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ENTREPRENEURSHIP: Concepts and Evidence

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Policy Lab- Data, Research and Policy Division

How is entrepreneurship relevant to the issue of youth employment?

There are 223 million unemployed or underemployed youth between the ages of 15-24 in developing and emerging economies.[i] However, labor markets in these economies offer limited wage-earning jobs – according to ILO, only 22% and 35% of total employment in low- and lower-middle-income countries is in wage employment. Further, many of these economies are not creating new wage-earning jobs fast enough to absorb the growing workforce – e.g., according to AfDB, Africa creates 3 million wage-earning jobs annually, compared to the 10-12 million youth that enter the labor force each year. As a result, fostering entrepreneurship has become a key pillar of the policy agenda in developing and emerging countries to expand employment opportunities for youth. The policy discourse has coalesced around two distinct pathways whereby entrepreneurship can address youth employment: (i) Growth approach: entrepreneurship as an engine of economic growth and job creation – these are entrepreneurs of all ages that create and grow businesses that will generate jobs for youth, and (ii) Livelihoods approach: entrepreneurship by youth as a means to acquire productive employment and livelihoods for themselves.

How is entrepreneurship defined?

Entrepreneurship is a well-known phenomenon lacking a single precise definition.[ii] The empirical literature equates entrepreneurship with measures such as self-employment or new business activity. In contrast, the theoretical literature defines entrepreneurship based on personality traits, skills, behaviors. To varying degrees, three traits have recurred in the various theoretical definitions of entrepreneurship: *bearing uncertainty and risk*; *competent management; finding and exploiting opportunities*.[iii] To this point, the "art" of entrepreneurship – e.g., creativity, risk-taking, confidence, determination – should be separated from the "science" of entrepreneurship – e.g., planning, management, accounting, marketing.[iv]

Becoming an entrepreneur – entrepreneurship as a dynamic process

Unlike the static view implied by the above definitions, entrepreneurship is a dynamic process. To become, grow and thrive as an entrepreneur means navigating a continuum of events and stages that are influenced by many factors. As seen in Figure 1, the entrepreneurial journey begins with the *gestation stage*, when the entrepreneurial vocation, motivation, and key capabilities are acquired, and the business idea defined. The next stage is the *start-up stage* that includes the final evaluation of the project, and efforts to access and organize resources needed to start the business. It is followed by the *early development stage*, characterized by market entry and efforts to address the operational problems faced by new firms.[v] Entrepreneurs that persist enter subsequent *growth/maturity stages*. Successful transition from one stage to next requires a differential mix of skills and enabling conditions at each stage.[vi]

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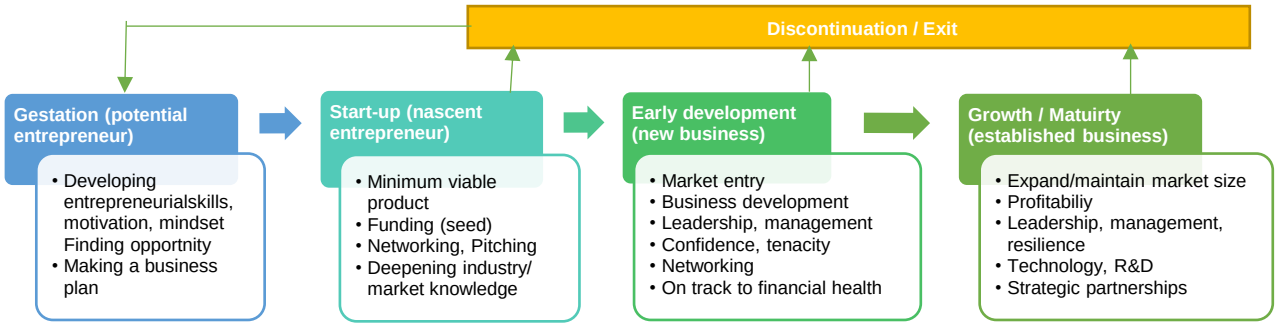
Figure 1: The Entrepreneurial Journey



What are the different types of entrepreneurs?

Entrepreneurs vary in their economic objectives, skills, roles in the economy, and policy responses. Many entrepreneurial policies fail because they do not distinguish between the different types.[vii] Entrepreneurs can be classified based on their *mission objective,* development stage, *motivation*, and *growth potential*.

