
Stimulating Entrepreneurship among the Unemployed

A critical analysis on instruments
used to stimulate entrepreneurship
among the unemployed

BSc-thesis Business and Consumer Sciences

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SUMMARY

Since several years, the European Union is in a deep and long-lasting economic crisis, and unemployment rates are rising. In September 2013, the unemployment rate in the European Union [EU] was measured 11%, which comes close to 27 million people. This is a social and economic problem governments are facing nowadays. A possible solution that governments from several countries introduced is the stimulation of entrepreneurship and self-employment among unemployed. This would generate economic growth and job creation.

The aim of this literature study is to find out which instruments can stimulate 'sustainable' entrepreneurship. A 'sustainable' start-up implies having growth potential, being innovative and being profitable. After evaluating policies of the EU and several European countries, *subsidies* and *education* appear to be the most common instruments used to stimulate entrepreneurship. Often these instruments are combined in a start-up program, in which the participants first take part in a training process and subsequently receive the possibility to apply for a start-up subsidy.

The main finding of this literature study is that *subsidies* and *education* both have a positive effect on the performance of unemployed when starting a business. However, when comparing the start-ups of former unemployed with start-ups of former wage-earners, the performance of the former unemployed is less satisfying as they lack behind in growth and innovation. Although the general effects of the instruments are positive, the governments do not stimulate 'sustainable' businesses. Reducing the unemployment level can be achieved directly by supporting the transition into self-employment and indirectly by creating further jobs in the newly found firms. A possible solution to only stimulate the high potential start-ups could be a stricter selection procedure for participation in a program. This will mean that less unemployed will get the support, but more 'sustainable' businesses will be established which will indirectly cause new employment.

This study consists out of an introduction, three chapters to answer the sub questions, and a final conclusion. In the introduction, the research purpose will be stated as well as the research- and sub questions. In addition, the research methods and delimitations will be discussed briefly. The chapters are intended to define the concepts and instruments and evaluate the instruments. In the conclusion, the research question will be answered and a recommendation will be given.

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1. INTRODUCTION

“Global unemployment has reached dangerous levels, ILO report shows” is the headline of an article (2011) in *the Guardian* newspaper. Nowadays, these kind of headlines of news articles are not exceptional to find. Since 2008, the European economy is in a deep and long lasting crisis (Singh, 2013). This recession has caused a major increase in European unemployment rates. A comparison of the unemployment rates within the European Union [EU] from 2007 with the rates from 2011 shows that in these years unemployment increased by 2.5% (Eurostat, 2011). In September 2013, the unemployment rate in the EU was measured 11%, which comes close to 27 million people (Eurostat, 2013). This is an economic and a social problem that governments are facing nowadays. Tinbergen (2006) refers to unemployment as “a waste of productive factors and, more important even, a psychological stress”. This means that there is an economic need to create jobs and thereby stimulate the economy, as well as a social need to get unemployed citizens involved in society.

During the 1970s and the 1980s, there was a significant shift where economic activity moved away from large firms to small firms (Carree & Thurik, 2002). One of the reasons for this shift is that small enterprises are able to react and innovate quicker and easier than large enterprises (Carree & Thurik, 2002). Nowadays, 99% of the businesses in Europe are Small Medium Enterprises [SMEs], and 9 out of 10 SMEs are micro enterprises with less than 10 employees (European Commission [EC], E). In a discussion paper, van Praag & Versloot (2007) compare entrepreneurial firms with their counterparts¹. Despite of the fact that counterparts cannot be missed because they create certain market stability, van Praag & Versloot (2007) conclude that entrepreneurship is very important to the economy. Entrepreneurial firms create more employment than their counterparts and although the jobs are less secure and lower paid, the employees in entrepreneurial firms are more satisfied with their job than the employees in counterparts (van Praag & Versloot, 2007).

Responding to the importance of entrepreneurship and to counter the unemployment problem, the EU has programs to support entrepreneurship (EC, A). These programs are stated in the Europe 2020 Strategy, according to which “entrepreneurship and self-employment help create jobs, develop skills and give unemployed and disadvantaged people an opportunity to fully participate in society and the economy”. Their main focus groups are disadvantaged and unemployed people and social entrepreneurs (EC, A). Part of these programs use subsidy as main instrument, but there are also programs that have their focus on learning (EC, B). An example is *Youth on the Move*, which goal is “to improve young people’s education and employability, to reduce high youth unemployment and to increase the youth-employment rate” (EC, B).

The possible partial solution of stimulating unemployed citizens to become entrepreneurs is also already introduced in Germany (Caliendo et al., 2013). The government provides subsidies to the unemployed to start-up their own business and thereby become self-employed with a possibility to create a growing business (Caliendo et al., 2013). Although it seems like the ideal solution, there is also a lot of criticism. According to Shane (2009) this labour market policy is not very convenient, as it costs a lot of money but does not provide businesses that create jobs, grow their sales or go public.

Besides these initiatives, there are also instruments that stimulate entrepreneurship, but are not specifically focussed on unemployed people yet. A recent example in the Netherlands is the establishment of business centres for starting entrepreneurs (PZC, 2013). These centres have very low rental costs and more importantly strengthen the network and the position of the starter (PZC, 2013).

¹ Entrepreneurial firms are defined as “small firms, young firms, entrants or self-employed”, and their counterparts as “bigger firms, older firms or incumbent firms” (van Praag & Versloot, 2007)

1.1 RESEARCH PURPOSE AND QUESTIONS

The aim of this research is to find out which instruments are used nowadays to stimulate entrepreneurship. I will specifically focus on the instruments that are used to stimulate entrepreneurship among unemployed citizens. I want to find out what the effects, pros and cons of these instruments are, and if they in fact solve an economic and social problem.

The research question functions as the primary question to answer in this research. The sub questions strive at dividing the main research question in separate issues, all inevitable to answer in order to form a substantiated answer on the main research question.

RESEARCH QUESTION

Which instruments can stimulate ‘sustainable’ entrepreneurship among unemployed citizens?

This question contains several concepts that need clarification. In the first chapter, I will analyse the concepts ‘entrepreneurship’ and, subsequently, ‘sustainable’ entrepreneurship. In the second chapter I will describe several existing instruments. After these chapters the concepts are clear and will be related to each other in the third chapter.

SUB QUESTIONS

1. What is understood by the term ‘entrepreneurship’?

1.1 Is there a difference between self-employment and entrepreneurship?

1.2 What defines entrepreneurship as sustainable?

This first sub question is stated to clearly position the term entrepreneurship, and specifically ‘sustainable’ entrepreneurship.

2. Which instruments are used to stimulate entrepreneurship?

This second sub question is stated to discover which instruments are used to stimulate entrepreneurship among the unemployed. At the end of this chapter, it will be clear what the main instrument(s) is/are.

3. What is the effectiveness of these instruments?

In this third and last sub question an evaluation of the main instrument(s) will be given based on scientific literature.

Based on the answers of these three sub questions the research question will be answered in the conclusion of the research.

