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Policy Brief on Sustaining Self-employment

Entrepreneurial Activities in Europe

European Commission

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KEY MESSAGES

- Most new business start-ups or self-employment entrants survive less than five years on the market. The reasons for this vary. Some are closed because the owner has found a better opportunity as an employee while others simply exit because it is not meeting their expectations. Only about 15% of businesses go bankrupt.
- Businesses operated by entrepreneurs from groups that are under-represented or disadvantaged in entrepreneurship (i.e. women, youth, seniors, people with disabilities, the unemployed) are more likely to exit than those operated by mainstream entrepreneurs. For example, evidence from Austria suggests that women-operated businesses have lower survival rates than those operated by men and evidence from France indicates that businesses operated by migrant entrepreneurs have lower survival rates than those operated by natives.
- The barriers faced by entrepreneurs from under-represented and disadvantaged groups include: low levels of entrepreneurship skills, which makes it difficult for these entrepreneurs to adjust to a dynamic and unpredictable business environment; low levels of social capital, which makes it more difficult to locate and access resources (i.e. ideas; networks, etc.); more difficulty gaining access to finance in order to sustain or grow the business; and, discrimination in the marketplace from customers or other businesses who do not treat the entrepreneur as credible.
- Policy makers have a suite of possible interventions at their disposal to address these barriers to business sustainability. Training and coaching can be provided to address gaps in entrepreneurship and management skills. In particular, entrepreneurs often need business management, financial management and customer relation skills to grow their start-up into a sustainable business. It is important that this support is provided in a flexible way, such as modular training, to allow entrepreneurs to receive the support needed in a timely manner.
- Adequate financing is a critical resource that is needed to start and sustain a business. Entrepreneurs from under-represented and disadvantaged groups have more difficulty accessing financing since they are more likely to have little or no credit or collateral. Loan guarantees and microcredit schemes can be used to help ensure that entrepreneurs from under-represented and disadvantaged groups have enough funds to sustain their business activities during the initial period while they are building a customer base.
- Supporting the sustainability of businesses by entrepreneurs from under-represented and disadvantaged groups may not always be an appropriate objective for public policy. There are, however, strong arguments for supporting these businesses to build an entrepreneurial society and to help activate potential workers. On the other hand, supporting low-value added businesses in highly competitive industries may also delay an inevitable business exit. Moreover, supporting these businesses distorts market competition and may put other (unsupported) businesses out of the market. Therefore, when policy makers do intervene, they should prioritise interventions that increase the entrepreneurs' skills levels so that they have a better chance of finding employment if their business does not survive.

INTRODUCTION

Many spells in self-employment end within the first few years of business. This can be by choice, such as those who use self-employment to earn income in-between jobs, or it can be due to systematic barriers that prevent businesses from becoming sustainable. The life-cycle of most start-ups is less than five years (Cook et al., 2012) and less than half of new start-ups survive more than three years (Geroski et al., 2010; European Commission, 2011). While many people assume that businesses stop operating because they went bankrupt, these account for, on average, 15% of all closures in the European Union (European Commission, 2011). The majority of business closures are simply a result of the owner deciding to cease operations.

Despite the risks involved, business creation can provide a route into employment for those who are unemployed or are having difficulty entering the labour market through paid employment (Alvord et al., 2004). Entrepreneurship can offer opportunities for people who belong to groups that are under-represented or disadvantaged in entrepreneurship (i.e. women, youth, seniors, the unemployed, people with disabilities, ethnic minority and migrant groups) to turn their particular characteristics, or own experiences, into a market advantage. For example, the production of ethnic minority goods by immigrants, or meeting a specific market need by older entrepreneurs for elderly people. Business ownership can also provide opportunities for these groups to avoid discrimination in the labour market, or society more broadly. However, it is likely that entrepreneurs from under-represented and disadvantaged groups are more likely to face systematic challenges in building sustainable businesses due to lower levels of entrepreneurship skills, smaller networks, greater difficulties navigating the institutional environment, and difficulties accessing financing (OECD/EC, 2013). This does not avoid the fact, however, that businesses started by disadvantaged groups are more likely to remain small, or close, compared with so called mainstream businesses (OECD, 2013).

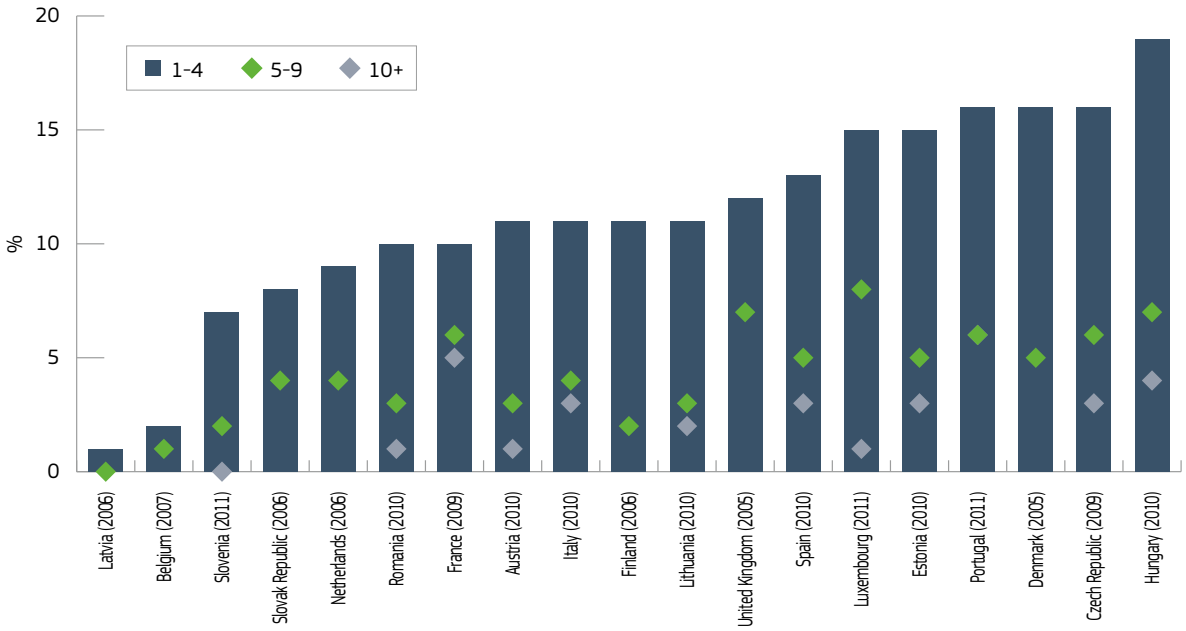
Policy makers are interested in firm survival for several reasons. First, examining firm entry and exit over time and across countries can inform about the impact of economic cycles and about innovation since many new firms are the drivers of change. Second, firm entry and exit has an impact on labour markets. Nearly 15% of the EU labour force was self-employed in 2013 and 28.8% of these people employed at least one other person in their business. This accounts for a substantial part of the labour force and policy makers need to be aware of the churn in self-employment because changes may impact decisions related to active labour market programmes and unemployment benefits. Third, an understanding of firm survival rates and determinants will help policy makers design business development support schemes. This is particularly relevant for inclusive entrepreneurship policies because these entrepreneurs often have lower chances of survival.

HOW LONG DO BUSINESS START-UPS SURVIVE?

There are different ways to examine firm survival with official statistics. Business registers in the EU track the number of firms that enter and exit each year. It is, however, also common to report a death rate, which relates the proportion of exits to the total business population. These data report on employer enterprises – i.e. those with at least one employee – because they are more relevant for comparisons across countries and over time since they are less sensitive to business register coverage (OECD, 2014).

Figure 1 presents death rates for employer businesses in manufacturing by number of employees in 2011, or the most recent year available. Similarly Figure 2 presents death rates for businesses operating in service industries. It is clear from these figures that small employer firms are much more likely to exit than larger employer firms. Second, the death rate varies across EU countries, ranging from 1.1% in manufacturing and 1.4% in services, both in Latvia, to 18.6% and 21.0%, respectively, in Hungary. Finally, it is important to note that death rates have increased since 2006 in most EU Member States.