Mission objective

- **Commercial entrepreneurs** – those who develop a product, process or service that consumers will pay for. The main objective of commercial entrepreneurship is to generate profits.
- **Social entrepreneurs** – according to one school of thought, social entrepreneurs use commercial strategies to achieve social goals (e.g., European Commission, OECD, World Bank, ILO, UNCTAD, some governments), and success means creating social and economic value.[viii] Another school defines social entrepreneurs as innovators whose innovations catalyze large-scale social change or address social needs, with no explicit mention of economic value creation and earned income strategies (e.g., Ashoka, UNICEF). Social entrepreneurship is a vast field and it is not possible to do justice to this multi-faceted topic here; hence, the scope of the brief is limited to commercial entrepreneurship.

Development stage – The Global Entrepreneurship Monitor (GEM) uses three categories:

- **Nascent entrepreneurs** – those who are actively involved in setting up a business they will own, and whose business has not made any payments to owners for more than 3 months.
- **New business owners** – those who own or co-own a business that has made any payments to owners for more than three months but less than 42 months.
- **Established entrepreneurs** – those who own or co-own and manage a running business that has made payments to owners for more than 42 months.

Motivation

- **Necessity-Driven entrepreneurs** – those involved because they had no better options for work. On average, 35% of early-stage entrepreneurs in low-income countries have necessity motives vs. 28% and 18% in middle-income and high-income economies.[ix]
- **Improvement-Driven Opportunity (IDO) entrepreneurs** – those involved because they are driven by opportunity and whose main motivation for engaging in the opportunity is being independent or increasing their income. 37% of early-stage entrepreneurs in low-income countries have IDO motives compared to 42% and 51% in middle- and high-income economies.[x]

Growth potential

- **Subsistence entrepreneurs –** those involved so they can earn a subsistence income for themselves, and who do not – and do not aspire to – grow the business to the point of creating jobs for workers

outside their family. Subsistence entrepreneurship as a first step to growth entrepreneurship is not supported by data.[xi] While it may not create jobs or contribute to economic transformation, its performance and survival is essential to the livelihoods of the poor who own these micro-businesses.

- **Growth entrepreneurs (gazelles)** – those who aim to create large, vibrant businesses that grow beyond individual subsistence needs and provide jobs for others.[xii] They are less common but significantly affect output growth and job creation. E.g., in Brazil, Turkey, Cote d'Ivoire, Ethiopia, and Indonesia, high growth firms are 10%-20% of total firms yet generate more than half of all new jobs.[xiii]
- **Constrained gazelles** – those who share the skills and behaviors of growth entrepreneurs but have the low-capital, low-profit traits of subsistence entrepreneurs, suggesting untapped entrepreneurial potential.[xiv] E.g., surveys in Mexico, Sri Lanka and West Africa found that between 20%-60% of subsistence entrepreneurs were constrained gazelles, depending on the country context and measurement approach.[xv] Traditional measures to identify growth entrepreneurship are *ex-post*[xvi], but a growing body of research is testing approaches – e.g., psychometric screening, peer feedback, competitions with expert judges and/or face-to-face interviews, youth-friendly aptitude tests – to *ex-ante* identify entrepreneurial potential which could then be unlocked via targeted support. While it is easier to discriminate between growth and subsistence entrepreneurs and predict success among the latter, it is much harder to predict success among growth entrepreneurs using these methods.[xvii]

What are the characteristics of successful entrepreneurs?

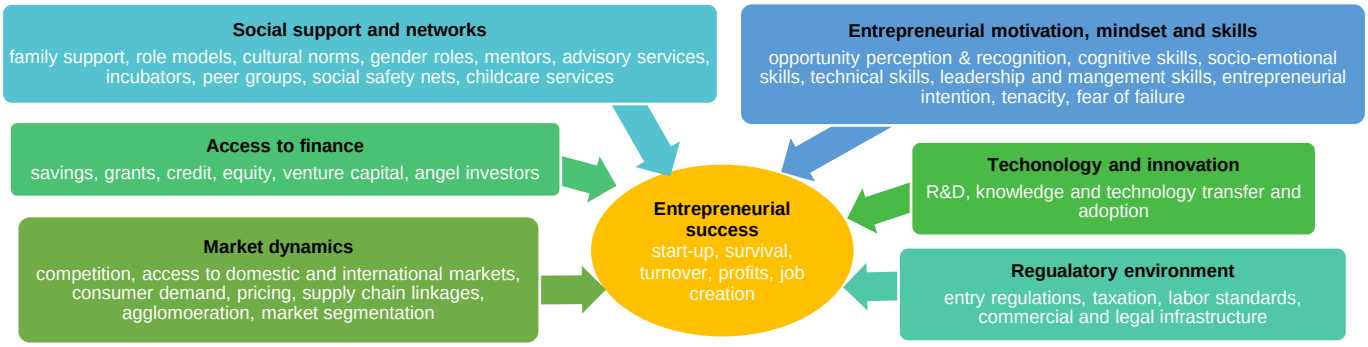
A review of empirical research from developed and developing countries – e.g. Mexico, China, Sri Lanka, West Africa – suggests that successful entrepreneurs differ from non-entrepreneurs and unsuccessful entrepreneurs on five key dimensions.[xviii] These are:

- **Personality traits:** Key traits of successful entrepreneurs are ambition and need for achievement, tenacity and self-efficacy, creativity and innovativeness, openness to experience and willingness to take risks, need for autonomy, and proactive personality.
- **Cognitive ability:** Successful entrepreneurs have higher levels of cognition as measured through education and various tests of cognitive ability.
- **Family background:** Especially in developing countries, successful entrepreneurs have more educated parents, have friends and family who are entrepreneurs, and come from richer backgrounds.
- **Gender:** Women entrepreneurs are more likely to be motivated by necessity, own smaller enterprises, and of lower productivity. Women entrepreneurs face unique constraints – e.g., housework, childcare responsibilities, cultural norms, concentration in low productivity/low-demand sectors, less agency, lower social, human and financial capital.[xix]
- **Age:** In developing countries, differences in entrepreneurial activity of youth and non-youth are low – e.g., in factor-driven economies, the entrepreneurship rate among ages 18-24 is 16% vs 17% for ages 25-29.[xx] Since it takes time to build the experience and resources to start and grow a business, older entrepreneurs (albeit not very old) are more successful. In particular, the more disadvantaged youth engage in mixed livelihoods while they build their business – those that `get ahead' are male; have better education, access to capital and social networks; make strategic choices and leverage strategic opportunities to invest in their business and in themselves to position themselves up the value chain.[xxi]

Are individual intentions and skills enough to activate entrepreneurial activity?

In developing countries, even when individuals acquire the skills, it does not increase entrepreneurial activity the same way it does in developed countries, due to weak environment for starting a business.[xxii] A review of research and frameworks on entrepreneurial eco-systems – e.g., Global Entrepreneurship Index, GEM, and OECD, suggests six dimensions of an enabling environment for entrepreneurship (Figure 2).

Figure 2: Entrepreneurship Eco-System Dimensions



Do youth entrepreneurship programs work in developing countries?

Youth entrepreneurship is not a panacea for all youth employment ills, but is one of several components of a broader jobs strategy. It is critical to know when and for whom these programs have worked in order to make informed decisions about when this policy option will likely get the desired results.

- **Entrepreneurship education for secondary and tertiary students positively affects entrepreneurial skills and intentions but it is not clear if it translates into entrepreneurial activity or income in the long-run**. The few rigorous evaluations in this area in developing countries suggest that entrepreneurship education delivered at the secondary/tertiary level influences entrepreneurial intentions, mindset and skills.[xxiii] Whether these translate to entrepreneurial outcomes in the long-run is an open empirical question – in Tunisia, entrepreneurship programs in universities increased entrepreneurial intention, mindset, skills and self-employment rates in the short-run but all impacts had faded 4 years later, with constraints on access to finance being a key reason.[xxiv]
- **Short-cycle business training shows mixed results but emphasizing entrepreneurial psychology in these trainings has promise.** Stand-alone short-cycle business training positively affects business practices, but impacts on entrepreneurial performance is mixed. They are more effective for youth and potential entrepreneurs (especially when bundled with finance) and for those with more education. Further, women entrepreneurs tend to benefit the least from stand-alone business trainings. [xxv] There is some emerging evidence that entrepreneurship training focusing on psychological aspects (e.g., personal initiative) is more effective than traditional business training.[xxvi]
- **Multi-faceted programs are more effective.** Studies suggest that business training programs can have a larger impact on entrepreneurial outcomes of youth when combined with vocational training, finance and/or mentoring/advice [xxvii] – i.e., programs that cater to multiple constraints faced by beneficiaries work better. Similarly, comprehensive models targeting very poor youth and non-youth – e.g., graduation models – also do well to improve livelihoods.[xxviii] Note that graduation models make subsistence entrepreneurship more viable, but do not spur growth entrepreneurs.
- **Business plan competitions show promise to spur young growth entrepreneurs**. These aim to select potential growth entrepreneurs – youth and non-youth – and offer winners a combination of training, mentoring, and funding. The evidence base is still emerging, but a number of studies across different countries in Latin America and Africa show promising results in terms of their impact on venture creation and survival, job creation, and earnings/profitability. Youth who win these competitions tend to be older, better educated, and from wealthier backgrounds. [xxix]
- **The how matters more than the what.** There is huge variation in the design and impact of entrepreneurship programs within each program typology, suggesting design parameters are key to effectiveness.[xxx]