1.2 RESEARCH METHODS

To answer the above mentioned research question, I performed a literature study. For the first sub question, scientific literature is used, as this chapter explains the different concepts on which the research is based. For the second sub question, a pioneering report of the European Commission and governmental pages are used and thereby the most common instruments are determined. For the third sub question, scientific evaluation

articles are used. In this chapter the different instruments are evaluated on their effectiveness. Eventually this combination of different sources allows me to answer the research question in the conclusion.

The main databases consulted are Web of Science, Scopus and Google Scholar. When starting this research, I searched for highly cited studies with the keywords *entrepreneurship* and *unemployment*. This was important to gain insight in the topic. For the rest of the report, keyword as *entrepreneurship*, *self-employment*, *unemployment*, *government*, *policy*, *education*, *subsidy* and *effect* are used, often combined with one another.

1.3 DELIMITATIONS

The first delimitation in this study concerns the limiting time. Because this study is a bachelor thesis, the official time set is 8 weeks. This is the main reason why only a literature study will be performed.

However, also this literature study needs to be restricted. In this research, the main focus will be on *European* instruments used to stimulate entrepreneurship. It would be hard to, for example, compare the effect of instruments in Europe with the effect of instruments in the USA. People in the USA have a different mind-set regarding entrepreneurship than the EU (Grilo & Irigoyen, 2006). The research of Grilo & Irigoyen (2006) confirms the “widespread belief of a more developed entrepreneurial spirit across the Atlantic”, by showing that the entrepreneurial mind-set as well as the entrepreneurial activity are better in the US than in the EU. Because I already chose to compare the effect of different instruments, also comparing the effect of instruments between the EU and other countries or continents would be too extensive. So while the scientific literature in general can be from every country, the evaluated instruments will be only from within the EU. This limitation is necessary because of the time limit but also for the clarity of the study.

2. DEFINING ENTREPRENEURSHIP

The main aim of this study is to give a critical analysis on instruments used to stimulate entrepreneurship amongst the unemployed. However, this research question cannot be answered at once. It is important to first clarify the concepts used in the research question. This chapter will, based on a literature analysis, provide a definition of 'entrepreneurship' which will be further used in this study. In section 1.1 an overview of several definitions of 'entrepreneur(ship)' will be provided and discussed. Based on the final definition of the term entrepreneurship other key terms used in this study will be tailored. Subsequently, section 1.2 will examine whether there is a distinction between self-employment and entrepreneurship. At last, in section 1.3, 'sustainable' entrepreneurship will be defined.

2.1 DEFINITION

In this section, a definition of 'an entrepreneur' and 'entrepreneurship' will be given. These definitions often overlap, as can be found in the list of definitions in table 1. It is important to compare the definitions of established researchers in this field. Looking at the literature, it is possible to separate different angles. In table 1, the separation is made between the economic perspective, the social perspective and the psychological perspective (Thornton, 1999). From an economic perspective, one will focus on the role of entrepreneurship in society (Stevenson, 2006). The social perspective focusses on the social context that affects entrepreneurs, e.g. pull and push factors (Thornton, 1999). From a psychological perspective, the focus will be on the personal characteristics of an entrepreneur (Stevenson, 2006). This distribution of perspectives can be seen as a funnel from macro to micro level.

Stream	Founder	Definition
Economic <i>Role of entrepreneur (economic effect)</i>	Schumpeter	Entrepreneurship is the process by which the economy as a whole goes forward. An entrepreneur is someone who is <i>innovative</i> , and who creates something which disrupts the market equilibrium, or 'circular flow' (Stevenson & Jarillo, 2012).
	Kirzner	"instead of disrupting the market equilibrium, thus advancing the economy to qualitatively higher levels, the entrepreneur works towards the accomplishment in real life of the (theoretical) equilibrium"... "the entrepreneur has a <i>superior knowledge</i> of market imperfections, that he uses to his advantage." (Stevenson & Jarillo, 2012)
Sociological <i>Social context</i>	Reynolds	"Individual entrepreneurial behaviour generally refers to individual pursuits of <i>new economic endeavors</i> , which may range from self-employment to the creation of substantial organizations." (Reynolds, 1991)
	Casson	"An entrepreneur is someone who specialises in identifying new <i>opportunities</i> for coordination. The entrepreneur's personal comparative advantage lies in processing information, and particularly in synthesising information." (Casson, 2002) According to Casson, an entrepreneurial opportunity exists when profit can be made (Shane & Venkataraman, 2000).
	Thornton	"Entrepreneurship is the creation of new organizations, which occurs as a context-dependent, social and economic process." (Thornton, 1999)

Psychological Characteristics of entrepreneur	McClelland	An entrepreneur is someone who has a <i>high need for achievement</i> and who is <i>risk taking</i> (Cuervo, Ribeiro & Roig, 2007).
	Rotter	An <i>internal locus of control</i> (believe that you can control events that affect you) is a characteristic of a successful entrepreneur (Littunen, 2000).

Table 1: Definitions of entrepreneurship.

The first economic definition of entrepreneurship in this table, the one provided by Schumpeter, is perhaps also the most famous one. The keyword of his definition is ‘innovation’ (Stevenson, 2006). In Schumpeter’s view, capitalist growth comes from new consumer goods or markets (Aghion & Howitt, 1990). He uses the term ‘creative destruction’ for the process of destroying the old market equilibrium and creating a new one (Aghion & Howitt, 1990). An example of an innovation that makes the old framework inappropriate is the replacement from the vinyl record player by the CD player. This is the main difference with the definition of Kirzner, where it is not about making the old framework redundant (Stevenson & Jarillo, 2012). According to Kirzner, an entrepreneur should be alert to profitable opportunities of exchange, therefore the entrepreneur needs to see the market imperfections.

The sociologists approach entrepreneurship from a different angle. While the economic approach defines entrepreneurship focusing mainly on the macroeconomic effect, scientists from the sociological approach give a more clear definition of what the term ‘entrepreneurship’ implies. The view by Reynolds (1991) is already clear formulated. In short, Reynolds definition of entrepreneurial behaviour implies the start-up of a new venture. In line with the definition of Reynolds, the definition of Thornton states that entrepreneurship implies new organization creation. However, Thornton (1999) frames it in a social perspective, stating that entrepreneurship occurs as a “context-dependent, social and economic process”. Entrepreneurship can be stimulated by either push or pull factors. Clark & Drinkwater (2000) explain in their article about ethnic minorities that the difference between the predicted earnings in paid-employment and the earnings in self-employment can be a great push factor for entrepreneurship. In case of this study the push factor is unemployment. For example, unemployed people with low chances of getting a job with a good salary can push people into self-employment. Third, there is the definition by Casson. According to his definition, entrepreneurs are the ones that make good judgements on risky decisions. The difference from this definition with the ones from Reynolds and Thornton is that his definition does not imply that the entrepreneur is a business creator, but as someone who sees market gaps. This person can also be the manager of a company. When entrepreneurship takes place in an existing organization, it is called ‘intrapreneurship’ (Antoncic, 2006). Next to intrapreneurship there also exists the initiative of ‘spin-offs’, which is one step closer to entrepreneurship, but also with the base in an existing company. A spin-off is the formation of a new business out of an existing organization (Schipper & Smith, 1983). Regarding the definition of Casson, spin-offs and intrapreneurship are also forms of entrepreneurship, while regarding the definitions of Reynolds and Thornton, this may be questionable.

