

# ICSB GAZETTE

THE GLOBAL LEADER SUPPORTING MICRO-, SMALL AND MEDIUM ENTERPRISES

MONDAY, DECEMBER 31, 2018. ISSUE 4

## THE NOTION THAT SIMPLY ENCOURAGING MORE PEOPLE TO START BUSINESSES ISN'T NECESSARILY THE MOST EFFECTIVE USE OF RESOURCES

WRITTEN BY: DONNA KELLEY, PROFESSOR OF ENTREPRENEURSHIP AT BABSON COLLEGE AND FREDERIC C. HAMILTON CHAIR OF FREE ENTERPRISE



*"As understanding about this activity has increased, so has the notion that simply encouraging more people to start businesses isn't necessarily the most effective use of resources."*

Governments, NGOs, businesses, and other stakeholders have, for some time, sought to encourage entrepreneurship in their communities or in other regions of the world where this activity is viewed as a solution to economic and societal challenges. As understanding about this activity has increased, so has the notion that simply encouraging more people to start businesses isn't necessarily the most effective use of resources. Initiatives instead need to focus on particular types of entrepreneurship or entrepreneurs: for example, growth-oriented entrepreneurs, women, youth, or technology ventures.

However, these initiatives often overlook the particular needs of their local region. Some well-meaning interventions may not realize their objectives because they are constrained by unanticipated bottlenecks or they sideline some of the people they intend to help. Entrepreneurship can vary considerably around the world on a number of dimensions. Any program, policy, or initiative, therefore, needs to examine and address the unique profile of the targeted nation or region.

Differences in participation across entrepreneurship phases can be examined in Global Entrepreneurship Monitor (GEM) data. In France, for example, over 17% of adults expressed interest in starting a business in the next three years, but less than 4% are taking steps to do so. This is still the case when time lags are taken into consideration. A similar pattern can be seen in Iran, which is in the middle stages of economic development. There may be different causes for this, such as bureaucratic procedures, lack of a business support framework, cultural constraints, or high competitive barriers to entry. A solution that works in one country may not apply in another or may need to be applied differently.



In Peru, a slightly different issue arises around phases of the entrepreneurship process—25% of the adult population are starting a business, but less than 7% are running mature ones. This is a typical pattern across Latin America where most countries fall into the middle stages of economic development. Among eleven countries in this region, there are an average of four established business owners for every ten people in the startup phase. This is a longstanding issue for this region; many people are starting up, but few have sustained their businesses into maturity. Necessity is a possible explanation; over one-fourth of entrepreneurs start up because they lack better job alternatives. It could also be due to the industry sector—over half of the entrepreneurs are starting low barrier-to-entry wholesale/retail businesses. Basically, though, people may not have the intentions or range of skills to sustain their ventures, or the environment may eventually erode their ability to keep their businesses going.

While France and Peru show potential issues across phases of entrepreneurship, Germany exhibits something different—a tradeoff between forms of entrepreneurship. In this country, more people are starting businesses for their employers than starting a new venture on their own. Other countries, such as the UK, Sweden, and Taiwan, show moderate rates of entrepreneurship with high levels of employee entrepreneurship. Conditions in these countries appear to encourage entrepreneurial activity among employees, while startup entrepreneurship is somewhat less attractive. Finding a job may be the most appealing choice in certain economies, even for the most entrepreneurial types. In contrast, countries like Australia, the United States, Estonia, and Canada show high levels of both startup and employee entrepreneurship, suggesting both types of entrepreneurs are prevalent and supported.



"In some parts of the world, entrepreneurship favors specific demographics, overlooking the advantages of broader participation."

In some parts of the world, entrepreneurship favors specific demographics, overlooking the advantages of broader participation. There are only a few economies where women start businesses at a rate equal to men (for example, Brazil, Indonesia, and Ecuador). In contrast, women start businesses at less than half the rate of men in Egypt, France, Slovenia, UK, Morocco, and Italy. There are various reasons for this, such as the attractiveness of employment opportunities for women, cultural expectations, or other factors or conditions that enable or constrain the entrepreneurial ambitions of women.

In most economies, entrepreneurship is highest among those in early to mid-career, around 25-44 years of age. Conversely, the highest rates of entrepreneurship in Korea, UAE, and Qatar, occur among those 45 years of age and older. Some economies look to entrepreneurship to resolve high youth unemployment. There are also longer-term advantages: promoting entrepreneurship among young people allows them to build their abilities, which can benefit them as they recognize and capture opportunities throughout their careers. Younger people may pursue different types of opportunities than older demographics.

The young are less bound by expectations of high salaries that can come with experience and are less likely to be constrained by obligations such as mortgages or kids in college, things that steer older people toward more predictable employment. Yet older entrepreneurs may leverage their experience, resources, and networks; entrepreneurship may represent an opportunity for them to pursue their dreams or to simply generate their own income.

Much of the intervention directed toward entrepreneurs target those with high impact potential, such as those with job creation potential and innovations. Given the range of conditions needed to foster such entrepreneurs, though, it is likely to require a dedicated, comprehensive effort to inspire and support this form of entrepreneurship in countries like Brazil and Indonesia, where less than 5% of entrepreneurs project hiring more than 5 people in the next five years, and less than 15% state that their products or services are innovative. Compare this to Taiwan and Qatar, where over 40% of entrepreneurs have the aforementioned job creation potential, and to Chile and Lebanon, where over half the entrepreneurs say they are introducing innovations.

This sampling of indicators demonstrates the extent and breadth in which entrepreneurship can differ around the world. The key effort we must undertake in each economy is to understand its unique entrepreneurial profile, determine where there are gaps, identify causes of success or failure, take action, learn, and adjust as we monitor progress.



### **About ICSB Gazette:**

The ICSB Gazette is a weekly edition of a key topic that ICSB will showcase. The content is varied from research, practice, policy, and education. The editor of the ICB Gazette is Ms. Jordyn Murphy, ICSB Operational Manager. She will be soliciting ideas and articles from ICSB members world-wide.

### **ICSB Executive Director Comment:**

Donna Kelley represents the future of entrepreneurship research. She brings all the analytical tools to be cutting edge on entrepreneurship research. Yet, she also brings the human aspect of kindness and empathy to understand the true nature of problems. Entrepreneurship is about tying the theory and practice. I believe Donna brings both aspects together in a seamless and yet powerful aspect. ICSB is proud to be working with Donna Kelley!

Dr. Ayman El Tarabishy



### **Jordyn Murphy Editor, ICSB Gazette**

Jordyn is the Operations Manager at the International Council for Small Business in Washington, D.C and the Editor of the ICSB Gazette.

### **Contribute:**

Have a topic you would like to see or an article to share? Please submit for consideration to [jordyn@icsb.org](mailto:jordyn@icsb.org)

# **ICSB Gazette**

**THE VOICE OF MICRO-SMALL AND MEDIUM ENTERPRISES**