should continue to target entrepreneurship which, as emphasised throughout this report, should not be *de facto* be equated with self-employment.

⁸ ““New to firm innovation” is new or significantly improved to the business but already available in the market and “new to market innovation” is new or significantly improved to the business and the market. These definitions stem from the Community Innovation Survey (CIS) available from Eurostat (2015).” Extract from D7.3.

3. Mapping Patterns of Self-Employment: Secondary Analysis (D7.2)

Mapping out patterns of self-employment, D7.2⁹ finds the rate of self-employment¹⁰ has remained relatively stable in EU-27 over the time period 2002-2012, at around 14 per cent. Yet, across EU countries, there are differences in self-employment rates. The rate of self-employment is the lowest for the youth with the likelihood of self-employment over 13 per cent higher for individuals aged 25-34 and 27 per cent higher for individuals aged 55-64 in comparison to individuals aged 15-24. The age profile of self-employment is largely country specific, which might highlight the importance of institutional, cultural and migration factors. Of the study countries, youth self-employment is the highest in Spain (8%) and the lowest in Germany (1.5%).

Self-employment has been male dominated. The UK has the highest male and female self-employment rates while Poland has the lowest. Whilst the study countries reflect this, the gender gap has converged in recent years with the narrowing of the gap most pronounced for the younger age groups. This is particularly evident in the UK. This convergence might highlight several country factors including economic factors (the intensity of the recent financial and economic crisis), social/cultural factors (family/caring responsibilities) and institutional factors (females' labour market activity rates).

From the study countries, the majority of self-employed workers are sole traders. Most of the self-employed do not have any employees and the percentage of those with employees has *decreased* over the period 2004-2012 in all age groups and by both genders. This pattern is likely to reflect economic contraction and a weakening in demand for products and services, as illustrated by the study countries that were particularly impacted by the global crises (e.g., Ireland and Spain). Older self-employed are more likely than younger self-employed to employ workers, which is attributed to the development stage of the business, owner motivations and resource capacity and requirements.

The self-employed are slightly less-educated than salaried ("dependent") employees. However, the trend in education levels over time is positive across all age groups, gender and employment status. From the study countries, there has been an increase in the educational status of the self-employed,

⁹ The findings of D7.2 are based on several datasets to include the European Union Labour Force Survey (EU-LFS), the Global Entrepreneurship Monitor (GEM) Adult Population Survey (APS), the European Working Conditions Survey (EWCS), the European Union Statistics on Income and Living Conditions (EU-SILC) and the International Survey of Higher Education Graduates (REFLEX). The study countries employ their own dataset. See Appendix 1 of D7.2 for further details.

¹⁰ "Self-employed among all employed, EU-27; 2002-2012 (per cent). Based on authors' own calculations of data taken from EU-Labour Force Survey data for 2002-2012. Self-employed group does not include family workers. No data for Malta prior to year 2009." Extract from D7.2.

likely reflecting a lack of employment which appears to be ‘pushing’ highly educated individuals into self-employment. Furthermore, the highly educated status of the self-employed rises from a strengthening of the entrepreneurial mind-set through the various programmes of entrepreneurial education. Moreover, there is a presence of ‘out-selection’ of jobs where older and less educated workers leave self-employment and are not replaced by youth. There is a higher extent of skills and work duties mismatch among the self-employed than salaried employees, with young self-employed women appearing to be more likely to have skills and duties ‘mismatch’¹¹.

In one of the study countries (the UK), the self-employed are less likely to receive work-related training, reflecting either an over-representation of people with no or few qualifications, who are less likely to participate in training, or the low earnings and long working hours of the self-employed, resulting in few resources for such training. Men are more likely to be self-employed than women and at the same time self-employed women more often exit from employment than men and enter into economic inactivity, likely reflecting family caring responsibilities. The less educated the individual, the higher is his or her probability of being self-employed, while the more educated an individual is, the lower is his or her probability of exiting from self-employment. This likely reflects that the self-employed with higher levels of education may own enterprises that are more sustainable over time compared to individuals with lower levels of education.

The probability of self-employment is higher for nationals than non-nationals in all age groups with cross country differences across Europe. This is perhaps a surprising finding and may reflect a lack of mainstream employment opportunities even for the nationals. However, this may also reflect that non-nationals face greater barriers to becoming self-employed, especially in relation to accessing finance, compared to nationals.

