

Small Business and Job Creation in EU

MFC Webinar Session

27th September 2016

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This meeting has received financial support from the European Union Programme for Employment and Social Innovation "EaSI" (2014-2020). For further information please consult: <http://ec.europa.eu/social/easi>

Objectives

- **Small business job creation conundrum:**
 - politics versus economics
- **Small business employment dynamics:**
 - role size and age of business in job creation and job maintenance
- **Lessons for small business policies and SME financing**

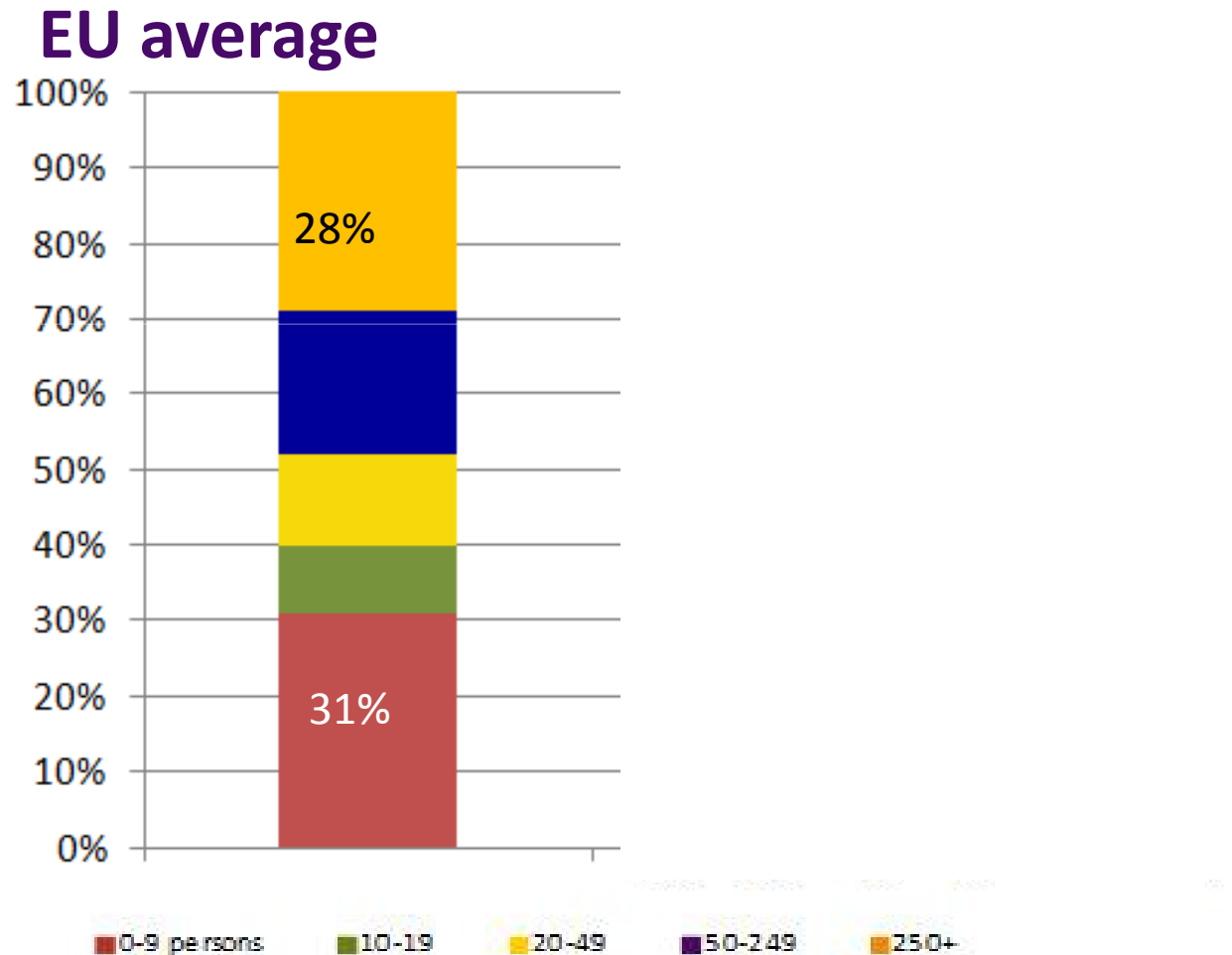
Introduction

- **High unemployment in many EU countries prompts governments to seek new job creation options**
 - *With slack job growth in mainstream economy, all alternatives are welcome*
 - *Self-employment and micro-enterprises are an obvious policy choice*
- **Two points of view:**
 - **Political view: small is beautiful!**
 - **Economic view: small is not the only answer!**