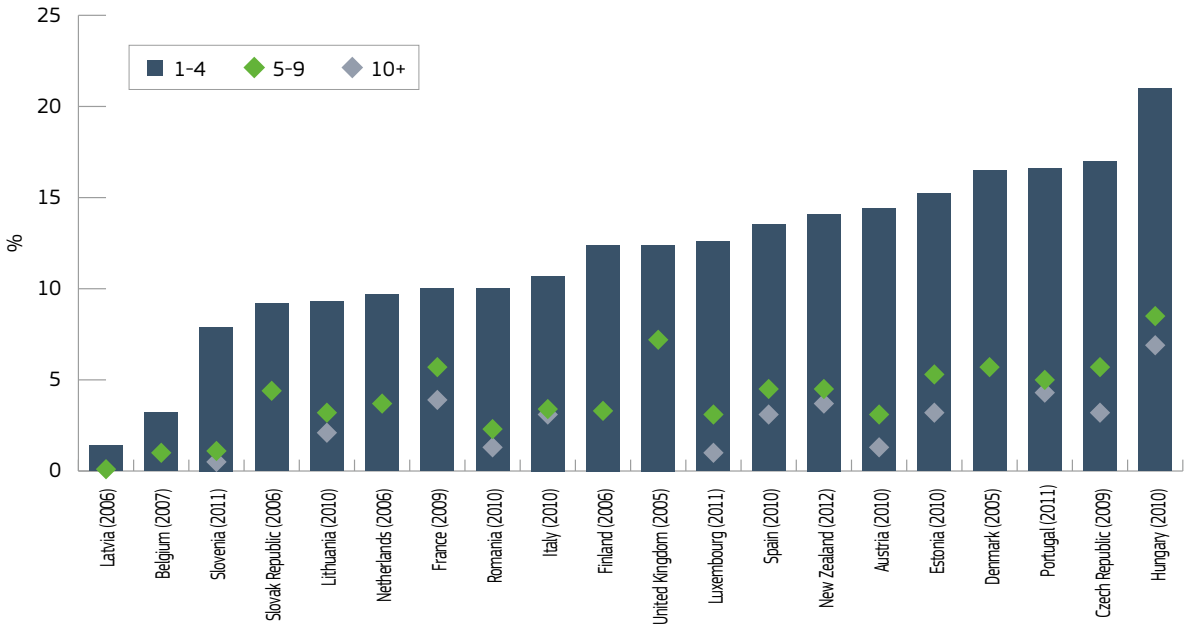
Figure 1. Employer enterprise death rate by size (manufacturing)



Source: Adapted from OECD (2014), Entrepreneurship at a Glance 2014, OECD Publishing. DOI: 10.1787/entrepreneur_aag-2014-en.

Note: This figure presents the most recently available data for each Member State.

Figure 2. Employer enterprise death rates by size (services)

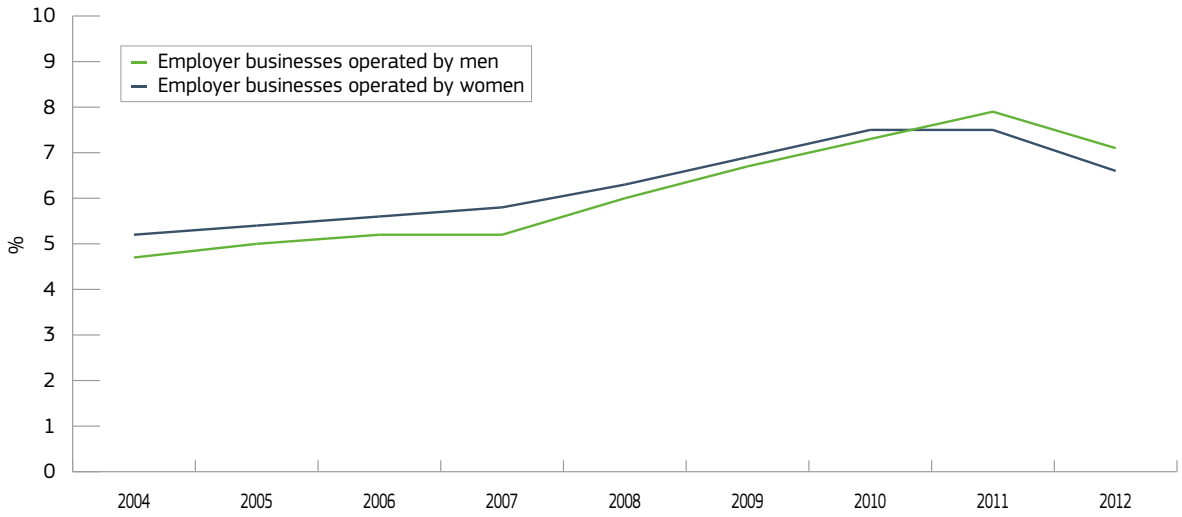


Source: Adapted from OECD (2014), Entrepreneurship at a Glance 2014, OECD Publishing. DOI: 10.1787/entrepreneur_aag-2014-en.

Note: This figure presents the most recently available data for each Member State.

Death rates for firms operated by entrepreneurs from under-represented and disadvantaged groups are not readily available because business registers typically do not collect descriptive data on the business operator. However, some limited evidence is available that sheds some light on survival rates for certain groups of entrepreneurs from under-represented and disadvantaged groups. Figure 3 presents death rates for employer businesses, by gender, in Austria. Until 2011 and 2012, women-operated businesses had a higher death rate than those operated by men. It is reasonable to expect that businesses operated by other under-represented and disadvantaged groups would have higher death rates because there is evidence to suggest that businesses established by entrepreneurs from these groups encounter greater barriers to developing sustainable businesses than those entrepreneurs who come from mainstream groups (Alves, 2013; Boden and Nucci, 2000).

Figure 3. Employer enterprise death rates by operator's gender, Austria



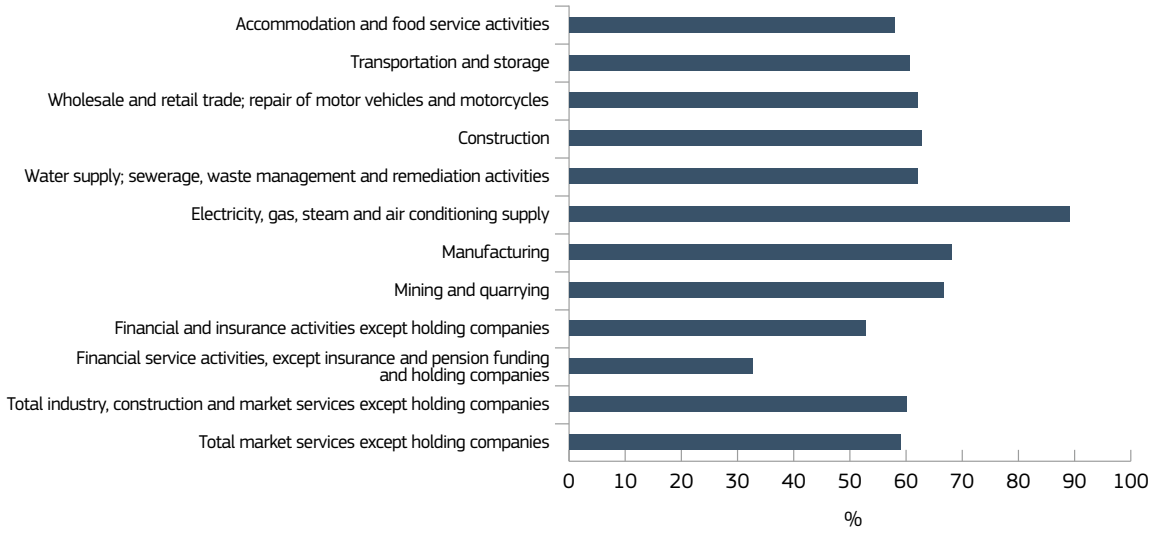
Source: Statistics Austria (2013), Business Demography Statistics, available at http://www.statistik.at/web_en/statistics/enterprises/business_demography/

Another way to look for evidence on the sustainability of enterprises is to look at the survival rates. Survival rates measure the proportion of a single cohort of start-ups that exit in each year after start-up. Survival rates are often computed for the first years of business operations. Figure 4 presents 3-year survival rates for employer firms by industry, for selected EU member states (those where data exist). It is clear from the data that industries where there is a concentration of public enterprises (e.g. utility companies) or large enterprises (e.g. manufacturing) have the highest survival rates. In nearly all countries, Construction and Accommodation and food service activities had the lowest survival rates, suggesting that these industries have low barriers to entry or an over-supply of goods and service providers.

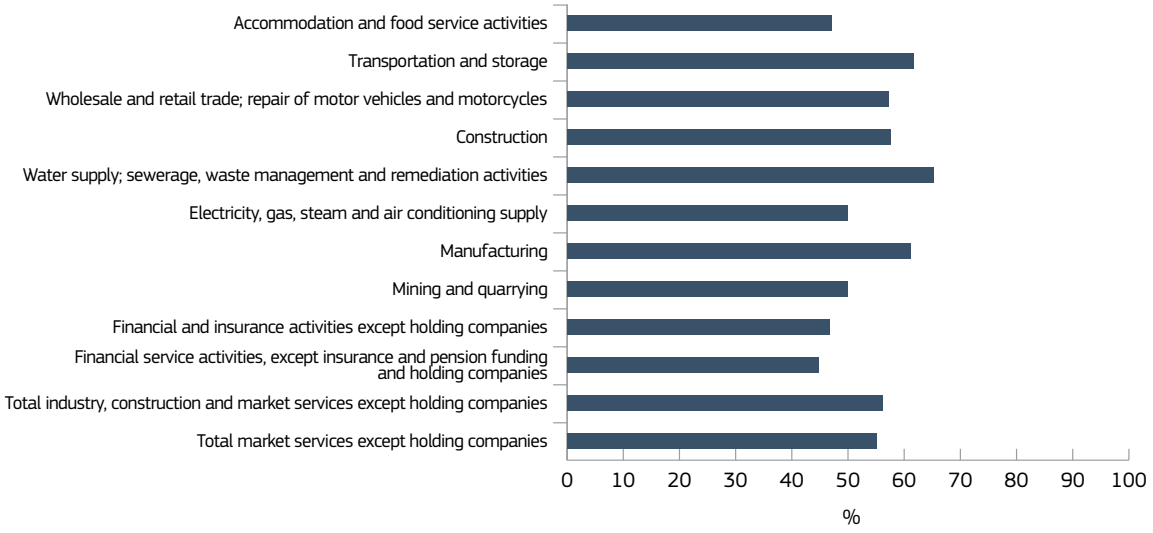
When looking for data on survival rates on businesses operated by entrepreneurs from under-represented and disadvantaged groups, the pool of evidence is very small. The available data, however, leads us to the same conclusions as data on death rates. Figure 5 presents survival rates of employer businesses in France, based on where the entrepreneur was born. This provides some insights into the sustainability of businesses operated by ethnic minority and migrant groups. The data show that businesses operated by someone born in France has a 93% chance of surviving at least one year, whereas the chances for those born in the EU but outside of France (89%) and those born outside of the EU (87%) are lower. While the difference between these rates is almost negligible, a gap emerges as the time period is extended. After 3 years, the survival rates for businesses operated by someone born in France decline to 69%. The decline is much greater for those who are foreign-born – 60% for those born in the EU but outside of France and 49% for those born outside of the EU.

