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**Youth Entrepreneurship in Portugal and the UK**

**Interim Report: Statistical Review of Youth Entrepreneurship in Europe**

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## 1. Introduction

Despite some signs of recovery from the economic crisis, it remains very difficult for young people in Europe to find their place in the world of work. There is an increasing awareness of the negative effects associated with long-term disengagement from the labour market, both for individuals and society. The EU promotes entrepreneurship as a strategy of integrating young people into the labour market. Accordingly, entrepreneurship is understood as a driver of job creation because it creates employment opportunities for both self-employed youth and other young people who may be hired by the newly created companies. Moreover, it may also increase innovation and raise competition - two drivers of economic growth – as young entrepreneurs may be particularly responsive to new economic opportunities and new trends in a globalised society (Chigunta, 2002; Green, 2013). Hence, fostering youth entrepreneurship has is now a significant priority among EU policymakers for addressing youth unemployment and economic growth. This has been emphasized through initiatives such as the Youth Guarantee[1] (European Council, 2013) and the Entrepreneurship 2020 Action Plan (European Commission, 2013), which are organized under three main pillars: education and training; creation of an environment where entrepreneurs can flourish; and developing role models and reaching specific groups that are not able to exploit their full entrepreneurial potential (Eurofound, 2015).

The Global Entrepreneurship Monitor (GEM) defines entrepreneurship as "any attempt at new business or new venture creation, such as self-employment, a new business organisation, or the expansion of an existing business, by an individual, a team of individuals, or an established business". However, the term 'entrepreneurship' is vague and there is divergence and multiplicity in its understanding. For instance, the sociological perspective sees entrepreneurship mainly as the creation of a new organisation; the psychological perspective sees it in terms of psychological traits or mental processes such as creativity, motivation or the generation of the intention to start a business, and the economist one is focused on firms and the processes underlying employment creation and growth. Given this heterogeneity, definitions of entrepreneurship have been clustered among four different dimensions: task-centric (i.e., what an entrepreneur does); psychological

[1] A specific aim is to foster youth entrepreneurship and to ensure greater availability of start-up support services. The Council of the European Union has recommended that 'fostering entrepreneurial mindsets, making start-up support services and microfinance more available, and establishing schemes for converting unemployment benefits into start-up grants would play an important role, also for young people'. More specifically, the Council stated that the Youth Guarantee should 'make available more start-up support services, and increase awareness of the possible chances and perspectives connected with self-employment, including through closer cooperation between employment services, business support and (micro) finance providers'.

traits and attitudes (i.e. how an entrepreneur thinks); business-centric (i.e. characteristics of the firm); or as a multidimensional concept encompassing all of the above (European Commission, 2012).

If the definition of entrepreneurship in general is problematic for its multiplicity, youth entrepreneurship is also problematic for the lack of research supporting it. Following the seminal work of Chigunta (2002), youth entrepreneurship is defined as the "practical application of enterprising qualities, such as initiative, innovation, creativity, and risk-taking into the work environment (either in self-employment or employment in small start-up firms), using the appropriate skills necessary for success in that environment and culture" (Chigunta, 2002). Although this definition considers personal characteristics, the measurement of youth entrepreneurship has mostly been limited to self-employment[2] due to practical reasons. Hence, only some characteristics of young entrepreneurs are captured through this proxy.

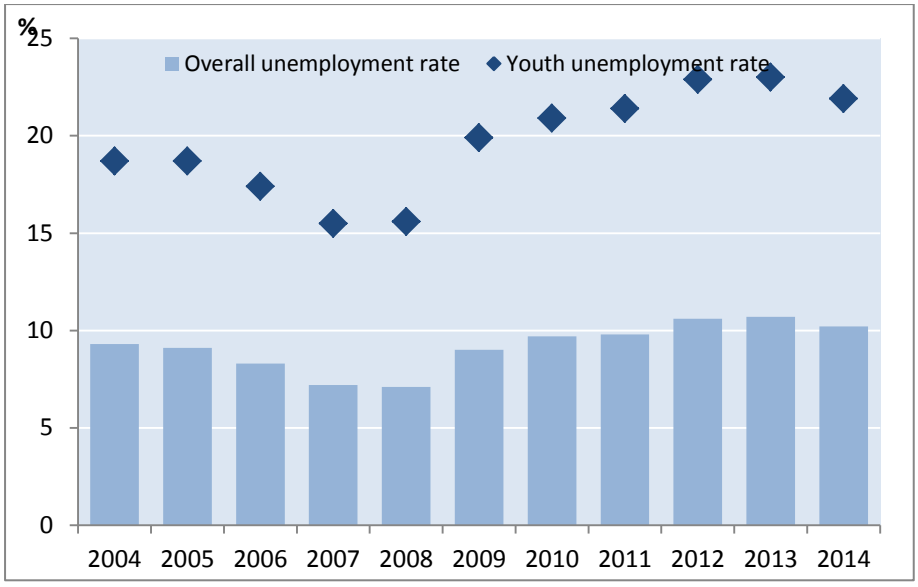
This document provides an overview of keys findings about youth self-employment and entrepreneurship in the European context. It is based on statistics published in several recent reports and looks at indicators of youth entrepreneurial performance (i.e. how much entrepreneurship, what type), determinants of entrepreneurship (i.e. what factors influence the decision to become self-employed) and the individual and social attitudes of young people towards entrepreneurship. Because this work draws on several data sources, the definitions used across the sources are not always consistent. This is most apparent regarding the age definition of youth. For example, Eurostat defines youth as those 15-24 years old, while other data sources, such as the Global Entrepreneurship Monitor (GEM) defines youth as those aged 18-30 years old. Efforts were made in the figures and text to clearly highlight the definitions presented and discussed.