In the psychological approach, the focus is on the micro level, as scientists are mainly interested in the characteristics of the entrepreneur. Characteristics that are found important are; high need for achievement, risk taking and high internal locus of control. The characteristics of an individual may determine whether the person has the potential to start a business as well as whether the start-up will be successful.

Although it would provide clarity if I could create one clear definition of entrepreneurship, it is impossible to give a definition that covers all aspects (Low & MacMillan, 1988). Entrepreneurship does not necessarily imply all of the key factors from these definitions, just as an entrepreneur does not necessarily have all the characteristics mentioned above (Stevenson, 2006). As stated in the article of Stevenson (2006), “if one has to

be the founder to be an entrepreneur, then neither Thomas Watson of IBM nor Ray Kroc of McDonald's will qualify". So depending on the definition, these men will be titled as an entrepreneur.

For this research, it is important to give a definition that is in line with the topic. As this is a social-economic study which does not only focus on a macroeconomic level, a definition from a sociological angle fits this study the best. However, as explained above, there are contrasts between the definitions. The most notable contrast is that the definitions of Reynolds and Thornton imply new business creation, while the definition of Casson does not imply that. As a conclusion, for this research I formulate a definition which is based on the definition of Reynolds, but supplemented with aspects of the definitions of McClelland and Schumpeter:

'Entrepreneurship is a risk taking process of creating new innovative economic endeavours, which may range from self-employment to the creation of substantial organizations.'

In this study, the focus is on entrepreneurship among unemployed citizens. Regarding the fact that these people are not employed at the moment of starting a business, the choice is made not to include intrapreneurship or spin-offs in this definition, as these are initiatives come from within an organization.

2.2 SELF-EMPLOYMENT AND ENTREPRENEURSHIP

In this section, an analysis will be made of the relation between self-employment and entrepreneurship. Although a lot of authors use self-employment as an element of entrepreneurship, it fully depends on the definition of entrepreneurship whether it falls within the vague borders of this concept or not. Sometimes authors refer to it shortly, like Blanchflower (2000) who refers to self-employment as "the simplest kind of entrepreneurship". Corresponding to this definition is the one by Vesper, who distinguishes different kinds of entrepreneurs. The first type of entrepreneur is what he calls the "solo self-employed individual", which refers to a small business owner or operator (Cuervo, Ribeiro & Roig, 2007). But before a connection can be drawn between self-employment and entrepreneurship, let's first see what definition can be given to the term 'self-employment'. In an article of the European Commission (2010), which is based on national research of the EU countries, it turns out that this is not that easy. The national definitions can differ from each other, which makes it hard to compare the statistics (EC, 2010). In this study, the definition of the United Kingdom will be retained, as the literature concludes that it is a clear definition (EC, 2010). Accordingly, the criteria for self-employment that must be fulfilled are (EC,2010):

- "The person must run their own business and take responsibility for its success or failure;
- They must have several customers at the same time;
- They can decide how, when and where to work;
- They are free to hire other people to do the work for them or help them at their own expense;
- They provide the main items of equipment to do the work." (EC, 2010)

Comparing this definition with the key factors of entrepreneurship, I can see that self-employment does have an overlap with entrepreneurship. Especially the factors 'risk taking' and 'development of the business' are met in this definition. Nevertheless, according to Carland et al. (1984), this overlap does not make a small business owner per definition an entrepreneur. They state that a small business venture is "any business that is independently owned and operated, not dominant in its field, and does not engage in any marketing or innovative practices" (Carland et al. 1984). This contrasts with an entrepreneurial venture, that does engage in strategic innovative practices and which main goal is profitability and growth (Carland et al. 1984). It seems that this research is outdated, as nowadays a lot of small businesses are really innovative and may also have profitability and growth as a goal. But besides the fact that this description of the difference is questionable, it will also be hard to distinguish this in practice as almost all new firms start with self-employment (Earle & Sakova, 2000). Only in a later phase the question can be answered whether the start-up leads to a growing

business (Earle & Sakova, 2000). Therefore, in this research there will not be made a strict distinction between self-employment and entrepreneurship. Instead, in this research self-employment will be considered as a first step in the entrepreneurial process, which is in line with the definitions of Blanchflower (2000) and Earle & Sakova (2000).

2.3 SUSTAINABLE ENTREPRENEURSHIP

In the sections 2.1 and 2.2 it is decided to take into account self-employment when defining entrepreneurship. As stated before, self-employment is (mostly) the first step in the entrepreneurial process. The main focus of this section will therefore be on 'sustainable' self-employment instead of 'sustainable' entrepreneurship. However, there appears to be a large difference in the quality of self-employment, as researchers are even speaking about hidden unemployment among the self-employed. In this section, a distinction will be made between 'sustainable' entrepreneurship, which governments want to stimulate, and hidden unemployment. A 'sustainable' start-up will imply having growth potential, being innovative and being profitable.

As research from the Netherlands shows, there is great dispersion between the position of self-employed, depending on for example gender, previous experience and origin (Dekker, 2013). In his book, Dekker (2013) distinguishes two extreme visions on this diverse group, namely the vision from the optimist and that from the pessimists. In the optimistic vision the self-employed are considered 'insiders', people who make a logical step in their career and who do not need a lot of support. In the pessimistic vision however, self-employed are considered 'outsiders', people who, by being self-employed, miss the social security that you get if you are an employee (Dekker, 2013).

This distinction is made by several scientists. Earle & Sakova (2000) distinguish on the one hand successful entrepreneurs with innovative ideas (employers), and on the other hand own-account workers whose income and activities only differ little from those of unemployed people. As Earle and Sakova (2000) state "this may reflect the inability of a perhaps destitute worker to find a satisfactory 'regular' job as an employee". The 'employers' and 'own-account' workers are two of the four groups they distinguish in their research, a distinction that is not made in most research (Earle & Sakova, 2000). However, this is a distinction that draws a line between employers who have start-ups with growth potential and that are making risky decisions to achieve financial growth, and the self-employed with start-ups without growth potential that financially try to survive and do not create jobs (Earle & Sakova, 2000).

The existence of this distinction between 'insiders and outsiders' or 'employers and own-account workers' is also what worries Shane (2009). In his article he states that encouraging more and more people to become an entrepreneur is bad publicity, as it will not create economic growth or a lot of jobs (Shane, 2009). This article will be further examined in chapter 4. Most importantly for this chapter however, is that he also makes the distinction between high-growth potential entrepreneurs and self-employed without this potential.