Figure 4. 3-year employer enterprise survival rates by industry, 2010

Austria



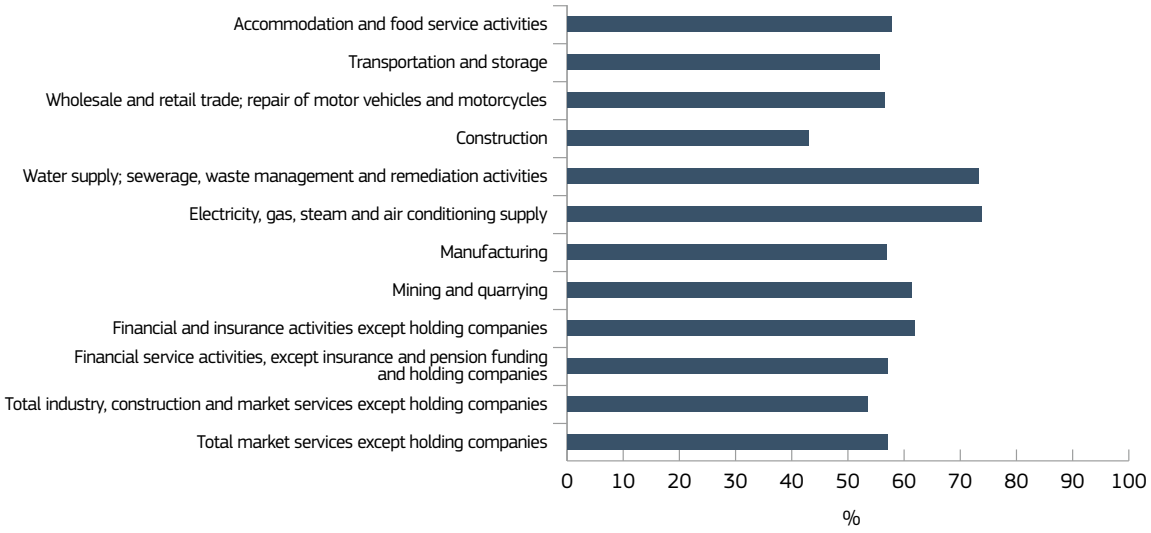
Czech Republic



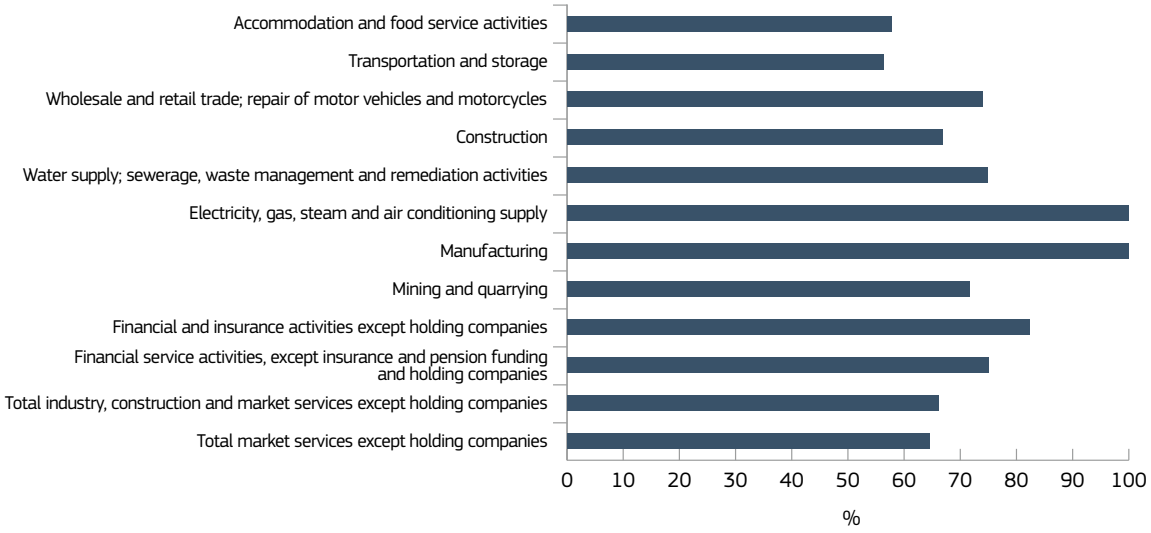
Hungary



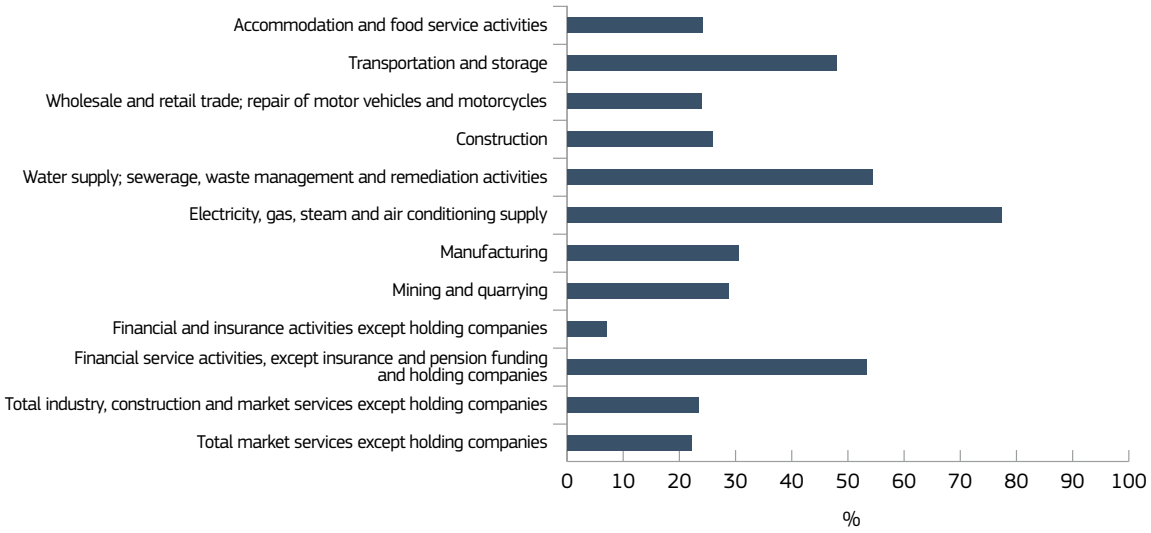
Italy



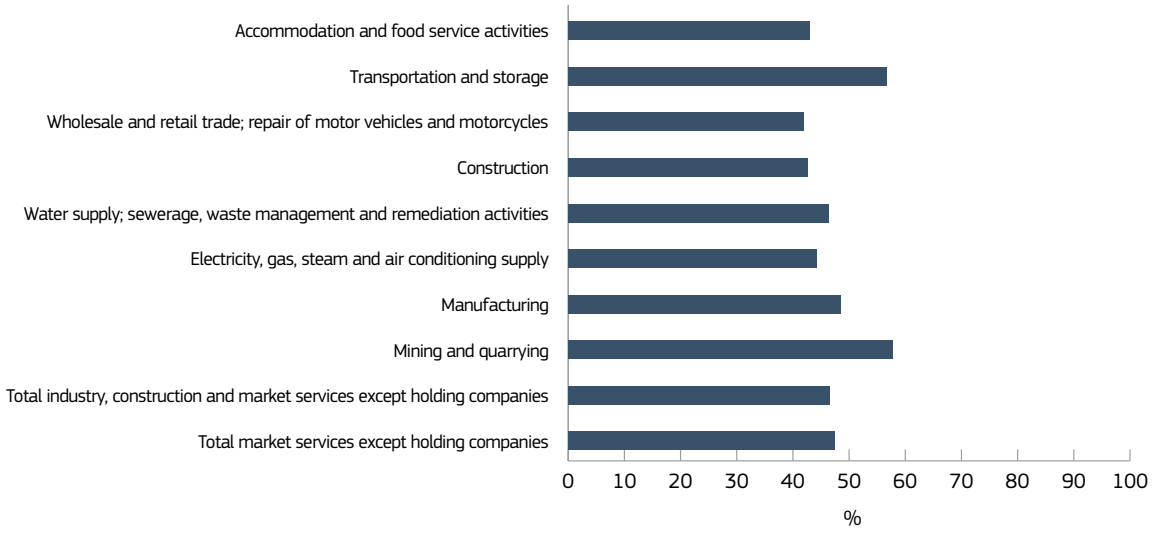
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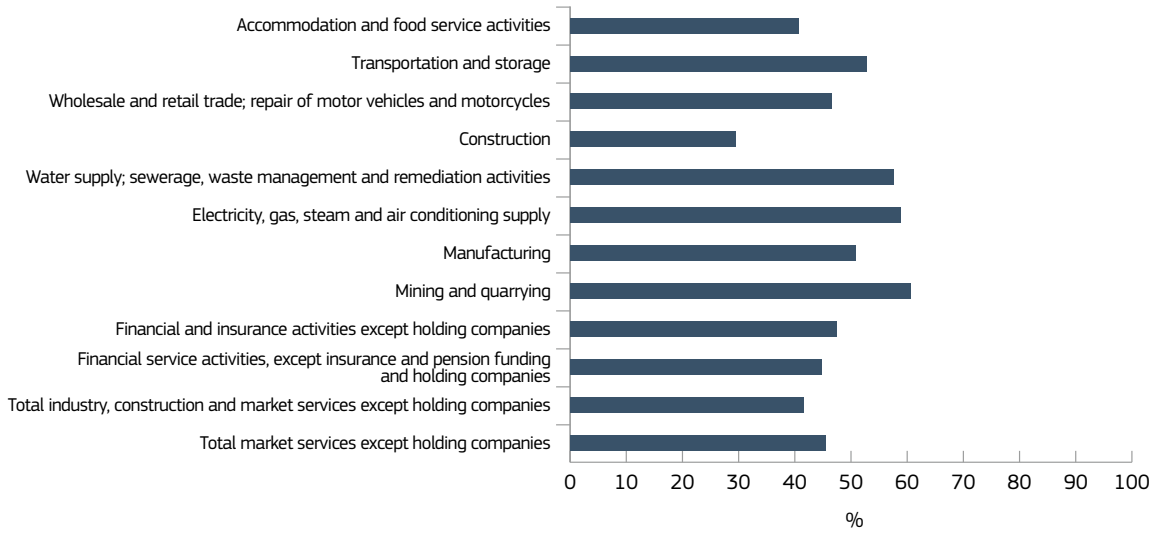
Portugal