Introduction

- **Political view: small is beautiful!**
 - Small businesses continue to be seen as engines of growth and creators of employment
 - Strong political support for micro and SMEs with the focus on size of the enterprise as the key driver
- **Economic view: small is not the only answer!**
 - Role of small firms in job creation is much more complicated and nuanced
 - There is job creation and job destruction
- **Need to better understand the dynamics of the job creation**

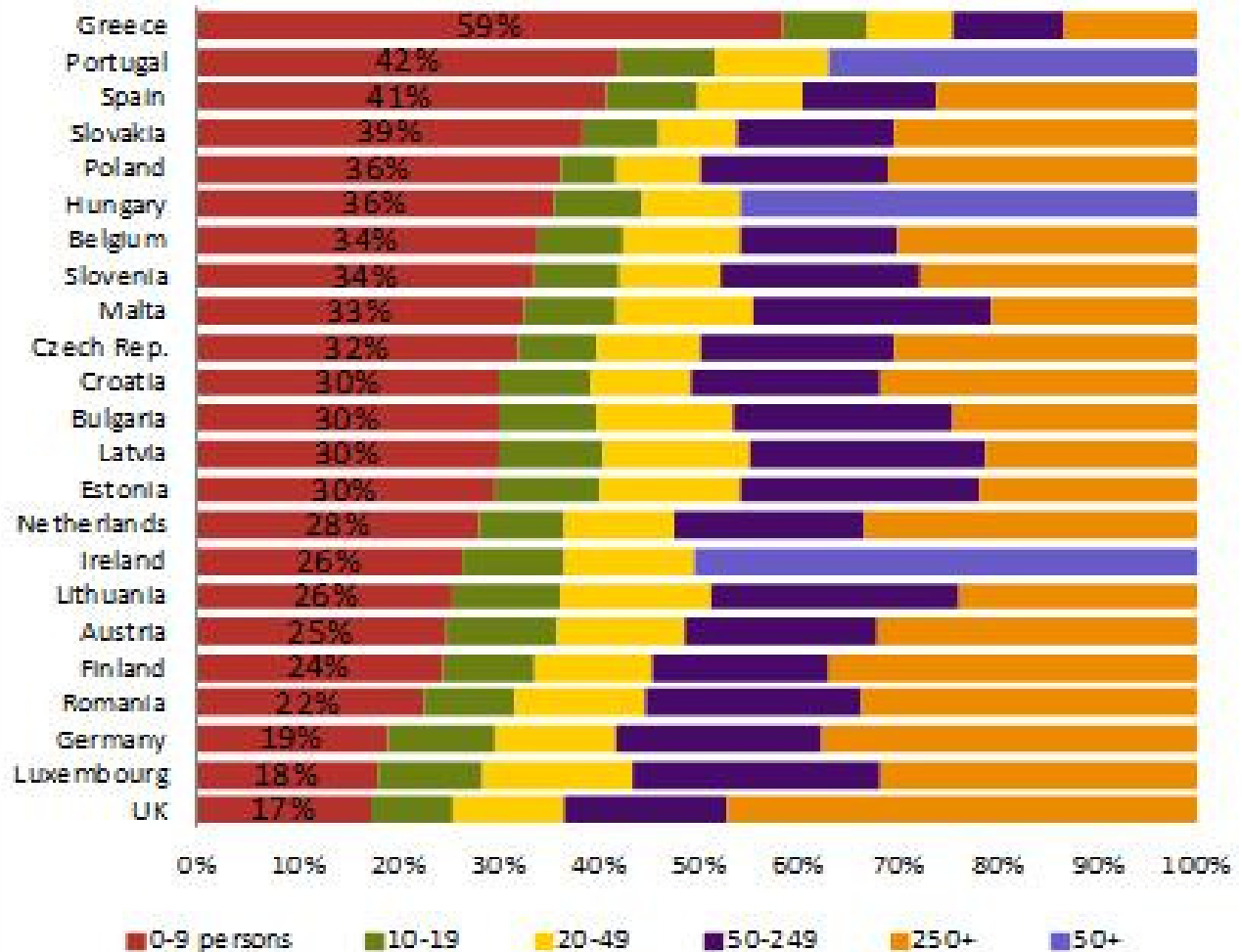
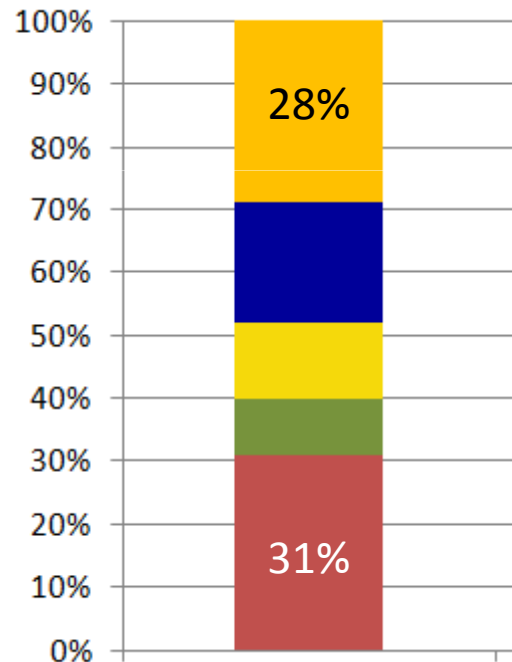
Employment Distribution by Firm Size