According to the research of Andersson & Wadensjö (2007), former wage-earners with a salary above average who enter self-employment are generally doing better than the former unemployed. On average they have higher incomes, employ more people and have lower exit rates than the former unemployed – these results will be further examined in chapter 4 (Andersson & Wadensjö, 2006). This difference in performance is possibly caused by a difference in demographic variables like education and job experience and by the lack of connections unemployed people have (Andersson & Wadensjö, 2006). The recommendations that Shane (2009) gives in his article are partly consistent with these findings. He states that governments should only stimulate start-ups with growth potential (Shane, 2009). To select these, governments should operate like venture capitalists (Shane, 2009).

This dispersion in the position of self-employed is very important to take into account when evaluating the instruments. Governments obviously want to stimulate and invest in ‘sustainable’ entrepreneurship among unemployed. However, as this is only a limited literature study, this issue is too comprehensive for this study. It connects the micro- and social level with the macro-level, as researchers are speaking about the effect of characteristics of entrepreneurs (micro) and demographic variables (social) on economic growth and job creation (macro). In the evaluation of the instruments (chapter 4), this difference will be taken into account to the extent possible.²

2.4 CONCLUSION

The purpose of this chapter was to answer the first sub-question - “what is understood by the term entrepreneurship?” – and thereby clarify key definitions. In the first section, several definitions of entrepreneurship are discussed and placed into, the economic (macro)-, social- and psychological level. Based on these definitions –mainly on the social definition of Reynolds -, a definition is formed for this research. Entrepreneurship will be considered ‘a risk taking process of creating new innovative economic endeavours, which may range from self-employment to the creation of substantial organizations.’

Although this definition of entrepreneurship already includes self-employment, the second section dealt with the question if there is a difference between self-employment and entrepreneurship. The opinions vary about that, as it seems to overlap each other, but according to some this overlap does not make a self-employed an entrepreneur. Nevertheless, as a lot of businesses start with self-employment and growth can only be measured in a later phase, in this research self-employment will be considered as a first step in the entrepreneurial process. So when speaking about entrepreneurship, it implies self-employment.

In the third section, the term ‘sustainable’ entrepreneurship is examined or more specifically ‘sustainable’ self-employment. There appears to be a great dispersion in the quality of self-employment. Earle & Sakova (2000) distinguish on the one hand successful entrepreneurs with innovative ideas, and on the other hand own-account workers whose income and activities only differ little from those of unemployed people. This distinction is made by more scientists.

² For a more detailed view on the topic of successful entrepreneurship, see articles:
McClelland, D.C. (2011) Characteristics of Successful Entrepreneur
Bosma, N; van Praag, M; de Wit, G. (2000) Determinants of Successful Entrepreneurship

3. INSTRUMENTS USED TO STIMULATE ENTREPRENEURSHIP

Now the concepts of this research are clarified, this chapter will outline the different instruments that are used to stimulate entrepreneurship among the unemployed. In the introduction of the first chapter some examples of these instruments are already mentioned. I will now further analyse these examples as well as other instruments. This chapter is mainly descriptive and is not focussing too much on the effectiveness of these instruments. It starts with an explanation of the European measures toward this topic in section 3.1. Subsequently, in section 3.2, different (national) instruments will be discussed.

3.1 EUROPEAN

At the end of 2008, the Commission of the European Communities set up the European Economic Recovery Plan. This plan was a response on the economic crisis, that had already hit Europe, and it was based on the forecasts that economic conditions would deteriorate further (Commission of the European Communities, 2008). An important part of this plan is the promotion of employability and the avoidance of long term unemployment, and one of the main goals is to “Launch a major European employment support initiative” (Commission of the European Communities, 2008). This goal is specifically focussing on the vulnerable people in society (Commission of the European Communities, 2008).

First, based on this goal, there is the European Social Fund [ESF], which is the main instrument for supporting jobs in the EU (EC, D). However this fund is not directly supporting entrepreneurship. It focuses on helping disadvantaged groups in the labour market (EC,D). The ESF is not providing its fund directly to EU citizens (EC,D). Instead, it funds a multitude of local, regional and national work-related projects across Europe (EC,D). Part of the ESF is the initiative ‘Progress Microfinance’, which was introduced in 2010. For 2013, € 204 million was the available budget for Progress Microfinance (EC, 2013). This initiative increases the availability of microfinances for unemployed people who want to become self-employed or start up a microenterprise (EC, C). There are currently sixteen countries among which the European investment is divided (Figure 1). These countries have financial intermediaries that are responsible for the allocation of these microfinances (EC, C). In the Netherlands for example, the representative is ‘Qredits’, an independent foundation that offers microfinances and affordable training and coaching to people who do not get access to the regular financial circuit (Qredits, 2014).



Figure 1: “Geographical distribution of Progress Microfinance by March 2013” (EC, 2013)

In addition, there exists another European initiative, which focusses mainly on young unemployed EU citizens, named 'Youth on the Move' (EC, B). It focusses on both employment as education and their goal is to reduce the youth unemployment rate (which is now over 20% in several countries) (EC,B).

In the initiatives mentioned above, stimulating entrepreneurship among unemployed is a (small) part of the strategy, as the focus is mainly on disadvantaged people in general. Moreover, it will be hard to measure the effect of these EU instrument, for two reasons. The first reason is that the instruments (mostly subsidies) are not given directly to the citizens. These subsidies are divided over foundations and organizations, who, at their turn, will divide them over the citizens. To measure the effect of the European investment, it would be necessary to get compare the outcomes of these intermediaries. Nevertheless, this literature study focusses mainly on national policies, and excludes private initiatives, as it would otherwise get to comprehensive. The second reason that makes it hard to measure the effect comes from the fact that these programs are of recent date, which makes that results are probably not realised yet.

3.2 NATIONAL

In this section, policies of several European countries will be discussed. The choice for these countries is based on the report 'Self-employment in Europe' (2010). The publication is based on national articles of the SYSDM correspondents, which are 33 European countries (EC, 2010). This publication contains an outline of the policies of those 33 countries on self-employment (EC, 2010). It also contains one section 'Measures targeting the unemployed', in which countries are discussed that have a self-employment policy targeting the unemployed (EC, 2010). The selection of these countries (Germany, Belgium, Estonia, Ireland, Latvia, Luxembourg, the Netherlands, Austria, Iceland, the United Kingdom and former Yugoslav Republic of Macedonia) will also be maintained in this section. First, the countries with a specific program will be outlined. Subsequently, in the paragraph 'other', all the countries and their initiatives will be mentioned. Since the policies are often similar, and it is hard to find additional information on governmental pages, I will not discuss them all in detail.

GERMANY

The German Federal Employment Agency [FEA] increased its expenditures in the Active Labour Market Policy [ALMP] a lot in the past twenty years (Caliendo, 2008). The main goal of the Active Labour Market Policy is to integrate the unemployed into the labour market by becoming self-employed (Caliendo, 2008). Germany probably has the most famous policy, as it is mentioned and evaluated by a lot of researchers. In 2003, a new program was introduced, namely the Start-Up Subsidy [SUS], which was an addition to the older program (Bridging Allowance [BA]) implemented in the late 1980s (Pfeiffer et al, 1998).