The regional distribution¹² of self-employment reflects several factors, including the importance of ‘agriculture’, background of local economies and the prevalence of industry types. In Estonia, higher levels of self-employed activity in the North was attributed to the high concentration of ‘IT’ business, operated largely by the youth self-employed (Masso and Tverdostup, 2015). In the UK, regions where there is ‘a tradition of manufacturing, mining, heavy industry and public sector employment’, rates of

¹¹ Need further training. See D7.2.

¹² The level at which regions are evaluated differs across the study countries. In the UK, - Northern Ireland, Scotland, Wales, the South West of England, London, the South East of England, the Midlands, Eastern England and North of England (Hinks, Fohrbeck and Meager, 2015b). In Estonia - NUTS 3 level (Northern, Central, Western, Southern and North-Eastern Regions) (Masso and Tverdostup, 2015). In Ireland - towns/cities and provinces (Sheehan and Mc Namara, 2015b) whilst in Poland - rural versus urban locations (Pocztowski, Buchelt and Pauli, 2015b). Finally, in Spain – Andalucía, Aragón, Asturias, Baleares, Canarias, Cantabria, Castilla – León, Castilla - La Mancha, Cataluña, Comunidad Valenciana, Extremadura, Galicia, Madrid, Murcia, Navarra, País Vasco, La Rioja (González Menéndez and Cueto, 2015b).

self-employment were low (Hinks, Fohrbeck and Meager 2015b, pp.13).¹³ Moreover, capital wealth is important where richer regions are perceived to facilitate more 'small independent businesses' (Hinks Fohrbeck and Meager, 2015b).

A high percentage of self-employed workers in the EU-27 are involved in 'wholesale', 'other services', 'agriculture', 'industry' and 'construction'. Young self-employed are working less compared to older adults in 'agriculture'; this is attributed to the attractiveness of other industries¹⁴. Young self-employed women, more often than men, work as 'professionals'¹⁵ or 'service and sales' workers. Young self-employed men are more likely than women to be occupied as 'craft and trade' related workers and 'skilled agricultural' workers. Among both youth and adults, there has been an increase in the share of 'professionals' and 'service workers' (from 13% to 19% over the period 2004-2012). An individual is more likely to be self-employed if his/her parents were self-employed. For example, the frequency of self-employment is the highest when both parents were self-employed (the average is 32% in EU-27) and the lowest when none of the parents were self-employed (5%).

While, on average, the income of all the self-employed in the EU-27 is *higher* than that of the salaried employees, the average income for young self-employed (aged 18-34) is slightly lower (by 7%) than the average earnings of the salaried employees (1,266 euros and 1,354 euros respectively). As expected, the self-employed with employees tend to have higher incomes compared to the self-employed without employees. The self-employed tend to work longer hours compared to their salaried counterparts but the hours worked are subject to country-specific factors, and differ by labour market status, age and gender. There are differences in relation to preferred and actual working hours for the self-employed, possibly reflecting 'over' and 'under' employment. The possibility of under employment was evident in several of the study countries.

The shares of opportunity-driven ('push') and necessity-driven ('pull') entrepreneurs are relatively similar for the young and adult groups¹⁶. The young self-employed are more positive about their work opportunities and career prospects than their older counterparts and are, in general, satisfied with their working conditions. Young entrepreneurs, compared to older entrepreneurs, are more ambitious in terms of job creation and are more innovative.

¹³ Please see individual national reports as part of D7.2 for more detailed self-employment patterns by regions.

¹⁴ Other factors include difficulties entering 'agriculture' (lack of land) and structural changes (employment in 'agriculture'). See D7.2.

¹⁵ 'Professionals' include 'physical, mathematical and engineering science professionals', 'life science and health professionals', 'teaching professionals' and 'other professionals' (e.g. accountant). Source: Gallup Europe, (2010).

¹⁶ "48 per cent of all early stage entrepreneurs in the EU are 'opportunity-driven' ('pull') (49.6% amongst men and 44.7% amongst women) and 22.2% are necessity-driven ('push') (21.5% amongst men and 23.5% women). According to young entrepreneurs, 47.2 per cent of them are driven by opportunity and 19.9 per cent by necessity (no statistically significant gender differences are found)." Extract from D7.2. See D7.2 for further details.