## 2. Youth Unemployment

Although labour force participation rates have returned to, or exceeded, pre-crisis levels in all EU member states (except for Croatia, Denmark, Ireland and Slovenia), data from Eurostat reveals that unemployment across the EU remains markedly higher than before the crisis, particularly for young people. As Figure 1 shows, the youth unemployment rate (i.e. those aged 15-24) is typically double the rate for adults and this trend held through the economic crisis. Moreover, an increasing proportion of employed young people in Europe are involved in temporary employment and part-time work (YBI, 2013).

Figure 1. Unemployment rate in the EU28, 2004-14

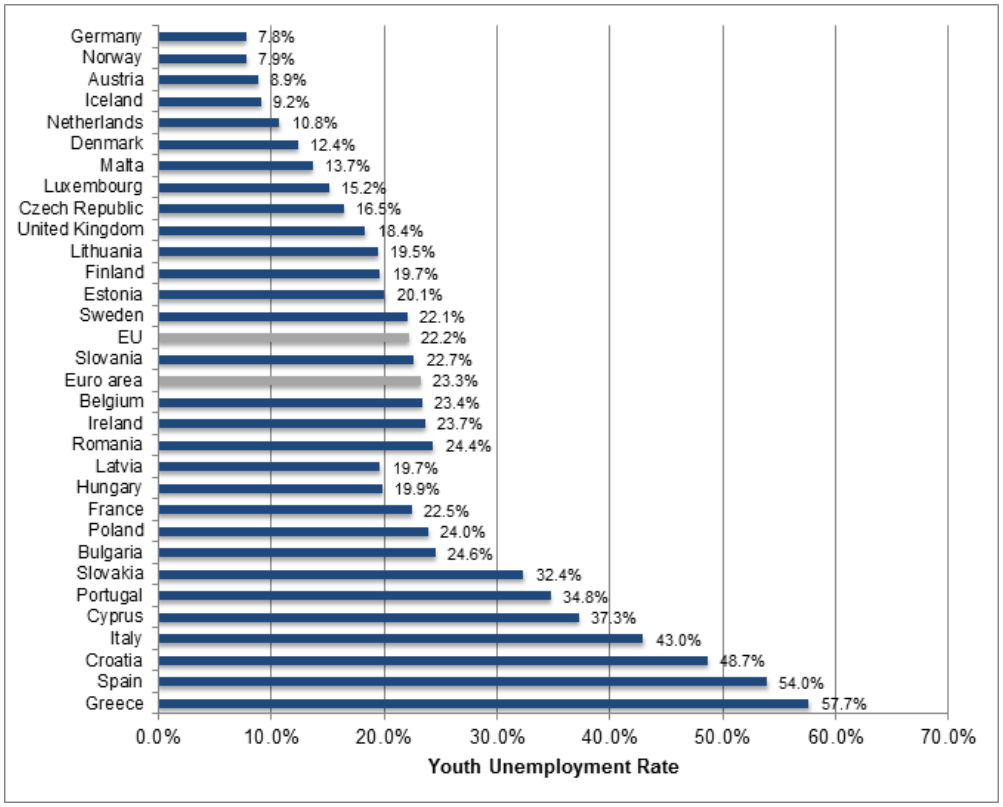
[2] Self-employed are individuals who earn no wage or salary and who derive their income by exercising their profession or business on their own account and at their own risk (Parker, 2004).




Source: Eurostat, Labour Force Survey (LFS) 2004-2014

As Figure 2 shows youth unemployment rates vary greatly across EU Member States. For instance, in 2014 countries such as Greece and Spain had unemployment rates that exceeded 50% and were more than double the EU average, while Germany, Austria, the Netherlands had unemployment rates that were less than half of the EU average rate.