Since 2006, these programs have been unified into one general start-up subsidy – the *Gruendungszuschuss* (Caliendo & Steiner, 2007). Before this unification, the greatest difference between the two programs was the term and amount of the grant (Caliendo, 2008). The BA subsidy had a duration of six months and was equal to the level of an individuals' unemployment benefit (plus a lump sum of 70% covering social security contributions) (Caliendo, 2008). The SUS on the other hand, had a maximum duration of three years, and paid a lump sum each month (€600 in the first, €360 in the second and €240 in the third year) (Caliendo, 2008). The *Gruendungszuschuss* subsidy has a duration of maximum of 15 months, and is separated into two parts (Caliendo et al. 2013). The first part, a nine-month subsidy equal to the persons last unemployment benefit plus a lump sum of 300 Euro to cover social security costs, is accessible to every person that meets the

requirements to get this subsidy³ (Caliendo et al. 2013). After these nine months, an assessment will be made about the success of the start-up (Caliendo et al. 2013). Only if the start-up gets approved for the second period, it will receive the subsidy for the remaining six months (Caliendo et al. 2013). This subsidy then only exists out of the lump sum payment (Caliendo et al. 2013).

IRELAND

Also Ireland has initiatives to integrate the unemployed back in the labour market Two of the programs discussed below are specifically focused on the support of long term unemployed citizens to become self-employed. These subsidy-programs are comparable to the old German programs.

First, there exists the ‘Back to Work Enterprise Allowance’ (BTWEA), a program that is comparable to the (what used to be) German SUS program. To get the support, first the self-employment project needs to be approved by either the Departments Facilitator or by a Partnership Company –a company that is related to the BTWEA-program to be a ‘mentor’ for the starters (Department of Social Protection, 2014). For approval, the project needs to have success potential and the start-up may not displace a similar existing business (Department of Social Protection, 2014). If one qualifies for the BTWEA, the unemployed will retain a (part) of his social welfare payment for a maximum of two years (Department of Social Protection, 2014). In the first year, the starter will retain 100% of the social welfare payment, and in the second year 75% (Department of Social Protection, 2014). The program does also provide (free) training on how to start a business (Department of Social Protection, 2014).

Second, a similar program to the BTWEA is called ‘Short Term Enterprise Allowance’ (STEA) (Department of Social Protection, 2014). This is comparable to the BTWEA although the requirements and the subsidy vary (Department of Social Protection, 2014). This program gives quick support to people who lose their jobs, want to start a business and who would normally qualify for Jobseeker’s Benefit – which is different from social welfare payments mentioned in the BTWEA program (Department of Social Protection, 2014). However, the STEA is a payment of maximum 9 months, where the BTWEA can reach up to two years. Nevertheless, they do have the same intention of directly stimulating self-employment among the unemployed.

Third, there is also the Back to Education Allowance (Department of Social Protection, 2014). This program offers different (free) courses for unemployed to gain new skills and thereby improve their chances on the labour market (Department of Social Protection, 2014). However, this is less relevant for this study, as it does not specifically focus on entrepreneurship.

UNITED KINGDOM

In April 1998 the program ‘New Deal’ was introduced in the UK (Jobcentre, 2008). This program was designed to counter and avoid unemployment and was part of the Government’s Welfare to Work initiative (Jobcentre, 2008). In October 2009, the program was renamed ‘Flexible New Deal’ [FND], which encompasses several sub-programs for different target groups, e.g. elderly, youth, disabled or lone parents (Department for Work and Pensions, 2011). One of these sub-programs focuses specifically on training, guiding and advising (and sometimes subsidizing) long-term unemployed citizens to become self-employed (EC, 2010). To qualify for this program one has been claiming the Jobseeker’s Allowance [JSA] for at least twelve months (EC, 2010). The Jobcentre (2008) summarizes the Self-employment Route in three different stages:

³ These requirements imply that the person needs to be at least in *unemployment benefit I* (at least unemployed for one year) and the person needs to provide an approved business and financing plan to the Employment Agency (Caliendo et al. 2013).

- “Stage 1: a Basic Awareness Session typically lasting one half-day. This is to ensure that participants do not have unrealistic expectations about their ability to succeed in self-employment;
- Stage 2: attendance at the Start A Business Programme (SABP), usually over a 3 week period, where the participant receives support, mentoring and help to develop a Business Plan;
- Stage 3: a period of test trading for up to 26 weeks, with the support and guidance of a contracted Provider experienced in advising and assisting people in self-employment” (Jobcentre, 2008). In this stage the starter can also apply for a subsidy in the form of a weekly payment (Jobcentre, 2008).

AUSTRIA

The Public Employment Service Austria [AMS] also has a business start-up program focussed on unemployed citizens, namely the ‘Unternehmensgründungsprogramm für Arbeitslose’ [UGP] (EC, 2010). This program seems similar to the program from the UK, as it starts with a training phase and will be followed up by subsidizing phase. The stages of this program are the following:

- “The first stage – the clarification stage – is designed to verify the feasibility of the applicants’ business idea and suitability. This stage is used to focus greater attention on women (to clarify women-specific problems) and on people from a migrant background ... ”;
- "During the preparatory stage the Public Employment Service provides assistance in the form of start-up counselling and business-related training" ... "With the beginning of this preparatory stage participants will receive income support either through continuing receipt of unemployment insurance benefits or through subsistence allowance;
- The next stage is that of implementation. During this stage, when participants have entered self-employment, they receive the start-up subsidy to help them launch their business;
- The last stage is the follow-up stage, which involves a “business check-up” to ensure stabilisation of the newly founded micro-business. (Within two years, programme participants may have up to four consultancy appointments).” (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012)

Although the composition of the program is similar to the program from the UK, the requirements for participation in the program seem to be more similar to the German requirements. Shortly, the main requirements are that the person has to be unemployed (or going to lose its job in short time), the person needs to have a good business idea as well as good business skills and the person must participate in the start-up counselling (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012).

The UGP program is the main program on the topic of stimulating entrepreneurship among unemployed citizens. However, there do exist other initiatives, e.g. the Sole Trader Business (STBs) subsidy. This initiative subsidizes businesses that gives an unemployed person or a university graduate vocational training (EC, 2010).

OTHER

For this research it would be too extensive (because of the time limit) to find out and discuss all the policies of the countries mentioned in the report ‘Self-employment in Europe’ (EC, 2010). Besides, many government pages are not translated into English, which makes it hard to get a reliable view on the policies. In this section, the rest of the national policies mentioned in the report ‘Self-employment in Europe’ will be discussed shortly to give a quick overview of the measures these countries took to stimulate entrepreneurship among the unemployed citizens.