- **Considerable evidence gaps still remain.** Evidence gaps exist in our understanding of the transmission mechanisms and optimal design features, what works to enable young entrepreneurs (and start-ups) to grow, impact of soft-skills training, long-term impacts, and cost-effectiveness. Although emerging in popularity, there is also an evidence gap around integrating youth entrepreneurship in value chains, supporting their market linkages, and social entrepreneurship.

What are some key areas to consider when engaging in entrepreneurship support for youth?

- **Begin developing entrepreneurial mindsets (the art of entrepreneurship) early.** Build creativity, cognition and socio-emotional skills for entrepreneurship (see UNICEF Transferable Skills Framework) when children and adolescents are in school. Similarly, entrepreneurship education programs at secondary/tertiary levels will be more beneficial in shaping entrepreneurial intentions, mindsets and skills if they go beyond technical aspects to emphasize experiential and peer learning, entrepreneurial psychology, mentoring, and positive role models. Entrepreneurship education and training programs for young people who are not going to be entrepreneurs immediately (or who will engage in mixed livelihoods while they work on their business) will also benefit from incorporating personal entrepreneurial pathways planning and building support networks; such approaches can help young people persist, smartly navigate their mixed livelihoods portfolio, and make strategic choices and investments in these interim years so they can 'get ahead' and realize their entrepreneurial aims.
- **Recognize that approaches to growth-oriented vs. livelihoods-oriented entrepreneurship promotion are different from each other.** They differ in terms of the job problem they are trying to solve, their objectives and selection criteria, the kinds of jobs they create, and how they respond to policy incentives[xxxi] – e.g., contrast the competitive UNICEF Venture Fund, which is more like a growth-oriented approach vs. UNICEF YouthLEAD project, which is closer to a livelihoods approach. Livelihoods-oriented (or micro-entrepreneurship) programs target disadvantaged young people, and are often integrated with vocational and soft skills training, and/or finance and counseling services. Meanwhile, growth-oriented approaches screen for high entrepreneurial potential – consequently, recipients are older (and at best "older" youth) and more educated – and require very different eco-system support (e.g., pre-incubation, incubation, business advisory services, venture capital and angel investors). It is naïve to think that the same policy/program instrument will serve both objectives.
- **Provide comprehensive – i.e., multi-faceted and sequenced – package(s) of interventions** that respond to multiple constraints of target recipients (e.g., skills, finance, family buy-in, gender roles), and that smooth the transition to entrepreneurship (e.g., mentoring, grants, entrepreneurial networks). There is no magic bullet: design and targeting are subject to program aims (growth or livelihoods), beneficiary needs (e.g., male or female), and local context (e.g., market demand).
- **Profile and screen beneficiaries for entrepreneurship programs.** Entrepreneurship programs are most effective when they target beneficiaries with entrepreneurial interests, drive and behaviors, and use participants' profiles to match them to relevant support interventions. This applies to livelihoods-oriented programs also that target disadvantaged groups. To balance equity concerns, a staged approached to screening beneficiaries is a viable option.
- **Enable productive entrepreneurship in livelihoods-oriented programs.** Livelihoods-oriented programs for young people often create micro-entrepreneurs stuck in low-demand and low-productivity sectors. The effectiveness of these programs can be improved if they are designed to promote micro-entrepreneurship in strategic growth sectors, in more productive activities (e.g., higher market demand, higher value-added), and/or support youth enterprises form market linkages.
- **Support better results measurement,** especially conduct tracer surveys and long-run evaluations to assess program impacts on entrepreneurial outcomes, and measure their cost-effectiveness

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