Source: MFC calculations based on Eurostat data (2012)

Employment Distribution by Firm Size

EU average

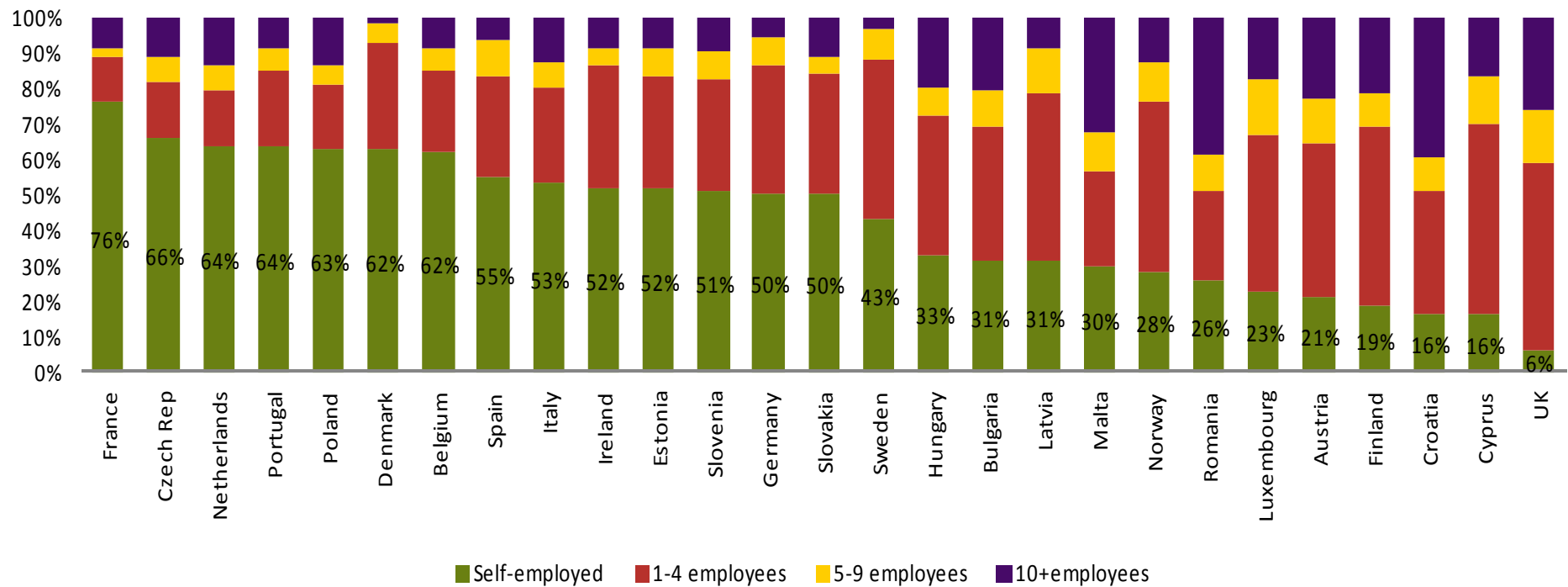


Source: MFC calculations based on Eurostat data (2012)

Employment Distribution by Firm Size

- On average, 31% of the employed in the business economy work in microenterprises
- Large differences between the countries:
 - In Greece, as many as 56% of the private sector workforce is employed in microbusinesses while only 13% in large companies
 - In the UK, only 17% work in microfirms and 47% in large firms

Employment by Start-ups



Source: MFC calculations based on Eurostat data (2012)