D7.2 has assessed self-employment, especially in terms of it being promoted as a beneficial and sustainable labour market alternative and in countries where there are high rates of youth unemployment (e.g., Greece, Portugal, and Spain). Although many policies have targeted the promotion of self-employment for young people, this group is still a very small share of the self-employed across the EU. The quality of employment and sustainability of enterprises run by the self-employed (both those with and without employees) were also identified as issues for concern.

The complex institutional issues, including culture, the impact of government policy, 'push and 'pull' factors that influence the likelihood of young people becoming self-employed and sustaining and growing their enterprises is analysed in D7.3 where a micro-level analysis across the six study countries provides insight into the processes that contribute to the macro-level patterns found in D7.2.

4. In-depth Analysis: Case Study Findings (D7.3)

Complementing the macro patterns of self-employment found in D7.2, D7.3¹⁷ provides a micro level analysis of youth self-employment in the six study countries (D7.3). As outlined in D7.1, D7.3 focuses on business start-up motivations, employment capability, innovation activity, assistance received and quality of work (D7.3). A key rationale for D7.3 is to provide a greater understanding – by micro-level analysis (i.e., firm level case studies) - of the complex processes that contribute to the macro-level patterns found in D7.1 and D7.2 (D7.3). The overall aim of D7.3 is to provide an insight into ‘the interaction between start-ups by youth in the ‘CCI’ and ‘ICT’ industries, especially among youth who were previously unemployed; factors that facilitate and hinder start-up activity and innovation; and how policy interventions....may assist with start-ups, generate job creation and enhance their sustainability’ (STYLE, 2016). These industries were selected because the ‘ICT’ industry represents 4.8 per cent of the European economy where investments into ‘ICT’ account for half of the productivity growth in Europe (European Commission, 2016a); and the ‘CCI’ industry is perceived as one of Europe’s most dynamic sectors, providing around five million jobs across the EU-27 (European Commission, 2010). These industries are particularly attractive to young people and thus a potential ‘engine of growth’ for youth employment. Youth self-employment is a novel area, given how young people are often not yet socialised by ‘typical’ employment experiences and maybe more open to new trends in working environments¹⁸.

D7.3 is based on 72 case studies in which semi-structured interviews are constructed - 12 case studies from each of the study countries. Purposive sampling (non-probability sampling) is employed, defined as ‘selecting units (e.g., individuals, groups of individuals, institutions) based on specific purposes associated with answering a research study’s questions’ (Teddlie and Yu 2007, pp.77). Sampling criteria is used. To evaluate policy interventions, of the 12 start-up businesses in each study country, 6 have received assistance and 6 have received no form of assistance (STYLE, 2016). Facilitating a gender sensitive analysis, in each of the two sub groups, 3 have male founders and 3 have female founders (STYLE, 2016). Considering time dimensions, in the subsets of each sub

¹⁷ The findings from D7.3 are based on a sample of 72 case studies (semi-structured surveys) i.e. “12 case studies from each of the six study countries. Given the small sample size, caution must be taken when interpreting the results and no EU-wide generalisations should be drawn. The Work Package’s earlier deliverables – D7.1 and D7.2 provide comprehensive reviews of the literature and secondary data analysis on YSE across the EU-27 countries. The objective of this deliverable is to provide insight into the complex processes that contribute to the outcomes analysed in the earlier deliverables for the six study countries... In addition to the start-up case studies, interviews are conducted with policy makers and implementers in each of the study countries.” Extract from D7.3.

¹⁸ Comment made by one of the team partners.

group, start-ups are in operation for 1-5 months, 12-24 months and 4 years and over (STYLE, 2016). The rationale for selecting the sampling criteria is driven by the research objectives (research purpose) and the research questions of the study (D7.3). The research objective of D7.3 is to identify the interaction between the youth self-employed, factors which encourage and impede start-up activity (including innovation capacity) and policy interventions (in the context of providing assistance, generating job creation and strengthening sustainability) (STYLE, 2016). This is in line with the overall objective of work package 7. As a result, only founders aged 18-34 are included to capture youth self-employment (STYLE, 2016). Moreover, assisted and non-assisted firms, (policy intervention analysis), female and male founders (gender analysis) and 3 firm age groups (time dimension analysis) constitute the sampling criteria (STYLE, 2016). These criteria enable an examination of different cohorts of youth self-employed individuals by important characteristics and provide insights which could not be attained from the earlier macro-level analysis.