Figure 2. Youth unemployment rate Europe, May 2014



Source: Eurostat, Labour market and LFS statistics

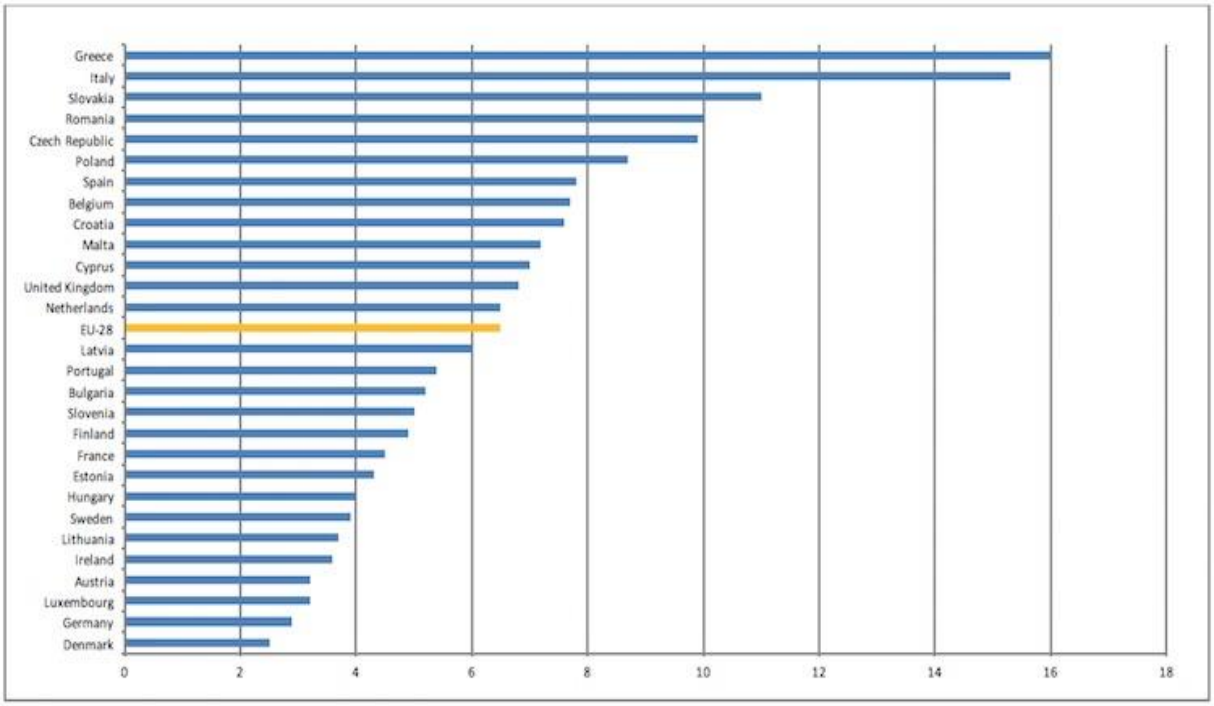
Young people's greater vulnerability of unemployment has been connected with their lack of skills and a mismatch between the demands of the labour market and the qualifications offered by education. Additionally, in the last decades, processes of globalisation – characterised by increased competition, rapid technological change and economic uncertainty – have profoundly changed the world of work. These labour market changes have resulted in young people being over-represented in less secure forms of employment – i.e. in temporary and low paid jobs without stable social protection - putting them in greater risk of unemployment and social exclusion, particularly in moments of crises (e.g. Furlong and Kelly, 2005: Standing, 2011). Thus, in an increasingly competitive and global labour market, making the transition from education to work has become more difficult for young people.

The consequences of unemployment are felt at macroeconomic, social and the individual level. For instance, the economic cost that European societies are paying for having a large number of young people who are not in employment, education or training (so-called NEETs) was estimated at €162 billion in 2013, almost €10 billion more than in 2011 (Eurofound, 2015). Moreover, disengagement from the labour market can lead to disengagement from civic society as a whole with risk of a disruption of interpersonal and institutional trust and social cohesion (Eurofound, 2012). Evidence also shows that at an individual level, time spent in unemployment decreases lifetime earnings, and increases the chances of poverty and social exclusion (Blanchflower and Oswald, 1998; Gregg and Tominey, 2005). For example, an extra 3 months of unemployment prior to the age of 23 results in an extra 2 months of unemployment, on average, between the ages of 28 and 33 and it is estimated that one year of unemployment during youth can reduce annual earnings at age 42 by up to 21% (Gregg and Tominey, 2005).