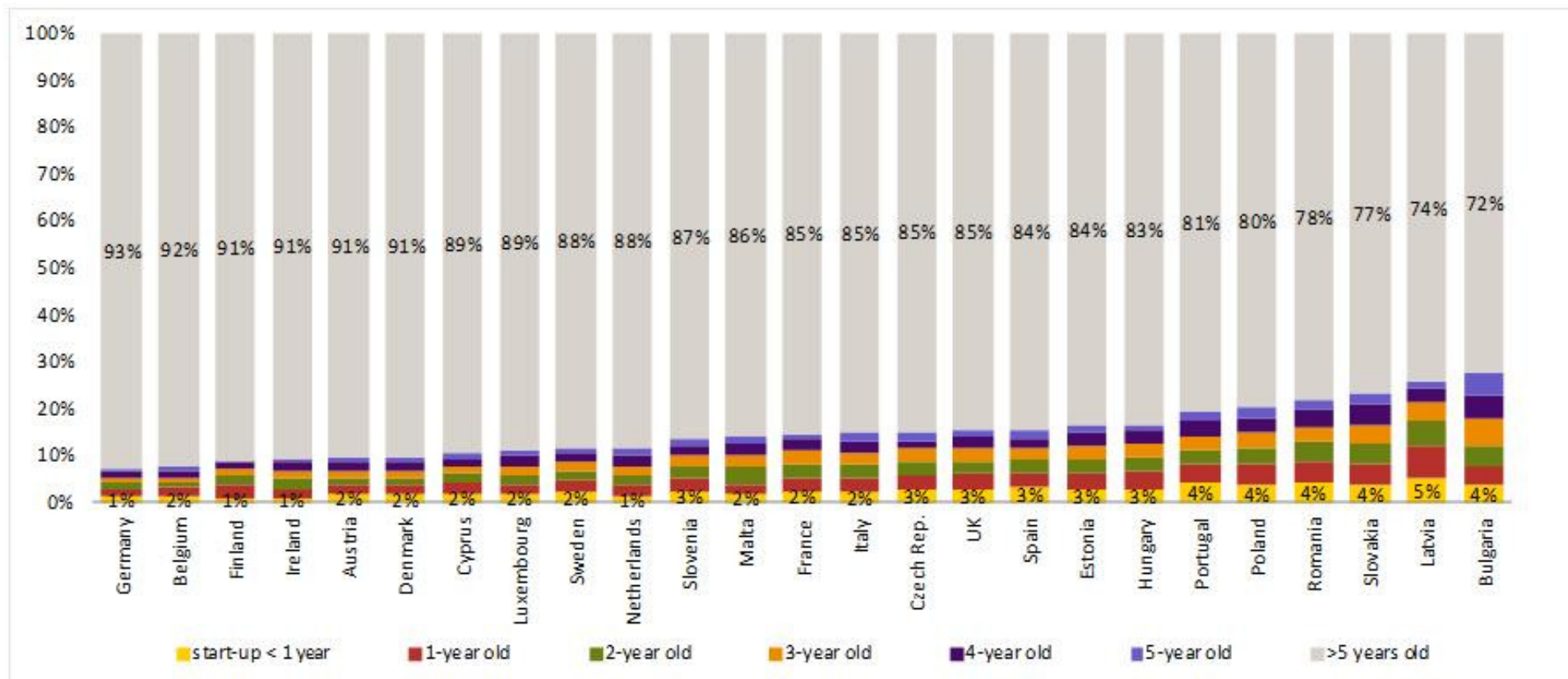


Employment by Start-ups

- On average, start-ups employ few workers
- 42% of the workforce employed in start-ups are in fact the self-employed
- Further 33% of the population working in start-ups are employees of very small enterprises (1-4 people)
 - In France 76% of start-ups are self-employed
 - In the UK, start-ups are larger - only 6% of all start-ups are self-employed, while 53% of employees are with 1-4 employee firms

Age may matter more than size

Employment by Firm Age (2012)