Belgium used a similar stages-based policy to Austria and the United Kingdom, where unemployed citizens can participate in trainings, will get preparatory support, and then can apply for a subsidy (EC, 2010). The self-employment programme in the former Yugoslav Republic of Macedonia also exists out of these stages, only in a abridged version (EC, 2010). Participant get two training days, after which the people with the best business ideas get 13 hours to write a strong business plan (EC, 2010). The winner gets financial support for the first three months (EC, 2010). Also in Luxembourg Iceland and in Latvia receiving a subsidy is based on the approval of a person's business plan (EC, 2010). However, Latvia has a notable policy, as it is different from the other policies on an important aspect (EC, 2010). The government of Latvia tries to only select high potential entrepreneurs based on their education level (EC, 2010). Only unemployed that are high educated, with expertise in the business field or with experience may qualify to participate in the first step of the program of writing a business plan with the support of consultants (EC, 2010). The best plans are selected to receive a start-up subsidy (EC, 2010). In this way the government tries to support start-ups with growth potential because this will then also lead to job-creation (EC, 2010).

The policies of Estonia and Sweden are similar to the German policy, where financial support is the main instrument (EC, 2010). Estonian citizens who receive this subsidy can also participate in the mentoring program for support (EC, 2010).

In the Netherlands, unemployed starters can also get support with their business plan from a work-coach, and people may request early payment of their unemployment benefits as a loan or lower payment of their unemployment benefits instead of a loan (EC, 2010).

3.3 CONCLUSION

The purpose of this chapter was to answer the second sub-question - "Which instruments are used to stimulate entrepreneurship?" The different policies with different instruments described in this chapter, will be briefly reviewed.

In first instance, the focus was on European initiatives because they recently introduced several measures to counter unemployment. I found three important programs; Progress Microfinance, the European Social Fund and Youth on the Move. Progress Microfinance is most in line with this research topic as it increases the availability of microfinances for unemployed people who want to become self-employed or start up a microenterprise (EC, C). The ESF is the most important instrument for supporting jobs in the EU, however it is not directly in line with the topic of this research (EC,D). Neither is the Youth on the Move program, which goal is to reduce youth unemployment, although they do have educational programs in entrepreneurship (EC,B).

In the second place, I concentrated on the national policies of European countries regarding the stimulation of entrepreneurship among unemployed. The choice of the countries was based on the report 'Self-employment in Europe' (2010). In table 2, I will provide an overview of the policies of the countries that are discussed more extensively (the other countries are find in section 3.2).

Country	Program
Germany	<i>Gruendungszuschuss</i> - Has a duration of maximum of 15 months, and is separated into two parts (Caliendo et al. 2013). The first part, a nine-month subsidy, is accessible to every person that meets the requirements to get this subsidy (Caliendo et al. 2013). Only if the start-up gets approved for the second period, it will receive the subsidy for the remaining six months (Caliendo et al. 2013).
Ireland	<p><i>Back to Work Enterprise Allowance</i> - If the self-employment project is approved (by the Departments Facilitator or a Partnership Company) the unemployed will retain a (part) of his social welfare payment for a maximum of two years and will get free training (Department of Social Protection, 2014).</p> <p><i>Short Term Enterprise Allowance</i> - The STEA is a payment with a maximum of nine months (Department of Social Protection, 2014).</p> <p><i>Back to Education Allowance</i> - This program offers different (free) courses for unemployed to gain new skills and thereby improve their chances on the labour market (Department of Social Protection, 2014).</p>
UK	<i>Flexible New Deal</i> - one of the sub-programs focuses specifically on training, guiding and advising (and sometimes subsidizing) long-term unemployed citizens to become self-employed (EC, 2010). This sub-program contains three steps, which are mainly focussing on support and training. In the last step the participants can apply for a subsidy.
Austria	<i>Unternehmensgründungsprogramm für Arbeitslose</i> – This program starts with the selection of participants based on the applicants' business idea and suitability (EC, 2010). When selected for the program, the unemployed gets start-up counselling and training to develop business-skills. Subsequently, the start-up phase starts and the starter will receive a subsidy for the launching phase (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012).

Table 2: Overview of different national programs to stimulate entrepreneurship among unemployed.

The main learning of this chapter is that there are two main instruments, which are often combined in policies. These instruments are *subsidies* and *education* (mostly in the form of training or support from a consultant in e.g. writing the business plan). What I see is that several governments select participants for the subsidy by assessing their business plans and/or by selecting them on former education and experience. In that way the governments try to only invest in the 'sustainable' business ideas.

4. THE EFFECTIVENESS OF STIMULATING ENTREPRENEURSHIP AMONG UNEMPLOYED

There are multiple factors that may determine the success of an entrepreneur (van der Sluis et al. 2008). Van der Sluis et al. (2008) state in their review of empirical studies into the impact of schooling that among these factors are “risk attitude, access to capital, labour market experience, business acumen, family background, psychological traits, and last but not least education”. Most of these factors are hard to influence as these are demographic characteristics or psychological traits. However the two factors that governments are stimulating, *access to capital* and *education* are easier to influence. As examined in chapter 3, the measures governments take to stimulate entrepreneurship among unemployed are mostly based on the provision of these two factors, capital and education.

In this section the two main instruments that governments seem to use, capital and education, will be evaluated. When starting this research, the aim was to compare and evaluate the outcomes of different policies. I expected that data on the investment in the program and the (economic) outcomes were obtainable on governmental pages. Unfortunately, this information is not as easy findable and accessible as expected, which makes it difficult to get hard results where recommendations can be based on.

The search for these results started on governmental pages and in documents of the EC. These sources provide some information on the general labour market policy, but mostly do not evaluate these (small) programs in specific. The government of Austria provides a document on the outcomes of the subsidy program, but this is solely positive (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012). Subsequently, for more general scientific evaluation articles, the databases Scopus and Web of Science were consulted. The main keywords used are *education*, *entrepreneurship*, *self-employment*, *subsidy*, *policy*, *effect*. The Web of Science database provided several articles⁴. The rest of the scientific articles were provided by Google Scholar.

4.1 EDUCATION AND TRAINING

A highly cited study in the Web of Science database on the effect of education and experience on self-employment success, stated four hypotheses to measure the effect of these two variables (Robinson & Sexton, 1994). In this study, earnings potential is used as an indicator to measure success (Robinson & Sexton, 1994). The main outcomes of this research are that: 1. there is a positive correlation between education and self-employment, as the probability of becoming self-employed increases with 0.8% for each year of education (Robinson & Sexton, 1994) 2. Highly educated people are more likely to become self-employed and are generally more successful than lower educated self-employed (Robinson & Sexton, 1994). Making use of a “probit” regression model, they measured that the income of a self-employed increases with \$1207.63 (\approx €860) for each year of education (for wage-earners this amount is \$825.99 \approx €590 a year) (Robinson & Sexton, 1994). 3. The variable experience also has a positive correlation with self-employment and shows the same effects, although this is less strong than the correlation between education and entrepreneurship (Robinson & Sexton, 1994). The major shortcoming in this study, as also mentioned by Robinson & Sexton, is that they did not distinguish differences in education (Robinson & Sexton, 1994). The study focused on the effect of education in general, and did not study the effect of specific types of education or educational programs (such as entrepreneurship courses) (Robinson & Sexton, 1994). Nevertheless, the general conclusion of the positive effect of education and experience on the success of self-employment is important for this research.