## 3. Youth Entrepreneurship in the EU

While the level of youth unemployment is still very high, just 6.5% of young Europeans aged 15–29 years were self‑employed in 2013. Moreover, there are significant differences between EU Member States in terms of levels of self-employment. As Figure 3 shows youth self-employment rates were relatively low in Austria, Denmark, Germany, Ireland and Sweden and high in Greece and Italy. This diversity may reflect existing national differences in terms of barriers/opportunities to set up new businesses, as well as different labour market conditions.

Figure 3. Share of youth self-employment in Europe 2013, age 15-29



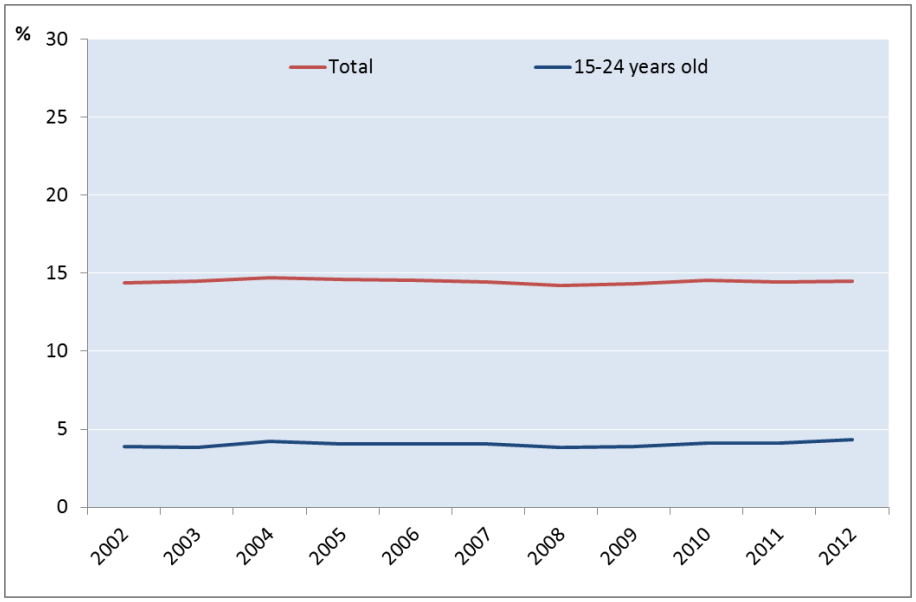

Source: Eurostat, Labour Force Survey (LFS) statistics

Hence, there seems to be an association between levels of self-employment and the share of NEETs, indicating that labour markets with overall high levels of young people not in employment, education or training are also more likely to have high levels of youth self-employment (GEM, 2012; Eurostat, 2013; Eurofound, 2015). This suggests that economies with more opportunities for paid employment have less of a 'push' into self-employment, Hence, the motivations driving young people into entrepreneurship seem to vary across EU countries. Research by the Global Entrepreneurship Monitor and Youth Business International indicates that the desire for 'independence' and wish to 'work for themselves' are two main motives for self-employment (GEM, 2013; YBI, 2013). Besides these 'positive' influences ('opportunity entrepreneurs'), research also shows that a small percentage of young entrepreneurs are pushed into entrepreneurship because they have no other employment option ('necessity entrepreneurs'). Although important differences between EU Member States can be discerned in terms of "necessity driven" and "opportunity driven" entrepreneurs, in general young entrepreneurs seem to be more opportunity-driven than adult entrepreneurs. About 17% of young entrepreneurs in the EU are driven by necessity, compared to 23% of adult entrepreneurs (aged 35–64) (GEM, 2013; YBI, 2013). Nevertheless, the link between the share of self-employment and the size of the cohort of NEETs is complex and requires more in-depth analysis (Eurofound, 2015).

### 3.1 Characteristics of young entrepreneurs

Statistics show that young people (15-24 years old) are much less likely than overall adults (15-64 years old) to be self-employed. In the European Union, the self-employment rate for youth was 4.2% relative to 14.4% for adults and these rates were found to be stable between 2002 and 2012 (Eurostat, 2012). Indeed, studies suggest that people starting a business often do so at a later stage in life and after having acquired professional experience. For this reason, older rather than younger individuals are more likely to be self-employed (OECD, 2013; Storey and Greene, 2010).

Figure 4. Youth self-employment rate in the EU28, 2002-12




Source: Eurostat, Labour Force Survey 2002-12

Another feature of youth entrepreneurship data is that males are more likely than females to be self-employed. Young males (aged 15-24) have a rate of self-employment of around 5 % while females it is broadly 2.5 % (Eurostat, 2012).