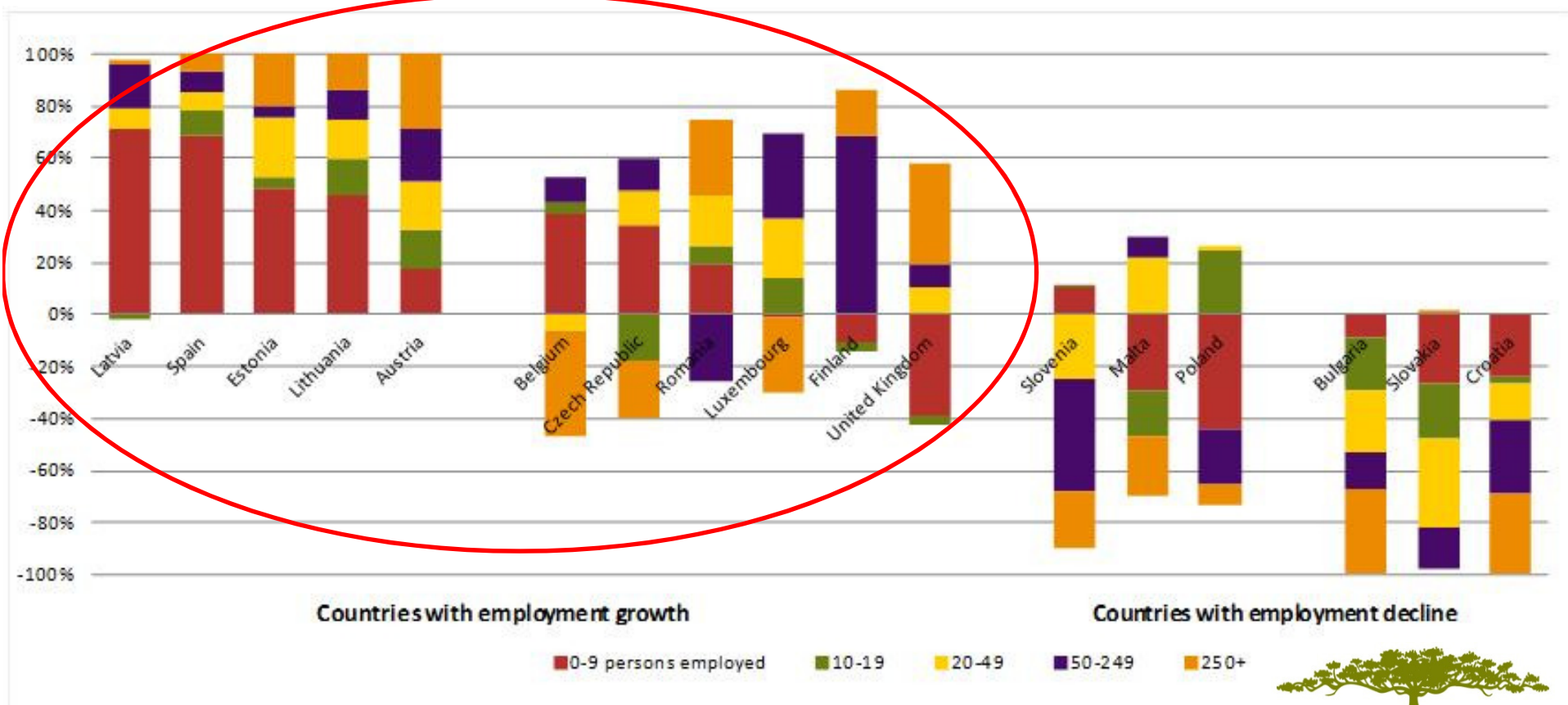


Age may matter more than size

- On average, 85% of the employed in the EU countries work in firms established more than 5 years ago
- Start-ups employ on average 3% of the workers