Romania



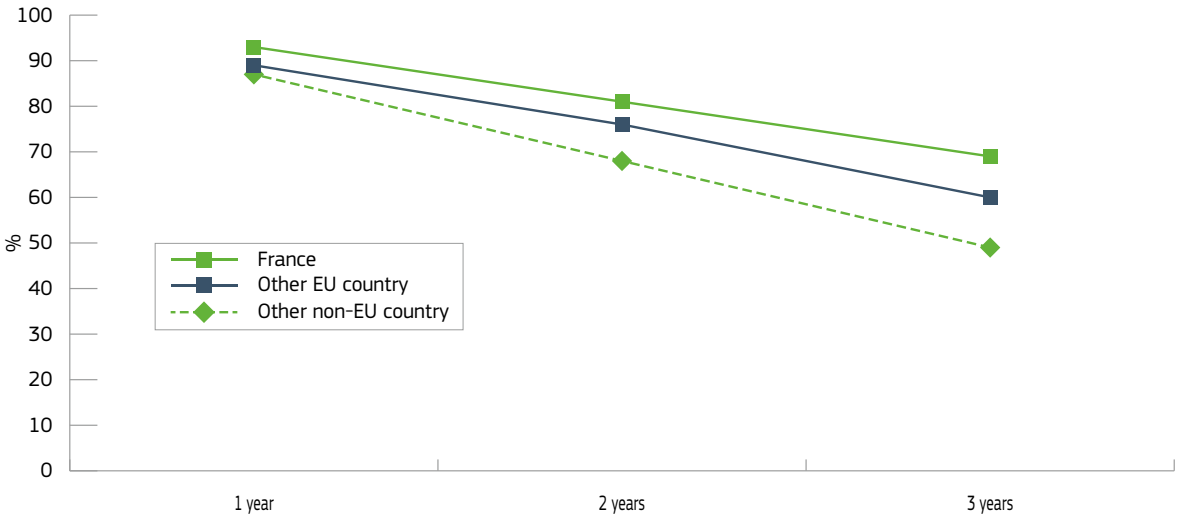
Spain



Note: These data are provisional estimates.

Source: OECD (2015), Structural Business Demographic Statistics (SBDS), available at http://www.oecd.org/std/business-stats/

Figure 5. Survival rates by nationality of the owner, France (2006-2009)



Source: Adapted from OECD (2013), *Entrepreneurship at a Glance 2013*, OECD Publishing. DOI: 10.1787/entrepreneur_aag-2013-en.

WHAT ARE THE KEY FACTORS THAT IMPACT BUSINESS SURVIVAL?

A number of factors are cited, in a range of academic and quantitative research studies, as influential on business survival rates. While macroeconomic conditions, industry cycles and discrimination in the market can be factors (Irastorza and Pena, 2014; Schoof, 2006; OECD, 2008; Kautonen, 2013), the most frequently identified factors are the following:

- **Experience**: Relevant previous experience (in self-employment or in employment in the same industry/occupation) would be expected to increases chances of survival (Brüderl and Preisendorfer, 1998; Luk, 1996; Cooper et al., 1994); however, some evidence finds no impact (van Praag, 2003).

- **Age of entrepreneur**: Older people are more likely to have work experience and therefore businesses operated by older people generally have higher survival rates (Furdas and Kohn, 2011); however, for a given level of experience, a younger entrepreneur will have a better survival (Sapienza and Grimm, 1997; van Praag, 1996).

- **Financial resources**: Small business owners are more likely to succeed when they have more personal financial capital available for the business (Brüderl and Preisendorfer, 1998; Cooper et al., 1994). However, small businesses are less likely than larger businesses to have access to sufficient capital.

- **Motivation**: Entrepreneurs who start their business to exploit an opportunity (rather than out of necessity) will have better chances of survival (van Praag, 1996; van Praag and Cramer, 2001).

- **Education**: Entrepreneurs with higher levels of education typically have better performing businesses, with higher survival rates (Schiller and Crewson, 1997).

- **Innovativeness**: Entrepreneurs who operate businesses that are based on new products, services or technologies face a greater risk that the market may not accept their new offerings than business that offer products, services and technologies that are already accepted; therefore innovativeness is associated with higher failure rates (Furdas and Kohn, 2011).

- **Age of firm**: New and small firms are often claimed to have limited resources and capabilities compared with large firms. As a result, new small firms typically have higher rates of business failure in comparison with larger firms (Mata and Portugal, 1994; Mitchell, 1994; Sharma and Kesner, 1996; Cook et al., 2012).

WHAT ARE THE BARRIERS TO BUSINESS SURVIVAL?

Entrepreneurship skills

Entrepreneurs require skills for their industry and occupation and can increase their chances of successfully operating a sustainable business if they develop a bundle of skills that are generally referred to as entrepreneurship skills. Entrepreneurship skills include a set business management and personal skills, such as business planning, self-motivation, assessing and managing risk, strategic thinking, making the best of personal networks, and the ability to motivate others (OECD/EC, 2013).

Entrepreneurs with higher levels of entrepreneurship skills are more likely to search for resources for their business and therefore successfully gain more resources to sustain their business (Gimeno et al., 1997; Boden and Nucci, 2000; Unger et al., 2011). Human capital enhances the performance of young firms (Hitt et al., 2001) as well as the longevity of firms (Bates, 1990). Entrepreneurs with higher levels of entrepreneurship skills are also found to have higher levels of earnings (van Praag and Versloot, 2007; Parker, 2009), which also increases the chances of business survival. Hence, those that are less likely to have the appropriate experience and chances of knowledge and skills acquisition may have lower chances of sustaining their enterprise.

Although entrepreneurs from under-represented and disadvantaged groups in general are less likely to have well-developed entrepreneurship skills, the variations among different groups (e.g. youth, women) are significant. For example, young entrepreneurs typically have little work experience and therefore are less likely to have an accumulation of entrepreneurship skills. Similarly, although women increasingly attain higher levels of formal education than men, female entrepreneurs often lack entrepreneurship experience and self-report having lower levels of entrepreneurship skills than male entrepreneurs (GEM, 2012; OECD/EC, 2014). People with disabilities also face difficulties accessing education and training, as well as acquiring the experience and skills needed to run a business (Kasperova and Kitching, 2014).

There are mixed findings about the relationship between levels of entrepreneurship skills and ethnicity. Evidence from Ireland suggests that ethnic minority and immigrant entrepreneurs have more difficultly building entrepreneurship networks and have low levels of management skills (Cooney and Flynn, 2008) but other research from the UK finds that some ethnic and migrant groups have higher levels of entrepreneurship skills than the mainstream native population (Farlie and Robb, 2005; Blanchflower, 2004). This could be attributed to different levels of formal education qualifications attained by ethnic and migrant entrepreneurs.

Financial barriers

Access to the appropriate finance is one of the most crucial resources for business survival, development and growth. The literature on this is expansive and suggests that entrepreneurs from under-represented and disadvantaged groups may experience specific challenges to gaining external finance for a variety of reasons. First, they may suffer from being unable to search for finance because of their limited know-how and network connectivity – this is compounded by relative low levels of social capital - knowing where to find appropriate finance is crucial. For entrepreneurs new to a local environment, such as immigrants, this may prove difficult (Alves, 2013). Second, funders may regard some businesses operated by entrepreneurs from under-represented, or disadvantaged groups as being higher risk by definition since the entrepreneur is less likely to have a track record of running successful businesses. However, in some instances this may be a standard risk factor, based on evidence of failure and defaults or no previous track-record, rather than direct racial or age or gender discrimination. Third, some entrepreneurs, such as ethnic minority business owners or young entrepreneurs, operate in low value-added sectors of the economy with high failure rates, thus representing high risk for potential investors.