Concerning education, studies on youth entrepreneurship have shown little evidence of the relationship between level of education and self-employment (e.g. Greene, 2010; Astebro and Bernhardt, 2005). Studies have shown mixed evidence in this respect. This ambiguity perhaps reflects that more highly educated young people are likely to have the requisite skills necessary to set up and run a new business, but that they are also more attractive to employers (OECD, 2013). Eurostat data for 2013 shows that 60.0% of the young European self-employed (defined in this case as those aged 15–24 years) have completed an upper secondary/post-secondary non university education level (ISCED 3–4), whereas 16.3% have completed a first/second stage of tertiary education level (ISCED 5–6) (Table 1). Therefore, 76.3% of young self-employed Europeans have an education level between ISCED 3 and 6.

By comparing the individual traits and work and human values of young self-employed people with those of young employees, the 2015 Eurofound report about Youth Entrepreneurship shows significant differences between the two groups. In particular, self-employment is positively associated with self-direction and stimulation, and negatively related to tradition, conformity and security. These results suggest that it is important for young self-employed people to be free and creative, to try different things in life and take risks; this group is less inclined to follow tradition and to prioritise having a secure and stable environment. Openness to change is a specific behavioural characteristic of young self-employed people, while conformity is clearly associated with employees.

**3.2 Youth business characteristics**

Although young and adult entrepreneurs tend to have similar motivations for entrepreneurial activities, they often have different approaches and run different types of businesses.

Young entrepreneurs generally operate smaller businesses than adults. Among EU countries, only 10.5% of self-employed youth had employees, which is less than half of the proportion of adults (28.8 %) (Eurostat, 2014). The evolution over time of this indicator reveals that since the onset of the crisis the share of self-employed youth with at least one employee declined substantially from 19.1% in 2003 to 10.5% in 2013.

Concerning the main economic sectors where young self-employed people develop their activities, several studies show that these sectors tend to be service-rather than manufacturing-oriented, which are usually characterised by low barriers to entry, low capital needs and low levels of required business skills such as construction, information and communication (Parker, 2009; Eurostat, 2014).

It is interesting to note that part-time self-employment practices are particularly common among young self-employed people, when comparison to other age groups (OECD, 2012). This 'hybrid form of entrepreneurship', seems to provide the opportunity for young people to gain experience of running a business on a small scale while doing other activities (completing education or working in paid employment), at the same time reducing the financial consequences of failure in comparison to full-time self-employment (Folta et al, 2010).

**3.3 Attitudes towards entrepreneurship**

The decision to become self-employed is complex and determined by different factors. As briefly discussed before, research on determinants of youth entrepreneurship has often focused either on individual characteristics, such as educational level or gender, or on macro level factors, such as youth employment rates. However, each of these factors alone seems insufficient to explain why certain individuals become

self-employed rather than seeking paid employment. A more complete understanding of the factors influencing the decision to become self-employed needs to take into account a contextualized approach where culture and social attitudes towards entrepreneurship play a role.

### 3.2.1 Individual attitudes

Considering that the decision to become self‑employed is certainly affected by perception of how desirable the choice of self‑employment is, as well as the perceived feasibility of entrepreneurship as a career, Flash Eurobarometer (European Commission, 2012) investigated young people's attitudes towards self-employment and business start-up, with focus on the population aged 15–34.

Despite the low levels of youth entrepreneurship discussed before, about 49% of young people considered that being an entrepreneur was a desirable career. This share varied considerably among European Member States ranging from 32% or less in the United Kingdom, Denmark, the Netherlands, Slovakia, Sweden and Germany to 57% or more in Mediterranean countries, such as Portugal, Greece, and Italy and some Baltic states and eastern European countries. Moreover, 41% of young people indicated that it would be feasible to become an entrepreneur. Once again levels of feasibility varied widely among EU Member States, however not necessarily in the same direction as the ones found for desirability. For instance, 50% or more of young people from Scandinavian countries such as Finland and Sweden, viewed self-employment as feasible career choice, while the level dropped to less than 30% in some Mediterranean countries such as Malta, Croatia and Spain.

### 3.2.2 Social Attitudes

Based on data from the 2010 Global Entrepreneurship Monitor (GEM, 2010) and the 2012 Flash Eurobarometer (European Commission, 2012e), the European Commission investigated social attitudes towards entrepreneurship among the population aged 15–34 years. Six indicators were used to analyse positive and negative attitudes to entrepreneurship. Accordingly, respondents were asked to declare their level of agreement with the following statements:

- entrepreneurs create products for the benefit of all (2012 Eurobarometer);
- entrepreneurship creates jobs (2012 Eurobarometer);
- entrepreneurs just think about their own pockets (2012 Eurobarometer)
- entrepreneurs exploit others (2012 Eurobarometer);
- successful entrepreneurs have a high status in society (GEM, 2010);
- stories of entrepreneurial success are celebrated in the media (GEM, 2010).