- Firms between 1 and 5 years of operations employ the remaining 12%.

Net Job Creation

Net Job Creation by Firm Size (2012)



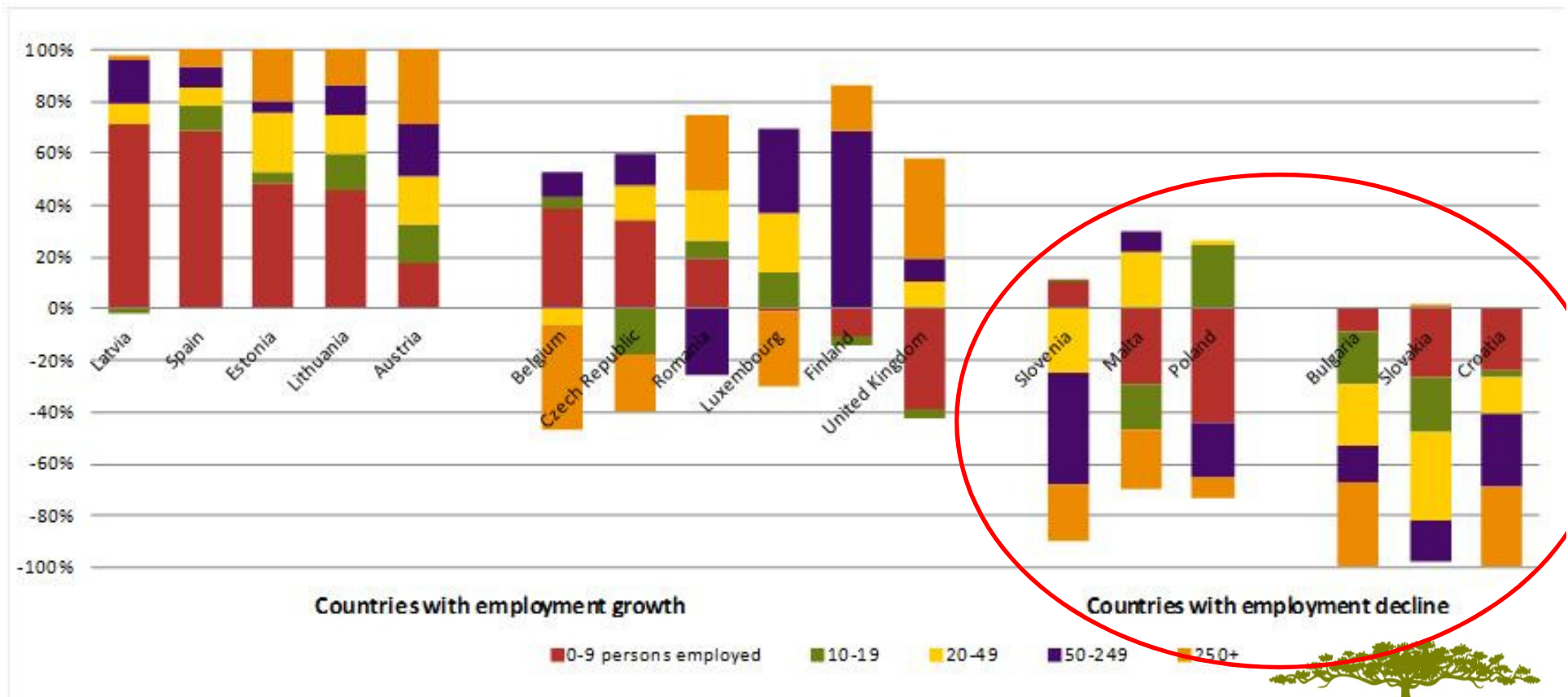
Source: MFC calculations based on Eurostat data