Interviews are also conducted with policy makers and implementers in each of the study countries. Overall, the sample in D7.3 is non-random, where participants are recruited through several means i.e. local and national agencies, social media, personal contacts and snowballing¹⁹. Given the non-random and non-representative nature of the sample, plus its small size, no generalisations should be drawn. Nevertheless, the findings reported here do provide important insights into the complex processes that the youth self-employed navigate.

The main motivation for starting a business among sample respondents was ‘to put an idea into practice’ (a “pull” factor). Furthermore, many started a business ‘to be more independent or have more job autonomy’. Moreover, some indicated that they became self-employed in order ‘to have a job’ (a “push” factor). Indeed, ‘pull’ factors, as opposed to ‘push’ factors seem to be more dominant in driving the decision of young people to become self-employed. These patterns, however, are likely to be significantly influenced by the focus industry. In the last few years, there appear to be more opportunities to start a business. This is in line with stronger economic growth within the EU-28 where in 2014, the real GDP increased by 1.3 per cent from 2013 (Eurostat, 2016a). The specificity of the ‘CCI’ and ‘ICT’ industries may also encourage more ‘pull’ type self-employment. In order to further strengthen ‘pull’ motivations, policy experts emphasised the need to build an entrepreneurial mind-set at even earlier ages through entrepreneurial education. Nevertheless, the finding that so few of the sample were previously unemployed and were highly educated does question whether the promotion of self-employment, at least within in the ‘CCI’ & ‘ICT’ industries, will have any significant impact on youth unemployment across the EU.

¹⁹ See Section 1.1.1 of D7.3 (Sampling Methods) for further details of the sampling method used by each study country.

Job creation is commonly highlighted as a benefit of promoting self-employment. In this study, 42 per cent of the sample had paid staff employed in the business, which is high in comparison to the self-employed with employees (as a percentage of self-employed persons) for the EU-27 (28.49%) in 2015. This is attributed to the nature of the industry and the flexible employment patterns it harbours. Yet, 58 per cent of the sample did not have any paid staff employed in the business²⁰. Across the six study countries and within the EU, there has been a *decrease* in the percentage of the self-employed with employees, reflecting, at least in part, the influence of recent economic and financial conditions, which appear to have weakened job creation opportunities that the self-employed can generate (D7.2). The key challenges in hiring employees raised by the youth self-employed (YSE) interviewed were: financial costs, appropriate skills and experience, work ethic, trust, place of work (i.e., being based within the home) and legal obligations. Nevertheless, many YSE respondents plan to hire employees in the future. Emphasis, thus, needs to be placed on minimising the job creation challenges perceived by the YSE.

A high proportion of YSE individuals claimed to have ‘innovative’ or ‘very innovative’ products, services and processes. Of those who had ‘innovative’ or ‘very innovative’ products, many of these were ‘new to market innovation’, unlike those who had ‘innovative’ or ‘very innovative’ services and processes where many of these were not ‘new to market innovation’. A high proportion of YSE individuals believed innovation was ‘important’ or ‘very important’ for business growth.

Of those who used assistance, the ‘soft’ form was the most common in stage 1: ‘initiating/preparing’ whilst the ‘hybrid’ was the most common in stage 2: ‘start-up’. In stage 3 ‘survival (a) current level’ and ‘survival (b) growth’ - of those who did use assistance - the ‘soft’ and the ‘hard’ type of assistance were the most common respectively. Concerns have been raised surrounding deadweight and additionality of policies and such concerns are further compounded by the lack of rigorous and timely evaluations of self-employment policies.