This founding of the positive and significant relationship between education and entrepreneurship success is also stated in the review of empirical studies from van der Sluis et al. (2008). The researchers used 94 studies (among which journal articles, book chapters, and working papers) published after 1980 and before 2003,

⁴ Shane (2009), Robinson & Sexton (1994), van der Sluis et al. (2008), Andersson & Wadensjö (2007)

which contained a total dataset of 299 observations. They found that the higher the education and the more years of education, the higher the chances of success (van der Sluis et al. 2008). Van der Sluis et al. (2008) do not only use earnings as a success measure but, in addition to the research of Robinson & Sexton (1994), also use the indicators growth and survival chances.

4.2 SUBSIDY

Subsidies are meant to compensate for the disadvantages unemployed people face in contrast to regular business founders (Caliendo et al. 2013). The subsidy provides financial support to the unemployed to cover the costs of living and social security throughout the starting phase (Caliendo et al. 2013). Most of the studies with subsidized start-ups as research topic focus on the German system. Whether this is because of the level of investment of the German subsidies or because the German system already gives outcomes (because it exists longer), is not clear as it is not argued in the articles. The subsidy-system was already implemented in Germany around 1980 and in 1994, it became easier to receive a support budget (Pfeiffer et al. 1998). Between 1994 and 2004, the number of start-ups by formerly unemployed people funded by the FEA almost ten folded - from 37.000 in 1994 to 350.000 in 2004 (Caliendo, 2008). This increase was partly caused by the introduction of a new program in 2003, the Start-Up Subsidy [SUS] (Pfeiffer et al. 1998). Since 2006, as explained in section 3.2, these two programs are combined into one program, which is the 'Gründungszuschuss'. As this implementation of the combined program is actual, some of the evaluation articles on the German system will still be on the former programs. Apart from outcomes of the German system, I also found outcomes of the Austrian and Swedish system, and general evaluation studies. This section will outline the results of various studies.

In an evaluation study on the start-up subsidy in East Germany, Caliendo (2008) compared the effectiveness of the two former programs. The outcomes of this study indicate that both programs are successful, because the unemployment rate of participants in both groups decreased with 25% and 39% respectively with respect to the non-participant group (Caliendo, 2008).

In a study which compared subsidized start-ups to regular business start-ups, three critical aspects of the subsidy principle are used in the research questions (Caliendo et al. 2013). The critical aspects focussed on the existence of deadweight losses (equal results would have been accomplished without subsidy), the moral hazard problem (no full risk leads to reduced effort) and the problem of attracting low ability individuals (Caliendo et al. 2013). The empirical analysis of this research was restricted to only male entrepreneurs, because there is a significant difference between male and female entrepreneurs and that they only focus on full-time starters (which are mostly men) (Caliendo et al. 2013). The study combined the information out of existing literature with a large scale telephone survey - 2,306 interviews (of which 1,378 men) with subsidized start-ups and 2,303 (of which 930 men) with non-subsidized start-ups (Caliendo et al. 2013). The main conclusion of the article is that subsidized start-ups generally seem to be stable and help people out of unemployment (Caliendo et al. 2013). Nevertheless, the former unemployed are less successful at creating a growing and innovative business and thereby creating economic growth (Caliendo et al. 2013). For this research, the most relevant outcome is that subsidized start-ups show higher survival rates after 19 months, but lag behind in innovation and growth (Caliendo et al. 2013).

This conclusion can be strengthened by the article from Shane (2009) "Why encouraging more people to become entrepreneurs is bad public policy". Because of the on-going economic crisis, policy makers try to stimulate citizens with subsidies, tax reductions and other approaches to start businesses and thereby generate innovation and create jobs (Shane, 2009). Nevertheless, Shane (2009) states that these approaches do not induce 'sustainable entrepreneurs' who create innovation, growing businesses and wealth, but typical start-ups with a low probability of success. Shane (2009) recommends that governments should create a policy in which they invest money the way venture capitalists do. Venture capitalists only invest in high potential start-ups, and have a strict selection process (Shane, 2009). However, this policy will be hard to introduce in democratic

Europe, as most of the voters would benefit more by the current policy, which is more tolerant (Shane, 2009). The policy of Latvia seems to be closest to this viewpoint, as they only invest in unemployed with high education levels or experience. Thereby they try to stimulate high-potential start-ups which will lead to job creation. But also most of the other policies have a kind of selection process, as the participation of the unemployed in the subsidy program is often determined by the approval of a business plan.

This is also the case in Austria, where the government is positive about their microcredit-programme. In a report on the labour market policy of 2011 is stated that “around 18% of start-up companies in Austria originate through unemployment. The success rate is above average, as only 6% of founders are affected by unemployment again after five years. Supporting those who start up new businesses is therefore an important part of the government’s efforts to create and safeguard jobs in a sustainable way.” (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012). These outcomes are very positive, and are also supported by the founding that the start-ups created by unemployed citizens, provide an average of 1.26 full-time jobs after five years (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012). So this program does not only counter social and economic exclusion of the unemployed, it also creates economic growth and an increase in jobs (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012).

Andersson & Wadensjö (2007) conducted a four year study to the differences in outcomes of start-ups in Sweden. They compared the economic outcome and success as self-employed of five different groups: the unemployed, the inactive, and three groups of wage-earners (classified on their salary) (Andersson & Wadensjö, 2006). This research showed that former wage-earners with a salary above average who enter self-employment are generally doing better than the former unemployed (Andersson & Wadensjö, 2006). On average the former wage-earners with a salary above average:

- Have higher incomes (an average of 253 250 SEK \approx €26 800 a year respectively an average of 66 138 SEK \approx €7 000 a year);
- Employ people (42% respectively 9%);
- Have lower exit rates (than the former unemployed (Andersson & Wadensjö, 2006)

In addition, it appears that there is a higher exit rate among unemployed and inactive in comparison with the wage-earners (Andersson & Wadensjö, 2006). This difference in performance is possibly caused by a difference in demographic variables like education and job experience and by the lack of connections unemployed people have (Andersson & Wadensjö, 2006). This is important to take into account to state the effectiveness of the instruments. Nevertheless, the research also shows that the unemployed who receive a subsidy are doing better in terms of salary, number of employees and exit than the unemployed without the subsidy (Andersson & Wadensjö, 2006). This can be caused by the selection process for the subsidy or by the subsidy itself (Andersson & Wadensjö, 2006).

4.3 CONCLUSION

The purpose of this chapter was to answer the third sub-question – “What is the effectiveness of these instruments?” In chapter 3, I found that the two main instruments used to stimulate entrepreneurship among unemployed are education and subsidy. In most programs, subsidy is used as the main instruments, but education is often used as a complementary instrument to support people in the starting phase. These two instruments are evaluated in this chapter and I will shortly review the outcomes in this conclusion.

The effect of education appears to be very positive. Research from Robinson & Sexton (1994) shows that there is a strong positive correlation between education and self-employment and that highly educated people are more likely to become self-employed and are generally more successful than lower educated self-employed. This outcome can be enhanced by the review study from van der Sluis et al. (2008), who also found a positive and significant relationship between education and entrepreneurship success. They found that the higher the education and the more years of education, the higher the chances of success (van der Sluis et al. 2008).