The evidence on the above is somewhat mixed. Ethnic minority and female groups, in particular, have received detailed scrutiny in relation to financing and excited debate. Empirical evidence shows relatively low levels of credit for some ethnic groups and females, although the causes are more controversial. One of the recurring themes is that of the discouraged borrower effect, i.e. when people do not apply for loans because they believe that they will not be successful. Fraser (2009) found evidence of a discouraged borrower effect amongst ethnic enterprises as one of the causes of the relatively low take-up of external finance. Rouse and Jayawarna (2006), Carter et al. (2013) and Fraser (2009), in their studies of youth, female and ethnic minority entrepreneurs respectively, also found that entrepreneurs from under-represented and disadvantaged groups perceive challenges in seeking external finance and this was deterring them for applying for funds. Fraser (2009) also found that ethnic minority businesses are more likely to have problems in obtaining external funding and building financial relationships than white-owned businesses. In the same vein, African-Caribbean start-ups in the United Kingdom had the lowest rate of access to bank finance (Smallbone et al., 2003).

An examination of the causes of this perception exposes certain underlying factors. Female entrepreneurs are found to be less experienced in dealing with financial management issues and hence they tend to have more difficulties in obtaining external funding (Verheul and Thurik, 2001).

There is also some evidence that, as with ethnic minority entrepreneurs, female business owners perceive higher financial barriers than males, are more likely to be discouraged from borrowing and use lower levels of debt finance. Whether or not discrimination takes place in the financing of entrepreneurs from under-represented and disadvantaged groups is, however, contentious. For example, a study in the United Kingdom by the IPPR found that females appear to be discriminated against when seeking business loans (IPPR, 2011). One possible explanation for this variation in take-up is the staffing composition of those in the finance industry. For example, the Diana Project reported that less than 10 % of all people in the venture capital industry were female (Brush et al., 2004). This may suggest that the male-dominated finance institutions and networks may inhibit take-up by females, or that providers are not reaching female entrepreneurs with their products or services. For some disadvantaged groups, this may be less of an issue. Senior entrepreneurs may be less likely to seek external finance because of their higher levels of savings than younger people (Kautonen, 2013).

The physical location of an entrepreneur also appears to be a compounding factor in relation to access to finance. Entrepreneurs in deprived locations appear to experience more problems in accessing finance, which makes it more challenging to start and sustain a business (Lee and Cowling, 2012; Lee and Drever, 2014). In some cases this may lead to double-disadvantage for some groups, such as ethnic minorities who live in poorer parts of the inner-cities (Bates and Robb, 2013).

On balance, the evidence on finance for the sustainability of businesses run by entrepreneurs from under-represented and disadvantaged groups seems to emphasise demand rather than supply side issues. Although there have been studies that show lower levels of credit for the business population with specific personal characteristics, this should not necessarily be interpreted as discrimination. The lower levels may reflect other dimensions of businesses run by entrepreneurs from under-represented and disadvantaged groups, such as firm size, business sector, market limitations and lower levels of ambition for growth. However, they may also be a reflection of the poor credit rating of these entrepreneurs suggesting a need for a policy intervention to help them break the cycle of disadvantage. The evidence also shows the complexity of analysing access to finance for specific groups of the population because of the layers of disadvantage in relation to the business rather than the characteristics of the entrepreneur that operate in some contexts: location, sector, size of enterprise.

Social and cultural barriers

Social and cultural barriers refer to the challenges that people encounter when dealing with the different spatial particularities, religions, languages and societal norms. Ethnic minority entrepreneurs have particular challenges in dealing with social and cultural barriers in the mainstream environment (Basu and Altinay, 2002). Ethnic minorities and immigrant entrepreneurs' language competences and religious beliefs are particularly important in this context. This may influence their ability to communicate with society and the economy, engage with business and social networks, access information, understand local customs and legal frameworks, and approach supporting programmes in the host country. These may be especially important in terms of developing their business activities beyond their own local communities and breaking out of their immediate close-knit communities or group (Deakins et al., 2007).

Social and cultural barriers may also be based on the prevailing norms of society. For example, youth or senior entrepreneurs may be adversely affected by the pressure from peers to pursue a mainstream "normal" career rather than undertake a more risky, labour market alternative such as self-employment (Wainwright et al., 2011). This means that some entrepreneurs from under-represented and disadvantaged groups have to convince society, support institutions, financiers, suppliers and customers that they are serious business owners (De Clercq and Honig, 2011). This may be particularly challenging for entrepreneurs who fall outside of the mainstream, such as disabled entrepreneurs, as they struggle to gain finance or customers because of how their personal situation (e.g. disability) affects the perceptions of key stakeholders (Kasperova and Blackburn, 2014). Thus, the legitimisation of businesses run by entrepreneurs from under-represented and disadvantaged groups can be a major challenge to their sustainability as entrepreneurs have to convince their stakeholders for resource inputs and sales. Indeed, Jones and Latreille (2005) go so far as to suggest that customer discrimination may be important in limiting their business development.

Social capital

The significance of social capital to the entrepreneurship process has received increasing attention in academic research but its precise definition is still elusive (Cope et al., 2007; Gedajlovic et al., 2013; Stam et al., 2014). Social capital in this context is defined as the resources that entrepreneurs identify, access and leverage through

their personal networks (Honig and Davidsson, 2000; Stam et al., 2014); or more formally as the links to people based on a sense of common identity, including distant friends, colleagues and associates (Putnam, 2000). In other words, social capital involves engaging with networks of people to help entrepreneurs establish and develop their business through gaining additional resources. This is different from human capital in that social capital involves drawing upon the social linkages an individual has, whilst human capital is based on the learning, formal and informal of individuals (OECD, 2007).

Social capital has the potential to provide alternative resources for entrepreneurs from under-represented or disadvantaged groups. For example, ethnic minority entrepreneurs, deeply embedded in their communities have been shown to utilise their close ties to the benefit of new venture creation and early stage development (e.g. Aldrich and Waldinger, 1990). However, the use of social capital as a vehicle to sustain or develop a business is debatable. Whilst drawing upon family and friends through social networks can be significant in early stages of development, these may not be enough to business expansion and may even inhibit it. For example, family-based bonds, so common amongst ethnic minority enterprises may prove to be a limitation in terms of the sustainability of the enterprise (Deakins et al., 2007). This may be particularly the case when second or third generations of owners become involved in the enterprise and are under the shadow of their parents.

Differences in the types and levels of social capital by gender have also been shown to influence the capacity of entrepreneurial activities. The research suggests that although women have fewer networks, they are more frequent users of their networks (Aldrich, 1989; Brush, 1992). However, these tend to have fewer entrepreneurs than male dominated networks suggesting lower levels of capacity for leveraging resources for their enterprises. This point resonates with the lower levels of finance utilised by females. In contrast, mature entrepreneurs are seen to have fewer barriers in establishing business relations because of their accumulated networks gained during their past working experience (Kautonen, 2013).

Overall, higher levels of social capital are considered beneficial for self-employment and these levels appear to vary between disadvantaged groups. However, how social capital is converted into businesses sustainability can vary and this is more important than absolute levels. For example, relatively high levels of social capital amongst ethnic minority and immigrant groups can be beneficial at the start-up and early business development stages but beyond this they may inhibit further development because of a reliance on close-knit or familial resources. Similarly, although females ostensibly may have fewer social capital networks, they have been shown to utilise these more than males. Thus, care must be taken when making generalised statements regarding the influence of levels of social capital on business sustainability as this can vary in terms of its use and relevance at the stage of business development.

Regulatory barriers

One of the frequently hypothesised barriers to entrepreneurship and business sustainability is government regulation (Kitching et al., 2013). In general, this applies to all small enterprises rather than being confined to businesses owned by a member of one of the under-represented and disadvantaged groups. However, these entrepreneurs are more likely to operate smaller businesses. The burden of regulation is particularly heavy for new business start-ups. Although there is little evidence of regulation being a particular problem for entrepreneurs from under-represented and disadvantaged groups, the exception is ethnic minority and immigrant entrepreneurs, particularly those who have recently arrived (Welter, 2011). For these, lack of familiarity with the language as well as the wider cultural norms can represent an additional barrier to those faced by mainstream entrepreneurs. Hence, the limited research base suggests that this may be both a real and perceived barrier to business sustainability amongst some disadvantaged groups. This has led to specific organisations focusing on helping some groups of the population, with advice and support to help overcome the barriers to engagement with mainstream support initiatives and assist immigrant business owners to understand the systems of the host country (Blackburn et al., 2008). The limited evidence from surveys of women and ethnic enterprise owner-managers, however, shows little difference in them reporting regulations as a barrier to business success compared with all SME employers (BIS, 2011). The real effects of regulation on businesses run by entrepreneurs from under-represented and disadvantaged groups are also likely to be bound up with their levels of human capital, relative small size and sector concentration of their enterprises.

Size of enterprise and market limitations

A final common feature of the businesses run by people at a disadvantage is their relative small size and the business sectors within which they operate. This can restrict their capability for growth and sustainability in the long run. Smaller firms are much more vulnerable to the effects of external environments and internal disruptions because of their limited resource base. This makes absorbing external or internal shocks, such as an economic downturn or a key member of staff leaving, problematic for survival. Given the relative small size of businesses run by entrepreneurs from under-represented and disadvantaged groups, especially females, younger and senior business owners, this places their longer term sustainability at risk.