Net Job Creation

- **Contribution of microenterprises to net job creation is mixed and differs from country to country**
 - **In 11 countries with overall net employment growth, microenterprises were the largest contributors to job creation in 6 countries**
 - **But in 2 countries microenterprises were job destructors while medium and large companies created most jobs**

Net Job Creation

Net Job Creation by Firm Size (2012)



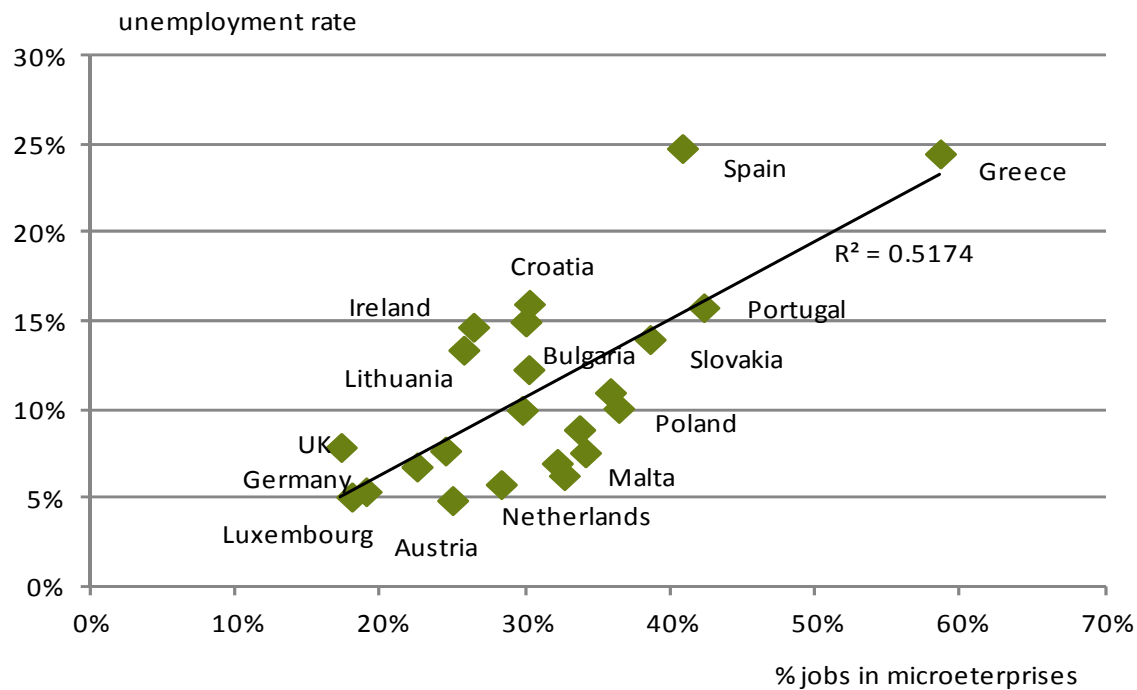
Source: MFC calculations based on Eurostat data

Net Job Creation

- In almost all countries with negative job creation employment in microenterprises shrank
- Only in Slovenia microenterprises managed to increase the number of employees despite job cuts in all other firm sizes

Microenterprises and Unemployment

Microenterprise Employment and Unemployment Rate (2012)



Microenterprises and Unemployment

- In the countries of higher unemployment rate more people work in microenterprises (Greece, Spain, Portugal)
- The causality of this relationship is unknown but the ability of microenterprises to combat unemployment is in question

Microenterprises and Unemployment

- **Example: Poland**
 - To decrease unemployment by 1% through self-employment of the unemployed requires the creation of 150,000 new micro-enterprises
 - To bring the unemployment rate to a 5% level ('natural level') would require to double the number of firms in the country (1,500,000)

Key observations and implications

- **Not all small businesses create jobs**
- **New firms don't create more jobs than existing firms; only a small percentage of new growth-oriented gazelles bring new jobs on a scale comparable to the existing firms**
- **Self-employment and creation of small businesses does not mean entrepreneurship: many micro- and small businesses are of the subsistence type started as a response to the lack of jobs**
- **The number of people who run their own businesses is negatively associated with economic growth and positively correlated to unemployment**



What Could be Done?