In general, the effects of subsidies also appear positive, although this more complicated. Several studies show the positive effect of the subsidy-programs in terms of a significant decrease in unemployment. Caliendo (2008) shows e.g. that the unemployment rate of participants in subsidy programs decreased with 25% and 39% with respect to the non-participant group. Andersson & Wadensjö (2007) show that the unemployed who receive a subsidy, are doing better in terms of salary, number of employees and exit than the unemployed without the subsidy. And also research on the policy of Austria shows positive results, as only 6% of founders are affected by unemployment again within five years (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012).

Nevertheless, comparing these subsidized start-ups by the unemployed with regular start-ups, the results seem a little less positive. Caliendo et al. (2013) found that subsidized start-ups show higher survival rates after 19 months, but lag behind in innovation and growth. They also found that regular entrepreneurs are generally more experienced than subsidized entrepreneurs (Caliendo et al. 2013). The main conclusion of their article is that subsidized start-ups generally seem to be stable and help people out of unemployment, but that former unemployed are less successful at creating a growing and innovative business than regular business founders (Caliendo et al. 2013). Also Andersson & Wadensjö (2007) show in their research on Swedish start-ups that former wage-earners with a salary above average who enter self-employment are doing better than the former unemployed. On average they have higher incomes, employ more people and have lower exit rates than the former unemployed (Andersson & Wadensjö, 2006). This is consistent with Shane (2009), who also states that this government approach does not stimulate 'sustainable entrepreneurs' who create innovation, growing businesses and wealth, but typical start-ups with a low probability of success. Nevertheless, in Austria the subsidized start-ups provide an average of 1.26 full-time jobs after five years (Federal Ministry of Labour, Social Affairs and Consumer Protection, 2012). So in contrast to the results of these articles, this policy definitely shows a positive effect also in terms of job-creation.

Answering this sub-question about the effectiveness of these instruments is not so simple. Although research shows a positive and significant correlation between education and entrepreneurship, this concerns education in general. This result is important, but it is not very revealing for the effectiveness of the specific courses that the unemployed get in e.g. writing a business plan. However, as I can say that in general higher education leads to higher business success, it seems logical that this also applies to entrepreneurship courses. Yet this cannot simply be assumed and would therefore be a good extension for further research.

The effectiveness of subsidies is more complicated. In general it seems that the subsidies are effective and that it decreases unemployment. This means that it helps decreasing an economic and social problem. However, as several articles show that regular start-ups are doing better in terms of income, growth and innovation, it rises the discussion if this is the best way to solve the unemployment problem. This discussion will be further elaborated in the final conclusion. For this chapter, the main conclusion is that subsidies do reduce unemployment, and that subsidized unemployed are doing better than other unemployed in starting a business. However, compared to regular start-ups, subsidized start-ups by unemployed are performing worse, which means that the effectiveness of the programs should still be improved.

5. CONCLUSION AND RECOMMENDATION

Several European countries try to stimulate entrepreneurship among the unemployed to counter unemployment and to perceive economic growth. This study was aimed to answer the research question: *Which instruments can stimulate 'sustainable' entrepreneurship among unemployed citizens?*

In first instance, the concepts of this research question needed to be clarified. In this research, I look at entrepreneurship as 'a risk taking process of creating new innovative economic endeavours, which may range from self-employment to the creation of substantial organizations'. In addition, a 'sustainable' start-up implies having growth potential, being innovative and being profitable.

Second, by the use of a pioneering report of the European Commission and governmental pages, the most common instruments were determined. The instruments, used by the EU and by national governments to stimulate entrepreneurship, are *subsidies* and *education*. These instruments are often combined in a start-up program where people first get trainings and subsequently may apply for a start-up subsidy. In several policies, the selection of participants for the subsidy is based on a business plan.

At last, the instruments were evaluated. The effect of education appears to be positive. In general, research showed that the higher the education and the more years of education, the higher the chances of success (measured in the level of income). The only throwback of this outcome is that this effect is based on education in general, while the education that unemployed get to improve their skills is mostly in the form of training. As I can say that in general higher education leads to higher business success, it seems logical that this also applies to entrepreneurship courses. Yet this cannot simply be assumed and would therefore be a good extension for further research.

Looking at the effectiveness of subsidies, it seems that in general the subsidies are effective in decreasing unemployment. This means that it helps decreasing an economic and social problem. Research also shows that the subsidized start-ups by former unemployed show higher survival rates after 19 months than regular start-ups and that former unemployed with subsidized start-ups have better results than unemployed without subsidy support. So over all, the subsidized businesses are stable.

However, comparing the subsidized start-ups from former unemployed with regular start-ups, the results are placed in a different perspective. Several articles show that regular start-ups are doing better in terms of income, growth and innovation than the subsidized start-ups, while it is so important for governments, regarding the 'sustainable' factor, that start-ups are innovative, profitable and, most importantly, growing.

This system of stimulating entrepreneurship among the unemployed would be an ideal system if functioning properly. It would reduce unemployment on the short term and provide jobs on the longer term. To accomplish this, a possible solution can be to make the selection process for participation in a start-up program stricter. The difference in performance is partly caused by a difference in demographic variables like education and job experience and by the lack of connections unemployed people have. All programs already have requirements the unemployed should meet (e.g. being unemployed for a certain period) and some programs also have a selection procedure which is mostly based on the applicants' business plan. Governments can make it stricter by also assessing e.g. personal skills and the level and term of education. A pro of this selection procedure could be that if governments only invest in high-potential, fast growing enterprises, these enterprises will employ people. This would indirectly reduce unemployment, as this system is providing jobs. On the other hand, a counter argument for this selection procedure could be that the balance between the economic and social aspects is disturbed, as the focus will shift to the economic aspect.

The final conclusion of this research is that the instruments *subsidies* and *education* have a positive effect on the performance of unemployed when starting a business. However, when comparing the start-ups from

unemployed with start-ups from former wage-earners, the performance of the former unemployed is less satisfying. So although the effects of the utilized instruments are positive, the governmental policies do not take into account the 'sustainability' of the start-ups, as subsidized start-ups seem to perform worse than regular start-ups. Reducing the unemployment level can be achieved directly by supporting the transition into self-employment and indirectly by creating further jobs in the newly founded firms. A possible solution to only stimulate the high potential start-ups could be a stricter selection procedure for participation in a program. This will mean that less unemployed will get the support, but more 'sustainable' businesses will be established. Final, in order to improve governmental policies in this field, our recommendation of topics for further research would be first, on the effect of trainings and specific entrepreneurship courses. Governments put effort and money in these courses while the effect of these courses is not yet determined. A second recommendation for further research would be on the effect of a stricter selection procedure for achieving a subsidy. This recommendation is so far only based on a limited literature study and would need more evidence on its effect before it can be recommended to governments. Possible selection criteria to study would be the level & number of years of education and personal business skills & job experience.

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