Size of enterprise relates to the motivations and context, as well as the resource capabilities, of those running businesses. Research has shown that businesses established by females and senior entrepreneurs, in particular, are often motivated on grounds other than the pursuit of growth or expansion. They are also much smaller than the business population as a whole. The contexts within which they operate may be fundamentally different from businesses established by others: they may enter self-employment in order to allow time to manage other responsibilities as well, or be pursuing a specific interest following early retirement or redundancy. Hence "mumpreneurship" has gained some currency in the literature to classify females who are engaged in childcare and run a business (Ekinsmyth, 2013). For senior entrepreneurs also, the evidence suggests that their enterprises are also relatively small and run with limited growth or long-term aspirations by the owners. In some cases, these entrepreneurs may be balancing care responsibilities with the pursuit of a hobby or specific interest. In both examples, whilst making a contribution to society and the economy, the temporal sustainability of these enterprise types will be limited.

In emphasising the significance of context in terms of the sustainability of businesses run by entrepreneurs from under-represented and disadvantaged groups, business sector is crucial. There are specific sector characteristics of businesses run by these entrepreneurs that may present specific challenges to their sustainability. Ethnic minority enterprises, in particular, tend to operate in low value-added sectors, such as catering, clothing and retailing. These sectors also have low entry barriers raising levels of competition by new entrants and further driving down incomes and cost structures (Deakins et al., 2007). Such conditions are sometimes compounded by the location of the enterprise, such as the poorer parts of an inner city, where income levels are low and chances of business survival therefore poor (Ram et al., 2002).

The discussion of context also allows a further illustration of how multiple disadvantages can occur amongst some entrepreneurs. For example, Welter et al. (2014) refer to the experience of female African hairdressers in London. Here, migrant status, gender, location, and sector combine to create multiple disadvantages for these entrepreneurs.

Finally, the relative small size of businesses run by disadvantaged business owners may affect their ability to export and thus expand their geographical sales footprint, reducing their ability to spread risk, innovate and expand. For example, in the UK, while SMEs account for 99% of all firms, they account for only 12% of those that export (House of Commons, 2014). Exporting has also been shown to benefit the innovative capacity of firms. Again these findings suggest that the higher levels of disadvantage amongst certain groups of the population lead to business characteristics that are subsequently associated with lower levels of performance and sustainability.

HOW CAN POLICY IMPROVE THE SUSTAINABILITY OF BUSINESS STARTS?

Provide training to boost business management skills

Goal

One of the key factors influencing the survivability of small businesses is their adaptability, i.e. their ability to react appropriately to unpredictable markets. While strong management skills do not guarantee success for a business, the ability of an entrepreneur to adapt and manage change can increase the chances of survival of their business. Since entrepreneurs from under-represented and disadvantaged groups typically have lower skill levels and less experience in self-employment, they are less likely to have well-developed entrepreneurship skills to help them adapt to an unpredictable environment and effectively manage their employees. Policy makers should therefore aim to boost their levels of entrepreneurship and business management skills.

Approach

Policy makers can support entrepreneurs in boosting their entrepreneurship skills with short-term training programmes. Focus should be placed on upgrading skills related to business management, business development and growth and financial management. It is also important to place an emphasis on human resource management, particularly for firms that have employees or for those seeking to grow.

The first step for public support programmes is to undertake a needs analysis to identify the skills needed. The identified skills gaps then need to be addressed with a flexible approach to allow entrepreneurs to access training while operating their business. In designing training, successful approaches have used a modular approach that can be delivered in different combinations. Thus, the training can be tailored to the needs of each individual participant. A second consideration for training design is to use realistic, action learning so that entrepreneurs can apply what they learn in practice.

The delivery of training can also be done with different approaches. The classical approach is to develop courses that are delivered regularly. This can be concentrated in a short period of time such as a week-long training programme, or spread over a longer time period, such as a once per week over several months. The advantage of delivering training within a short time frame is that retention of the knowledge and experiences will likely be higher. However, delivering training over a longer time period provides much more flexibility for an entrepreneur since many will not be able to close their business to attend training.

The content of training should concentrate on key business management and develop skills such as knowing how to identify market needs, build networks, sales forecasting, financial management and customer relations. For example, Promotion of immigrant entrepreneurship in Portugal provided 62 hours of training to immigrant entrepreneurs who lived in deprived neighbourhoods. The training helped entrepreneurs develop personal and management competences and individual follow-up was provided to support business development (Policy example 1). This follow-up was critical to the success of this scheme because it assisted participants in utilising the skills acquired in training.

Key pitfalls that policy makers should avoid when designing training are to avoid designing programmes that do not address the needs of clients. In other words, policy makers need to consider and embed the needs of entrepreneurs into the programme design at the very beginning.

Policy example 1. Promotion of immigrant entrepreneurship, Portugal

Description: Promotion of Immigrant Entrepreneurship (PEI) was initiated during 2009-2014 to enhance entrepreneurial activities amongst immigrant communities in Portugal, targeting immigrant entrepreneurs in vulnerable neighbourhoods. The programme had two main actions. The first was training to help immigrants start and develop businesses and the second was follow-up consultations to support the implementation of the business plan and to support the development of the business. It was run by the High Commissioner for Immigration and Intercultural Dialogue (ACIDI), in partnership with institutions in different communities, non-governmental organisations and professional trainers. The project was sponsored by the European Fund for the Integration of Third-Countries Nationals and Trainers. The project was sponsored EUR 875 000.

Problem addressed: Immigrant entrepreneurs make a significant contribution to the Portuguese economy and some research suggests that entrepreneurship activities in Portugal in recent years was driven by the immigrant population (Oliveira, 2010). Nevertheless, entrepreneurs from migrant groups have encountered challenges in developing their businesses due to poor knowledge of the law, poorly developed networks, and mistrust by suppliers and customers (European Commission, 2014).

PEI aimed to:

- Develop personal, social and management competences in immigrant communities;
- Facilitate the access to supporting programmes, promoting the formalisation of existing informal businesses;
- Link immigrant entrepreneurs with the industry networks;
- Enhance the entrepreneurial activities amongst immigrant communities by increasing the number of new sustainable businesses.

Approach: PEI targeted immigrants who had a business idea to develop. The execution of this programme used an integrated approach to business creation and development that involved the following steps:

- Promotion: All local institutions engaged in promoting the programme and participants
- Recruitment: Participants were identified and recruited by local authority
- Training: Partner Institutions provided a 62-hour course “Supporting creation of Business” to all participants to increase their skills and self-confidence.
- Follow-up: Subsequent private meetings between trainers and individual participants were arranged to ensure the progress of business creation.

Impact: During its five years, PEI reached 1 450 participants and provided complete training sessions to 777 immigrants. As a result, 305 business ideas were developed and 75 businesses were created (European Commission, 2014).

Conditions for success: Evaluations in the early development of the programme (in 2009 and 2010) identified the keys to success of this project can be attributed to its strong linkage with the local institutions and entitles in promoting, recruiting and training process. This ensures the spread of information, and more effective communication with local immigrants. In addition, the follow-up process enables PEI to provide more individual consultation to address the needs of immigrant entrepreneurs.

Provide coaching and mentoring to address a lack of experience

Goal

An entrepreneur's prior experience, in self-employment or employment in the same industry, is an important factor in determining the chances of survival of a firm. Entrepreneurs from under-represented and disadvantaged groups are less likely to have experience running businesses and policy makers should aim to find ways to overcome this gap in experience. One of the most effective ways of overcoming this experience gap is to provide coaching and mentoring so that the entrepreneur can draw on the experiences and lessons learned by others. This addresses deficiencies in entrepreneurship skills and helps build social capital in different communities of entrepreneurs.

Approach

A more intensive approach to delivering entrepreneurship and business management skills is the use of coaching and mentoring. This approach matches an inexperienced entrepreneur with one that is more experienced, providing them with an opportunity to develop a one-on-one professional relationship. Coaching relationships tend to focus on helping an entrepreneur reach specific goals related to their business in a fixed period of time, whereas mentoring tends to be more focused on the personal development of the entrepreneur. Therefore, in order to support the sustainability of a business, public policy should emphasise coaching over mentoring.

The key to developing a successful coaching relationship is to ensure that the inexperienced mentee is well-matched with the experienced entrepreneur. For entrepreneurs from under-represented and disadvantaged groups it is often ideal to use experienced entrepreneurs who have the same personal characteristics as the inexperienced entrepreneur. This means, for example, matching a women entrepreneur with another women entrepreneur, or a senior entrepreneur with a senior entrepreneur. This approach has the advantage of establishing trust within the relationship quicker as the entrepreneurs will likely have faced the same challenges. This approach is also effective because it can make the programme more attractive for the entrepreneur.

Coaching and mentoring relationships should aim to help an entrepreneur develop a sustainable business. It is important that the entrepreneur and the coach or mentor outline goals at the beginning of the relationship and that they meet regularly to ensure that progress is being made. To address issues related to business sustainability, coaching and mentoring should focus on business management issues, including outreach to customers and customer retention, and financial literacy.