In terms of the quality of employment, YSE individuals worked on average 50 hours per week, which was above the EU-27 average for self-employed workers (43 hours) and employees (37 hours) as noted in D7.2. This illustrates that most YSE work longer hours than the EU average hours worked from all ages of self-employment. Despite the longer hours, a high proportion of the sample only ‘sometimes’ worked in the evenings, at night, on Saturdays, on Sundays, on holidays and Bank Holidays. A high proportion of the sample ‘usually’ worked from home. 51 per cent of the sample did have net weekly takings – the average net weekly taking was about €700. D7.3 finds on average net

²⁰ Of the young self-employed with no paid employees, a larger proportion (52%) of these firms was only up to one year old. This suggests that the age of the business does impact on job creation opportunities. See D7.3.

weekly takings for the YSE is above the EU-27 average for all self-employed individuals (about €410 per week) and employees (about €340 per week) as noted in D7.2. However, of those YSE with net weekly takings, 68 per cent of these were below the average net weekly taking in the sample of €698.50. This most likely reflects the nature of the industry. Thirty nine per cent of YSE did not have net weekly takings as of yet, which can be attributed to the early stage of these start-ups. Despite these results, concerns have been raised surrounding the income levels of the self-employed.

A high proportion of YSE individuals in the sample reported concerns over healthcare, pension, unemployment benefit and financial stability. However, many did not have any concerns, believing they were too young to think about social protection. This is a worrying development and may have serious implications for the quality of life of the now YSE in the future. A high proportion of YSE was 'satisfied' with their current working conditions, highlighting the benefits of flexibility in their work. Considering the work-life balance, a high proportion of the sample was 'satisfied'. In terms of work experience, a high proportion of YSE found it to be 'important' or 'very important' for business sustainability and growth. Finally, in terms of workplace training/education, a high proportion of YSE found it to be 'important' or 'very important' for business sustainability and growth.

Overall, this micro-level analysis has contributed to the macro-level patterns reported in D7.2. D7.3 has shed light on the complex processes that influence the self-employed youth. Indeed, this micro-level analysis, which maps onto the macro-level patterns, will inform D7.4 of the research project in which key policy recommendations are made.

5. Emerging Policy Themes

Based on D7.1, D7.2 and in particular, D7.3, the key policy themes are identified as follows:

5.1 Policy Recommendation: Job Creation Capacity

As reported in D7.2, in recent years, there has been a *decrease* in the percentage of the self-employed with employees, reflecting, at least in part, the influence of the recent economic and financial conditions which appear to have weakened employability opportunities that the self-employed can generate²¹. In D7.3, the majority of the sample of YSE reported facing challenges in hiring employees/additional employees.²² Key challenges to hiring employees have been raised to include high financial costs²³ and a lack of appropriate skills/experience (D7.3). Other less significant challenges include work ethic, trust, place of work and legal obligations (D7.3). A key policy recommendation is to strengthen the job creation capacity of the young self-employed in two ways²⁴. First, policy interventions should primarily be of a hybrid form of assistance targeted at the YSE i.e. financial assistance in the form of reduced insurance and tax contributions for the 1st year of work for new employees and soft assistance in the form of mentoring the YSE on how to prepare job specifications and employment contracts²⁵. In Spain, there is a flat tax in relation to national insurance contributions but that needs to be targeted at specific groups i.e. the young self-employed and to last for one year (D7.3). Second, to strengthen the work readiness skills of prospective employees, greater employer engagement is needed in policy making so as to identify the skills which YSE seek. An example of this is a business forum to facilitate roundtable discussions with the young self-employed, government agencies (including agencies assisting the unemployed back into the labour market) and other members from the business community (D7.3). Such discussions can help to inform policy making at the ‘top’ whilst helping to ensure key issues and concerns on the ground are also addressed (D7.3).

5.2 Policy Recommendation: Youth Unemployment

Youth unemployment remains a significant concern for Europe (D7.3). WP7 has demonstrated that self-employment remains low among young people, reflecting at least in part, policies that are not

²¹ It must be noted that the fall in the percentage of the self-employed with employees may also be attributed to statistical reasons i.e. more of the self-employed are new self-employed who haven't yet reached the business stage of employing anyone. Comment from one of the team partners.

²² In D7.3, less than half of the sample (42%) had paid employees. Of the YSE with no paid employees, a larger proportion of these firms were only up to 1 year old. This suggests the age of the business does impact on job creation opportunities. See D7.3.