The four indicators from the Eurobarometer describe perceptions of the 'outward' (creation of jobs and products) and 'inward' (enrichment and exploitation of workers) behaviour of entrepreneurs. Similarly, the two indicators extracted from the GEM investigate the desirability of entrepreneurship as a career and the perception of entrepreneurs as a model in society.

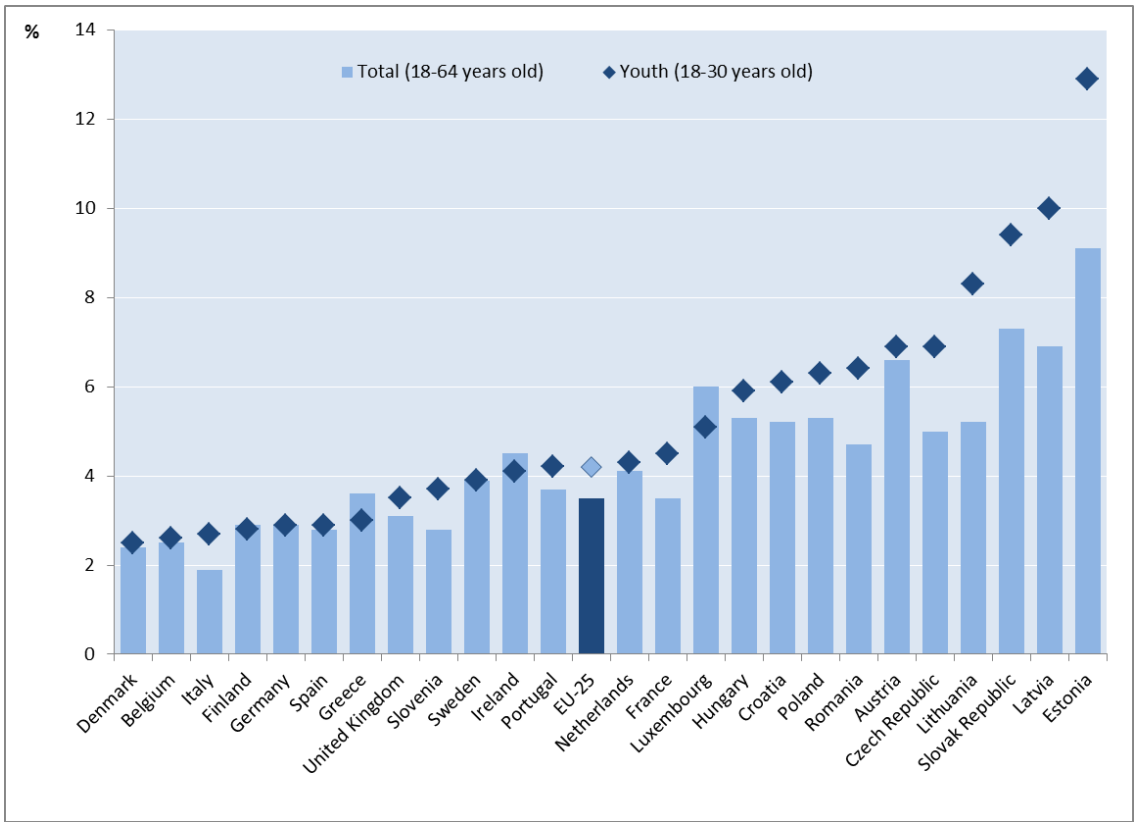
By clustering countries together with similar social attitudes towards entrepreneurship, it is possible to verify that young people in Scandinavian, German-speaking and Anglophone countries present more positive perceptions of entrepreneurship. In particular, more young people in this cluster than the EU average think that entrepreneurs produce products beneficial for all and create jobs, and fewer young people than average think that entrepreneurs exploit people and think only of their own enrichment. On the opposite side of the spectrum is the cluster composed by Mediterranean countries, such as Cyprus, Greece, Portugal and Spain. In this cluster, young people tend to have a more negative perception of entrepreneurship and entrepreneurs. In particular, in these countries a higher than EU average share of young people think that entrepreneurs consider only their own enrichment and exploit people, and a lower than EU average share think that entrepreneurs create jobs and products for the benefit of all. It is interesting to note that despite this negative perception of entrepreneurship, the level of desirability of entrepreneurship as a career option is on average far higher in the south Mediterranean countries than in Scandinavian, German-speaking and Anglophone countries.

## 4. Self-employment activities by youth over the entrepreneurship life-cycle

Entrepreneurship is a process that comprises different phases: nascent entrepreneurship (actively involved in setting up a business); new business ownership (ownership of a business 3–42 months in operation); established business ownership (ownership of a business more than 42 months in operation); and, discontinuation of business. The GEM provides data on the stages that young people go through in the entrepreneurial process. This data is useful when trying to understand the barriers that entrepreneurs face as it allows us to see how many people drop out at each stage.