An important element of coaching and mentoring relationships for entrepreneurs from under-represented and disadvantaged groups is ensuring that the entrepreneurs can access the networks of the coach or mentor. This will facilitate access to an even wider pool of resources for the entrepreneur.

A good example of an intervention supporting female entrepreneurship is We Mentor in the United Kingdom (see Policy example 2). It shows support on a number of aspects of running a business including mentoring, training, and networking. The key feature of this programme is the inclusion of experienced entrepreneurs who can act as mentors from the same industry/sector to work with the mentees. This approach enhances trust and understanding between participants to build the mentoring relationship and develop networking. Mentors can provide helpful guidance and practical experience for mentees in designing the firm's strategies and business planning. The mentoring programme offers online and offline resources in diversified areas. These activities, therefore, help foster the entrepreneurs' social and human capital.

Policy example 2. We Mentor, United Kingdom

Description: We Mentor was an EU-funded project launched by a charitable organisation called The Women's Organisation. The mentoring scheme operated in 2012-2013. Aligned with National Council for Education and Entrepreneurship (NCEE), this scheme was designed to provide guidance and support for women entrepreneurs to grow their business enterprises in the United Kingdom. It sought to create a combination of expertise in the areas of women's enterprise, mentoring, networking and small business services.

Problem addressed: Recent statistics shown by RBS Group (2013) indicated that women are under-represented amongst growing firms in the United Kingdom and tended to have lower survival rates between 2002 and 2011 (RBS Group, 2013). However, other research such as the Global Entrepreneurship Monitor (2013) found that women who participated in entrepreneurship training were three times more confident in business management than those who did not. We Mentor UK project was launched to link mentors with women entrepreneurs to help build skills of women entrepreneurs.

Approach: The admission criteria required that women entrepreneurs had operated their business for at least 1 year, employed at least 1 other person and sought guidance and support to develop their business. Mentors were required to have at least 5 years of experience in running their own business, be committed to their mentoring responsibilities and be interested in an opportunity for professional development.

The project took into account factors such as sectors, skills, needs and preferences of women in designing its activities. This then helped them enhance skills and knowledge to build personal and professional networks as well as access to resources. Drawing on its existing networks (i.e. women's enterprise ambassador, business associations and enterprise support practitioners), the We Mentor UK programme approached both mentors and mentees across all sectors. It also aimed to distribute materials and organise events to reach a wider community of women entrepreneurs. Mentors and mentees collaborated in both traditional and modern approaches such as face-to face, online, workshops and events.

Impact: During 2012-2013, the project recruited 35 mentors to provide consultation to 80 women entrepreneurs. An initial evaluation of the We Mentor UK programme in August 2013 revealed positive feedbacks from both mentors (100% of the participants) and mentees (81% of the participants). The majority of participants recommended the mentoring relationship to be structured on a monthly basis. As a result, more than 50 percent of mentees enhanced their personal confidence, leadership and management competences to develop their business strategies. This in turn increased the visibility of women entrepreneurs within the wider business community nationally and across international networks.

Condition for success: The main factor contributing to the success of this project was the effective interaction between mentors and mentees in multiple approaches (i.e. online, meeting, workshops). Mentors are experienced entrepreneurs operating in the same sector with mentees, hence they could act as the role model and facilitate networking for the mentees.

For more information, please refer to: http://thewomensorganisation.blogspot.co.uk/2013/08/last-chance-to-book-free-legal.html

Improve access to financing

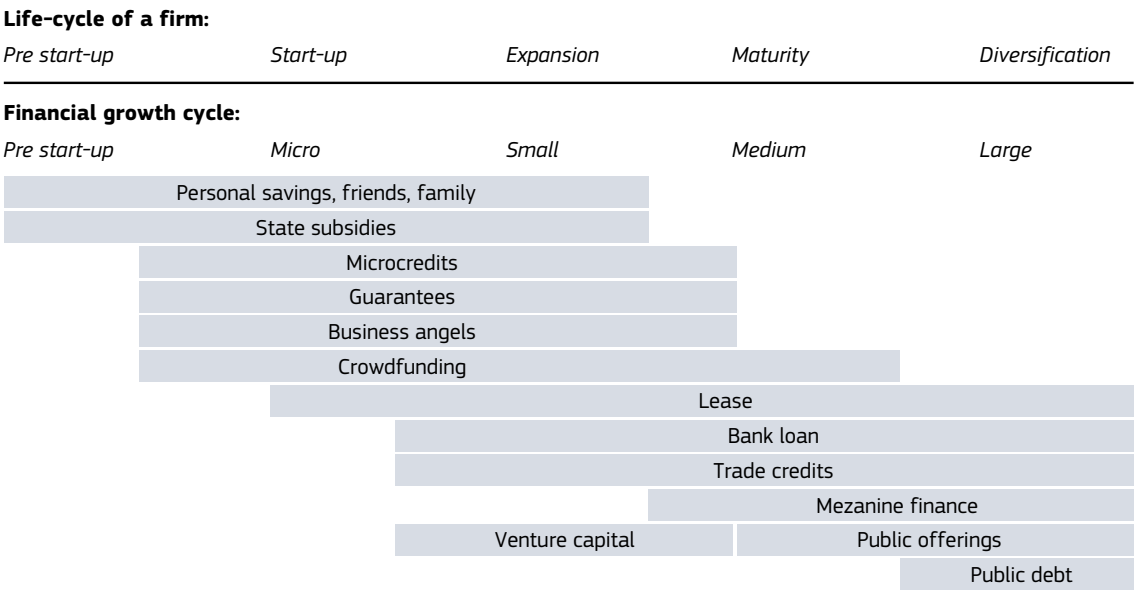
Goal

Entrepreneurs from under-represented and disadvantaged groups face particular problems in raising external finance because of the typical combination of the lack of collateral and experience that negatively influences their ability to persuade lenders to lend them money. At the same time, part of the apparent market failure is on the demand side, reflecting a perceived discouraged borrower effect. As a consequence, policy makers should attempt to increase the supply of finance available to entrepreneurs from under-represented and disadvantaged groups, which is likely to take the form of a loan guarantee or microcredit. At the same time, policy makers need to offer financial education for entrepreneurs to help them learn about where to seek financing and to inform them about the circumstances when borrowing can be advantageous and under what conditions.

Approach

Securing finance can be a challenge at all stages of business development. While firm development and growth do not follow a predictable formula, it can be helpful to think of a firm life-cycle model to consider financing needs at different stages of development (Figure 6). During the pre start-up phase, most businesses rely on personal savings and loans and gifts from family and relatives to get them to the point of business creation (e.g. Railiene and Ivanskeviciute, 2013) but this may not be enough to help them sustain business activities over the medium term. During the early stages of enterprise development, loan guarantees, microcredit and business angels are important. Crowdfunding is an emerging source of financing that can also be relevant for new firms looking to sustain and grow their activities. External financing, such as leases, bank loans and trade credit are typically accessible to firms that can demonstrate that they are likely to earn a return. Venture capital may be an option for firms with high growth potential and larger firms can consider public offerings or public debt as sources of funds.

Figure 6. A life-cycle model of firm developed and financing sources



Source: Adapted from Railiene, G. and L. Ivanskeviciute (2013), "Re-evaluating the Supply Side of Finance Availability for Lithuanian SMEs", *Social Sciences*, Vol. 4 (82).

One of the most common approaches for public policy to support entrepreneurs from under-represented and disadvantaged groups to secure financing is through loan guarantees. While common for supporting start-ups, loan guarantee schemes can also be effective in supporting businesses to establish themselves on the market. Many businesses operated by entrepreneurs from under-represented and disadvantaged groups do not have a long history and therefore face many of the same difficulties as new business start-ups. The financial industry may not be accessible because the business and entrepreneur may not have much credit history or collateral that can be used to secure a loan.

Public loan guarantee schemes are typically designed to take-on some of the risk from the banking sector so that "unbankable" clients can receive loans. In most cases, a public loan guarantee scheme will cover 20% to 50% of the loan amount. Public schemes can be either managed directly by the government or can be implemented through the financial industry where the government lets the programme run with a very "light touch" from the public sector in terms of operations.

The loan guarantee scheme *Fonds de Garantie à l'Initiative des Femmes* in France is an example of a public guarantee scheme that supports business development for women (Policy example 3). It covers 70% of loans, which is a larger guarantee than most guarantee schemes in the EU, up to a maximum loan value of EUR 38 000. The government allows the scheme to be implemented largely by banks, although loan decisions are taken by a committee of bank representatives and other business professionals.

Policy example 3. *Fonds de Garantie à l'Initiative des Femmes*, France

Description: The *Fonds de Garantie à l'Initiative des Femmes* (FGIF) is a loan guarantee scheme for the creation, take-over or development of businesses by women. It was launched in 1989 as a guarantee fund in order to encourage women to start, take over or further develop an existing enterprise. The programme addresses the problem of low initial capitalisation which can negatively affect the stability and survival of new businesses and the fact that women tend to start up their enterprise with less capital than men do and report greater difficulty in accessing bank lending. It helps women to access financing in order to set up, take over or develop a business. The fund was created to help women overcome the difficulties they face when trying to obtain bank loans. It is managed through a private organisation, the Institute for the development of the social economy (*Institut de Développement de l'Économie Sociale*), and is financed through various sources, including the European Social Fund.