²³ Some self-employed only hire individuals as freelancers, as opposed to employees, as the financial costs are lower and it is less risky. See D7.3.

²⁴ There is a need to differentiate between those who want to employ others and whose business is suitable for it and those who don't want to employ others and whose business is not suitable. Comment from one of the team partners.

²⁵ See programme in Germany called “Innovationsassistent/-in”. Comment from one of the team partners.

addressing the needs of the YSE or overcoming some unattractive components of self-employment that young people seem to perceive (D7.1, D7.2, D7.3). To address these current limitations of self-employment for young people as a feasible and valuable labour market trajectory, three policy recommendations are presented:

a. To create more **business incubators, creative centres/co-working spaces** at a local, regional and national level in all EU countries. Providing information on becoming self-employed along with a work space and meeting point, business incubators are important for those starting up a business, particularly so for the YSE individuals who have little knowledge and experience in this area (D7.3). In several of the study countries, such hubs are evident (D7.3). In Spain, business incubators, which are publicly funded, provide information and mentoring on all procedures of becoming self-employed as well as providing a work space and a meeting point for potential customers along with other self-employed individuals (D7.3). A policy technician [Policy interview 4 from Spain] asserted that those involved in business incubators should be included in the future design of entrepreneurial policy given their contact with entrepreneurs and their understanding of what measures will work for those perusing entrepreneurship (D7.3). In Berlin, there are many co-working spaces, which is one of the contributing factors as to why “Berlin is the start-up capital of Germany” [Policy expert 2 from Germany] (D7.3). Most of these co-working spaces are funded privately (D7.3). In Estonia, creative cities are important for young people starting a business in the creative industry where, under the one building, office/production space is provided along with the opportunity to be part of a business network which facilitates knowledge transfer (D7.3).

b. To strengthen **entrepreneurial education**, extending its reach to younger age groups where emphasis is placed on how to start up a business. It is important, however, that the aim of entrepreneurial education is not to have everyone become an entrepreneur but that those who possess the necessary characteristics (very often innate) are encouraged to pursue entrepreneurship (D7.3). In Ireland, despite the increased focus on entrepreneurial education, this focus needs to be extended to younger age groups i.e. primary school level where emphasis is placed on how to start up a business [Policy expert 1 from Ireland] (D7.3). In the creative and cultural space, a more business orientated focus is needed where young individuals can learn how to turn their skills and talents into a viable business model (D7.3). In Estonia, highly educated young people have a high level of expertise but often lack the social skills to communicate their business idea to the market (D7.3).

c. To have EU wide policies in terms of **pension and health care benefits** for all self-employed individuals, policies to reduce insecurities if a self-employed individual becomes unemployed, in the event of business failure. As noted in D7.1, the self-employed receive less social protection than salaried employees. In D7.3, concerns have been raised over the social protection of self-employment with the majority of the sample revealing concerns over healthcare, pension, unemployment benefit and financial stability. In Spain, under the Workers’ Statue (since 2007) self-

employed individuals have a comprehensive legal framework which includes the establishment of benefits for the cessation of self-employment activity and temporary sick leave along with maternity/paternity cover (D7.3). These schemes are voluntary but the participation from the self-employed is low (D7.3). In relation to the benefits in line with cessation of self-employment, self-employed associations perceive the requirements to be very restrictive, limiting access to the benefits (D7.3).

5.3 Policy Recommendation: Evaluation of Policy

Following D7.1, despite the policies targeted at self-employment and entrepreneurship (again, there is a need to differentiate the two in terms of policy initiatives), the lack of rigorous and timely evaluations of policies to stimulate self-employment is a concern (D7.1). This is of particular importance given findings in D7.3 of potential dead-weight loss associated with existing policy interventions (D7.3). This can lead to inefficient use of resources (D7.3). In Ireland, there is now a need for more depth and breadth in terms of data analysis and evaluation of policies aimed at promoting self-employment [Policy expert 1 from Ireland] (D7.3). In the UK, policy experts referred to self-employment as a “broad church” where policy needs to move away from a “one size fits all” mentality (D7.3). A key policy recommendation is to provide more timely and rigorous evaluations with a particular focus on policy targeted at specific groups²⁶.

²⁶ Youth, women and lower educated.