Data from the GEM confirms that young people have an interest in entrepreneurship in the EU. As Figure 5 shows there are similar proportions of young people (18-30 years old) and adults involved in nascent entrepreneurship. This rate measures the proportion of the adult population who report that they are actively involved in setting up a business that they will own or co-own. The business must not have paid salaries, wages or any other payments to the owners for more than three months.

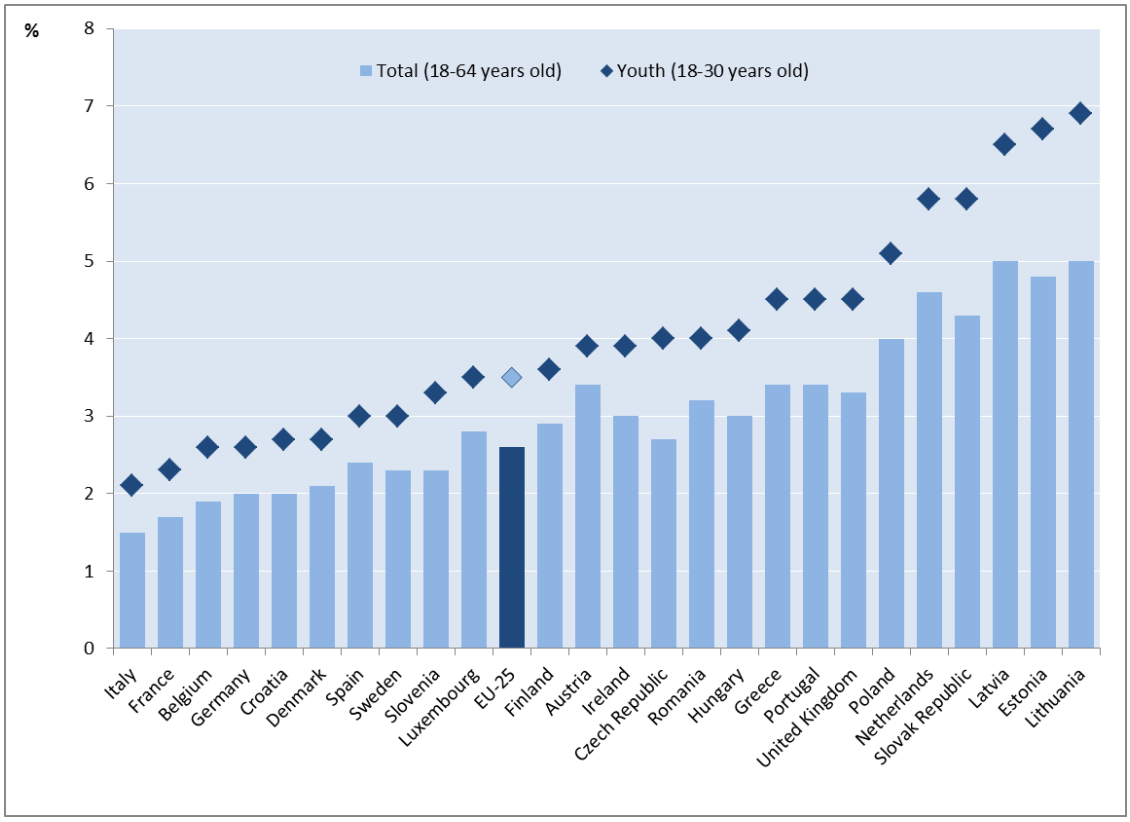
Figure 5. Nascent entrepreneurship rate for youth, 2009-13




*Source:* Global Entrepreneurship Monitor (GEM) (2014), Special tabulations of the 2009-13 adult population surveys from Global Entrepreneurship Monitor.

A similar finding was found for rates of new business ownership (Figure 6) – i.e. people that are owner-manager of a new business that has paid salaries, wages or any other payments for more than three months, but not more than 42 months. There is a strong association between the nascent entrepreneurship rate and the new business ownership rate. Hence, countries where there is a high nascent entrepreneurship rate for youth also present a high new business ownership rate. The countries with the highest new business ownership rates for youth between 2009 and 2013 were Lithuania (6.9%), Estonia (6.7%) and Latvia (6.5%). The Member States with the lowest new business ownership rates for youth over this period were Italy (2.1%), France (2.3%), Belgium (2.6%) and Germany (2.6%).