Problem addressed: In France, women and men who start businesses have differing profiles, motivations and objectives. Women tend to have more formal educational qualifications but are less likely to start their businesses in a sector where they have previous employment or educational experience and qualifications. In addition, women start businesses in person-to-person services and retail trade, highly competitive sectors with low profit margins. Women also start their businesses with fewer physical assets and financial resources than men do. This combination of factors contributes to greater failure rates for women's businesses three and five years after launch.

Approach: The FGIF targets all women who would like to start, take over or develop an existing enterprise, regardless of their sector of activity and the status of the enterprise. In co-operation with several banks, the state acts as a guarantor for bank loans financing capital purchases and working capital. The FGIF guarantee covers a maximum of 70 % of the loan value. Loans can be valued at between EUR 5 000 and EUR 38 000 with a loan term between 2 and 7 years. Banks benefiting from the guarantee scheme cannot request further collateral from the client and thus women's other assets such as their homes are protected. The project has to be approved by a committee held by France Active, which has a committee that includes bank managers, accountants and business advisers. A standard application includes a market study and a financial plan.

Impact: In 2013, 1 785 loans were guaranteed to women with a value of EUR 46 million. Since the launch of the scheme, businesses operated by women entrepreneurs using FGIF support had 3-year survival rates of 78 %, which is higher than the average 3-year survival rate in France of 69 % (see Figure 5).

Conditions for success: The partnership approach used by FGIF is important for its success. First, it allows the fund to utilise the expertise of the banking sector in the implementation and management of the loans. Second, projects are selected using a committee of banking professionals and business, which allows for an effective selection of projects that have the most potential for sustainability.

Source: France Active, www.franceactive.org

Microcredit is another financial mechanism that can be used to help grow business start-ups into sustainable businesses. It has an important role in the European Union's strategy for financial inclusion and inclusive growth. Microcredit typically refers to loans under EUR 25 000 and is commonly used by those who are unable to receive credit from financial institutions due to a lack of a credit history.

There are several important decisions for policy makers when setting up microcredit schemes. First, policy makers must decide who will operate the fund. Generally microcredit funds are set-up through calls for tender or are implemented through an existing public institution. While using public calls for tender are more cost effective, the use of an existing public institution can ensure better cohesion with other public support organisations. Similarly, the second choice is related to how the microcredit scheme will be implemented. Some schemes use ad-hoc government bodies while others use financial institutions. The advantage of using an ad-hoc government body is that it can allow for better targeting of credit while the use of a financial institution will be more cost effective and offers an opportunity to leverage private sector expertise in evaluating the applications.

Finally, an important element of supporting access to finance for entrepreneurs from under-represented groups is financial education. This is important because it will help entrepreneurs from under-represented and disadvantaged groups better understand where they can obtain finance and what requirements are securing finance. Most often, financial literacy training is embedded into broader general programmes as a module. At the same time, policy makers should work with lenders to help them communicate with potential clients in easy-to-understand language (OECD, 2005).

Ensure access to the existing infrastructure of business development services

Goal

Policy makers can support the sustainability of business operated by entrepreneurs from under-represented and disadvantaged groups by ensuring that they can access the existing suite of business development services. This includes ensuring that appropriate incentives are in place and that there is an awareness of the available support within different communities of entrepreneurs.

Approach

Business development services include a broad range of support, including one-stop-shops where information is sign-posted and incubators that offer comprehensive support services. Sign-posting of information is a low-cost support that directs entrepreneurs to specialised organisations that provide professional support, including training, business counselling and coaching and mentoring. Sign-posting is typically done through local business centres or through online portals. Policy makers must be careful in the message of these services because potential clients from under-represented and disadvantaged groups likely require different messages that speak to their specific needs. Consideration must also be given to the format in which this information is available. For example, a potential entrepreneur with a disability may require a special accessible type of information product (e.g. braille).

A more active method of directing entrepreneurs to support services is to use a more structured referral scheme. An example of this approach is the Enterprise Europe Network, which is operated by the EU (Policy example 4). It is a network of more than 600 business development support organisations in more than 50 countries. The network is managed through a central database and local contact points direct entrepreneurs seeking support related to growth, accessing new markets, innovation, EU law and accessing EU funds to local support providers. The Network also hosts regular networking sessions and workshops on various issues.

Policy example 4. Enterprise Europe Network

Description: The Enterprise Europe Network is a network of business development service providers that aim to help small businesses identify and capitalise on opportunities in the European Union. This includes seeking business partners, finding financers, identifying new technologies, managing intellectual property and accessing EU Funding. The services provided by the Network are free.

Problem addressed: The Network acts as a one-stop shop for entrepreneurs in the EU for all business development changes related to the European Union. This includes, for example, entering new markets, understanding EU law and accessing EU funds. This is the only EU-wide business development network that specialises in EU issues and institutions.

Approach: The Enterprise Europe Network unites business support organisations from more than 50 countries. It can direct small businesses to localised support provided by approximately 600 member organisations through local contact points. The Network is organized in 17 key sector groups, which provide customised support and organize brokerage events to help companies make connections with other organisations and businesses in the same sector. The 17 sector groups also include a specific group to support women-run businesses. Furthermore, the Sector Groups also form links with other European actors and projects, including European Technology Platforms, Europe INNOVA projects and Business Innovation Centres (BICs) as well as research-driven clusters and National Contact Points of the European Commission's 7th Research Framework Programme (FP7).

Conditions for success: The structure and reach of the Network are keys to its success. Most member organisations have worked together for years and are connected through a single database that local contact points can use to reach out. Moreover, the Network leverages several European and national business organisations, foundations and other bodies whose sectoral expertise underlies much of the support offered. These partners allow the network to provide customised sectoral advice and information, and organise events, training sessions and projects.

For more information, please see: http://een.ec.europa.eu

A more intensive form of support is to provide business incubation services. Business incubation offers access to office space and spaces where entrepreneurs can meet with clients and with other entrepreneurs. It is common for incubators to offer training and workshops on specific entrepreneurship skills, and to make professionals available for business counselling, coaching and mentoring. There are examples of incubators offering interest-free loans. While business incubators have achieved success at increasing the chances of business sustainability, they are also the most resource intensive support and the number of potential entrepreneurs from under-represented and disadvantaged groups may not always justify the development of specific incubators that are tailored to their needs. Therefore policy makers should instead focus on ensuring access to mainstream incubators when the pool of target clients is small.

CONCLUSIONS

The current rationale for allocating resources to support entrepreneurship development in groups that are under-represented or disadvantaged is typically linked to a rationale for the development of an entrepreneurial society in which entrepreneurship is encouraged across the social boundaries. However, there are alternative arguments for supporting entrepreneurs from these groups. Supporting them in entrepreneurship can be a method of keeping them attached to the labour market and engaged in society. There are clearly benefits for these individuals as a sustainable business can provide a means of income. For society, having more productive members contributing to the economy may increase the wealth generated and contributes to a more cohesive society. Another argument is that many of these entrepreneurs can exploit niche markets or products, which can be seen as a potential source of competitiveness for an economy.

Although specific support needs of entrepreneurs of under-represented or disadvantaged groups vary between different groups, these groups still face common challenges. They have deficits in human and social capital, which reduces the chances that their business will be able to adapt to changing markets or unexpected events and makes it more difficult for them to navigate the regulatory environment. Moreover, these entrepreneurs have more difficulty accessing financing that may be needed to sustain or grow business activities, or sustain them during periods where little revenue is generated. They may also face discrimination from customers or suppliers.

To address these barriers and challenges, policy makers have a range of possible interventions at their disposal. Training programmes and coaching can be used to address specific skills gaps, while loan guarantees and microcredit can help entrepreneurs access funding. It is important for policy makers to consider these barriers together and design interventions in a comprehensive but flexible way. Integrated support interventions, such as incubator or similar programmes, can improve entrepreneurship skills through training, workshops and/or coaching. At the same time, they can offer targeted business counselling and can provide access to finance. Comprehensive approaches that provide complementary supports have the greatest chances of having an impact because they are typically the most intensive supports and they address multiple barriers (OECD/EC, 2013). However, this intensity makes them expensive for policy makers and may not be attractive to potential clients who only seek a single intervention for a specific challenge. Therefore, policy makers should design flexible interventions that can be used as stand-alone supports for specific issues or combined into a more comprehensive suite of interventions.

While many of these interventions are concerned with different aspects of capacity building focusing on entrepreneurs from under-represented and disadvantaged groups, it is also important to recognise that capacity building needs to take place on the institutional side including business support organisations and officers working within public agencies. The focus of this type of capacity building should be on finding ways of working more successfully with entrepreneurs from one of the disadvantaged or under-represented groups.

Finally, focussing on the chances of survival of enterprises that are operated by under-represented and disadvantaged groups may not be the most appropriate focus for public policy. Productive employment may be an alternative to business ownership for these people in the longer term. For example, a very small, struggling, under-capitalised business that operates in a highly competitive market may be difficult to sustain even with public interventions. In this context, policy makers should prioritise interventions that focus on developing entrepreneurship and management skills because these interventions likely improve the chances that these individuals can move into paid employment if their businesses do not survive.

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This policy brief was produced by the OECD and the European Commission on sustaining entrepreneurship activities by entrepreneurs in under-represented and disadvantaged groups. It provides evidence on business survival for entrepreneurs from groups that are under-represented or disadvantaged in the labour market and discusses the obstacles that reduce the chances of survival for these businesses. Policy makers can take action to increase the chances of survival for these businesses, including providing training to boost business management skills, providing coaching and mentoring, facilitating access to finance and provide business development services.

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