6. Conclusion

This report has summarised the main objectives and findings of Work Package 7: Business Start-Ups & Youth Self-Employment (WP7) of the EU STYLE project. Based on the key findings, policy recommendations have been made with regards job creation capacity, youth unemployment and policy evaluations.

Currently, a standard definition of self-employment at European level remains absent (D7.1). In the absence of this standard definition, differentiating between self-employment and entrepreneurship remains difficult and when self-employment is equated to entrepreneurship, this often leads to an over-estimation of entrepreneurial talent among the self-employed and a potential under-estimation in the workforce of employees (D7.1). This creates difficulties in accurately estimating the job creation and innovation potential arising from self-employment (D7.1). It further creates difficulties in estimating the growth of 'bogus'/disguised self-employment which is particularly relevant for vulnerable young individuals (D7.1). Moreover, differentiating between the "push" and "pull" motivations in starting a business becomes challenging (D7.1). In light of this, the policy recommendations outlined earlier must be mindful of the different meanings of self-employment, particularly across each EU member state.

There has been some attention placed on providing a type of 'living' support to those who wish to start-up a business such that the business and the founder are supported (D7.3). However, this has raised concerns over deadweight/displacement. The unemployed who avail of start-up subsidy schemes through subsidised living costs are found to have higher deadweight/displacement than those who receive an initial grant to subsidise start-ups costs.²⁷ While this lies outside the scope of the study, it remains an area for future research. Nevertheless, it is worth noting that, as found by policy interviews conducted in Poland (D7.3), the financial support given to start-ups is perceived as a best policy example - the grant (loan) given to an unemployed person is based on the condition that the start-up will survive at least one year (D7.3). In all other cases, the grant must be returned (D7.3). The support is guaranteed by the Act on Employment Promotion and Labour Market Institutions (Dz.U. 2015 poz. 149) (D7.3). These grants are derived from the National Labour Fund and are distributed by the Public Labour Offices (D7.3). Such grants are perceived to be very effective e.g. in Malopolska Voivodship, 97 per cent are effective after one year (the governmental labour agency investigates the number of start-ups who have received the grant and are still in operation after one

²⁷ Comment made by one of the team partners.

year) (D7.3). Several of the policy interviews asserted that those individuals who receive the grant are less likely to return to unemployment (D7.3). Moreover, the policy is perceived to be more effective for individuals if they have previous work experience (D7.3). As noted in one of the policy interviews, “the work experience of an unemployed [person] whose business is supported by the grant....is regarded as the key success factor for survival” (D7.3). However, a person’s work experience can be replaced by their passion for the business where passion implies they “really know the market, [are] connected with it.....they are more engaged and dedicated to the business” (D7.3)²⁸.

As noted in D7.1 and D7.2, many policies target the promotion of self-employment for young people (D7.1, D7.2). Yet, this cohort is still a very small share of self-employment across the EU (D7.1, D7.2). This highlights the importance of policy evaluation, to determine how effective these policies are in encouraging self-employment as a viable career trajectory for young people. In particular, policy needs to focus on concerns of the quality of employment and sustainability of these firms (D7.1, D7.2). Entrepreneurial education has also an active role to play in the promotion of youth self-employment (D7.1). Throughout WP7, emphasis has been placed on ‘push’ and ‘pull’ factors of self-employment, acknowledging that differences may pertain in the quality of employment, sustainability of business and the employment creation of those who are ‘pushed’ or ‘pulled’ into self-employment (D7.1). Policies promoting youth self-employment thus, need to reflect the heterogeneity of ‘push’ and ‘pull’ motivations (D7.1).

²⁸ This paragraph on the financial support given to start ups, perceived as a best policy example was from the research partners in Poland, based on the policy interviews they conducted.

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European Youth Forum

www.youthforum.org

European Foundation for the Improvement of Living and Working Conditions

www.eurofound.europa.eu

ILO: International Labour Office

www.ilo.org

OECD: Organisation for Economic Cooperation and Development

www.oecd.org

OSE: Observatoire Sociale Européen

www.ose.be

SOLIDAR: European network of NGOs working to advance social justice in Europe

www.solidar.org

EurActiv

www.euractiv.com

European Commission, DG Employment, Social Affairs & Inclusion

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