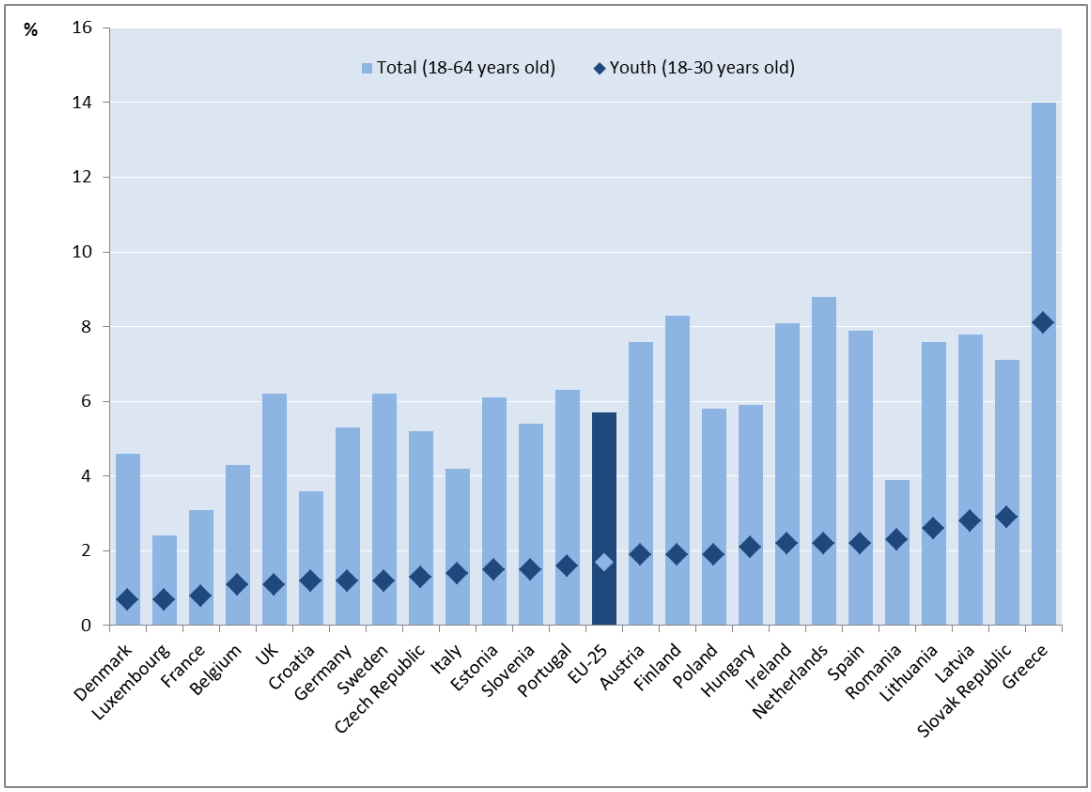
Figure 6. New business ownership rate for youth, 2009-13




*Source:* Global Entrepreneurship Monitor (GEM) (2014), Special tabulations of the 2009-13 adult population surveys from Global Entrepreneurship Monitor.

However, the GEM data shows that there are nearly three times fewer young people that own established businesses - 1.7% for youth relative to 5.7% for adults - suggesting that something hinders businesses run by young people from becoming established.

Figure 7. Established Business rate for youth, 2009-13




*Source:* Global Entrepreneurship Monitor (GEM) (2014), Special tabulations of the 2009-13 adult population surveys from Global Entrepreneurship Monitor.

Young people appear to be facing barriers that are preventing them from turning ideas into long-term projects. Research has indicated that a number of barriers are identified by young people. These include access to finance, lack of appropriate skills, lack of infrastructure, a lack of adequate support structures and a lack of mentorship. Fear of failure and the current economic climate were additional barriers mentioned by young people (Eurofound, 2015; OCDE, 2012).

Although findings suggest that businesses run by young entrepreneurs have lower survival rates than those of older entrepreneurs; those that do survive have more growth potential than those of older entrepreneurs on average. Among businesses that survived three years, those run by people under 30 years old had an average growth rate of 206 % — nearly double the growth rate of businesses run by those over 40 (114 %) (Eurostat, 2006). This suggests that young entrepreneurs are a high risk but high reward group of entrepreneurs.

**Summary**

Despite all the efforts and initiatives implemented and promoted by the European Commission very few young people actually start businesses and most of them are small in scale, with no employees, and with a high risk of failure. There is a big gap between the positive endorsement of entrepreneurship and the intentions of young people to become entrepreneurs on the one hand and their ability to realize their ambitions on the other. Hence, findings suggest that young people face more barriers and risks in the development of their

entrepreneurial activities. In has been proposed that to avoid excessive business failure rates, youth entrepreneurship should not be addressed as a panacea for solving the youth unemployment problem. Because entrepreneurship is not a feasible career option for all young people, this should be taken into account when designing and developing initiatives to foster it (Eurofound, 2015).

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