- **Data**
 - There is a need for more clarity in data in relation to small firms' age and size, and their contribution to job creation.
- **Policy choices**
 - Business policies should strongly focus on supporting gazelles and also larger businesses that will create significant numbers of jobs and absorb the unemployed pool of workers.
 - There is scope to support self-employment, including among the unemployed and the vulnerable groups, but this should be viewed as a social program.



What Could be Done?

- **Financing**

- Financial support for business enterprises should be refocused on the provision of risk capital and growth capital for firms that offer the largest potential of development.
- Funding for start-ups should be more selective and steer away from creation of subsistence firms and self-employment arrangements which can be funded through social programs.


What Could be Done?

- **Linkage with other development strategies**
 - **When supporting self-employment and micro-enterprises, policies should consider taking a broader view of enterprise development within values chains to link small firms with larger economic ecosystems.**

Read more ...

MFC Policy Paper No. 3: „Of Mice and Unemployed: Rethinking Micro-Enterprise and Small Business”

<http://mfc.org.pl/mfcwp/wp-content/uploads/2016/04/MFC-Policy-Paper-3-on-Enterprise-Policies-n.pdf>



MFC POLICY PAPER No. 3
Focus on Enterprise

OF MICE AND UNEMPLOYED: RETHINKING MICRO-ENTERPRISE AND SMALL BUSINESS POLICIES IN THE EU

Persistent high unemployment in many EU countries prompts governments to seek new job creation options. Promoting jobs through self-employment and small businesses is an alternative strategy that carries high hopes and attracts a lot of policy attention on the theory that small businesses create the majority of jobs in the economy. However, despite the widespread support for small business startups – from entry to the growth dynamics in the first years of their existence – their role for job creation is not well understood and the policies may be following the wrong prescriptions. The paper discusses the complex relationships between firms size and job creation in the EU which shows that there is a need to better understand the dynamics of the job creation and destruction process. Evidence rather than erroneous beliefs should guide small enterprise development, including financing micro and small businesses through microcredit to make them effective for job creation.

SMALL BUSINESS AS AN ENGINE OF GROWTH HYPOTHESIS

Small businesses¹ continue to be seen as engines of growth and creation of employment. Statements like “small businesses create the majority of our economy’s jobs” are often heard from politicians and are the basis for national strategies and EU recommendations. An implicit assumption appears to be that countries and industries with a large number of small firms and startups also tend to be those where most innovative high-growth firms emerge.

If this were to be true, and the objective was to increase employment, the single policy prescription would be to increase the number of micro and small enterprises. It turns out that this long-standing view may not be accurate. Policies focusing on the size of an enterprise in general do not seem to bring the desired outcomes in employment, and pro-SME policies may not be pro-employment.

The small business strategy is predicated on the belief that micro- and small businesses create the majority of the new jobs in the economy. But this does not find support in evidence. Most new businesses start small, remain small and die small. Those which create jobs also destroy jobs, and the net outcome – which is rarely mentioned in the policy rhetoric – is small and sometimes positive in some countries. Only a small percentage of the newly created businesses survive and grow to create positive additions to employment in the economy. In Europe, 50% of net jobs created by SMEs is created by 4% of the firms. Enterprises are more likely to

¹ A term “small business”, while lacking an official EU definition, is often a shortcut for all smaller firms, including self-employment, microenterprises and small businesses alike. This general meaning is used throughout the paper unless a specific reference is made to the size of a business.

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Thank You!

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*MFC Policy Paper No3: Of Mice and Unemployed: Rethinking
Micro-enterprise and Small Business Policies in the EU*