ENTREPRENEURSHIP IN FLANDERS : A STATUS REPORT

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1. Abstract

Too few Flemings take the step towards independent entrepreneurship. Yet entrepreneurship is an important factor in, for instance, employment growth. These conclusions have put their mark on the discussion about entrepreneurship in Flanders over the past few years. But do they correspond with reality? This study investigated in how far pessimism about Flemish entrepreneurship is justified. It also checked the effects of starting entrepreneurship on job creation. To do that, it relied on several large-scale and rich international and Belgian databases. The analyses showed that, first of all, the rate of entrepreneurship in Flanders is actually not that bad - neither from an international point of view, nor with respect to the evolution Flanders went through in the last decade. Secondly, the analyses established that starting entrepreneurship has a positive effect on job creation, both in the short and in the long term. However, because it appeared to be negative in the medium term, the overall effect was only slightly positive, hence not significant. Based on these results the research team drew up a few conclusions as well as policy implications for Flanders.

Key words:

Entrepreneurship, employment growth, job creation, starting entrepreneurship

2. Objectives

The first objective of this study was to outline entrepreneurship in Flanders, to which end the Flemish rate of entrepreneurship was put into both a Belgian and European perspective. The study aimed at a static as well as a dynamic perspective. From a static point of view it investigated the position of the Flemish Region within the European conglomerate as well as compared to the other Belgian Regions. From a dynamic angle it estimated whether in a European perspective, Flanders has 'advanced' more quickly or more slowly. In addition, it tried to create a better insight into the transitions towards independent entrepreneurship and more specifically in the transition opportunities starting from paid labour and unemployment. This was also done in comparison with the other Belgian regions and the other European Member States.

The second objective was to check to which extent entrepreneurship indeed lives up to the much ventilated assumption that it offers leverage for employment growth. In this respect we took a closer look at the role of starting entrepreneurship and more particularly at the start-up rate and its development in Flanders, Wallonia and Brussels. In addition we investigated regional diversity as regards starting entrepreneurship and the relation with employment and unemployment rates in order to be able to identify any effects of the economic situation on the regional differences in start-up rates. We concluded the study with an actual impact assessment, or more specifically an estimate of job creation as a result of starting entrepreneurship.

Clarification of key concepts

The definition of the group of 'entrepreneurs' in this study corresponds with the international definition of entrepreneurship and is based on the International Classification of Status in Employment (ICSE-93) agreed on by the International Labour Organization (ILO) in 1993. In short, an 'entrepreneur' (or own-account worker) is anyone who is either (1) self-employed, or (2) a wage-earner or contributing family member at the head of a company.

The rate of entrepreneurship is defined as the percentage of the labour force that is actively involved in starting-up a company or that has established its own company in the past three years. This corresponds with the Total Entrepreneurial Activity index used in international studies.

Starting entrepreneurship in this study is reflected in the start-up rate, measured as the number of starting enterprises per 10,000 inhabitants.

3. Methods and data

Three sources were used in order to realise the first objective. The first is the European Labour Force Survey (ELFS), which is built on a very elaborate sample and which allows for comparisons in time and between European member states. The second source consists of population files of the Data warehouse for the Labour Market and Social

Protection (AM&SB), used by the Steunpunt WSE *(Policy Research centre for Work & Social Economy)* for the analysis and monitoring of the labour market and the labour market policy. A career panel from the Data warehouse AM&SB used by the Steunpunt WSE in the scope of studies into professional mobility constituted the third source.

In order to study the state of affairs of starting entrepreneurship and the impact on job creation, we availed of two sources that offer a wide range of opportunities for monitoring the regional and local labour markets: the Flemish Labour Statistics (*Vlaamse Arbeidsrekening,* VAR) and the Enhanced Crossroads Bank of Enterprises (*Verrijkte Kruispuntbank voor ondernemingen,* VKBO). The VAR focuses mainly on providing insight into the labour force. The VKBO comprises a broad spectrum of company data that can be used to prepare statistics about enterprises.
These databases were used to prepare both descriptive figures and statistical analyses. The descriptive figures were mainly used to sketch the current Flemish situation as regards entrepreneurial rate and starting entrepreneurship, for which we drew up comparisons with other Belgian regions as well as various European countries. We also investigated the transition towards entrepreneur and more particularly, tried to answer the question which group most commonly makes that transition: wage-earners, unemployed or inactive people? Furthermore - also for the sake of comparison with other EU member states -, we carried out a number of logistic regressions to calculate the probability of being an entrepreneur, making the transition from employee or unemployed person towards entrepreneur and the chances of still being an entrepreneur one year after said transition. In order to provide a picture of the regional diversity in the evolution of starting enterprises, we used cluster analysis at the municipal level. This enabled us to verify, on the one hand, the possibility of identifying groups of municipalities characterised by varying evolutions. On the other hand, it allowed us to investigate to which extent these regional differences can be linked to the economic situation, at least in so far as unemployment and employment rates are concerned. And finally, we applied longitudinal regression analyses to check the short-term, medium-term and long-term effects of starting entrepreneurship for employment growth.

4. Findings

4.1 What do you mean, Flanders is not an enterprising region?

To check the status of entrepreneurship in Flanders, it was compared to other Belgian regions as well as several EU member states. It seems that Flanders need not be ashamed of its level of entrepreneurship: the 2007 entrepreneurial rate of 9.8% exceeds that of the Walloon Region (7.9%) and hardly differs from the EU-27 average of 10.1%. Many of Flanders' benchmark states such as Germany and France fail to reach the Flemish level. Flanders' dynamic score is also quite reasonable. After a slight fall reported by several countries between 2000 and 2003, Flanders was able to report an increase of 0.9 percentage points over the 2003-2007 period, which earned it 'bronze status' within the EU-15. The number of Flemish start-ups also rose in this period: 2007 reported 46,920 people starting an enterprise against 33,239 starters in 2003.
A high level of entrepreneurship does not guarantee a solid labour market or strong economy, however. On the contrary: countries with a low employment rate often show a high number of entrepreneurs whose step towards self-employment was based on economic necessity. For this reason we also checked the correlation between entrepreneurial and employment rate, as well as the share in employment of entrepreneurs, which indicates the importance of entrepreneurship in the whole employment picture. First of all, the results showed a slightly negative correlation (-0.09), confirming that a high entrepreneurial rate indeed need not coincide with a high employment rate. Secondly, the share of entrepreneurs in total employment in 2007 amounted to 14.8%, a figure that comes very close to the EU-27 average of 15.4% and which proves that entrepreneurs take a relatively large share in the total employment. A logistic regression further shows a higher probability of being self-employed rather than working as an employee for the Flemish population as compared to the European average. On the other hand, the share of the population undertaking paid employment in Flanders is very low as compared to important benchmarks such as Denmark (70%) and the Netherlands (65.2%). It can therefore be concluded that Flanders is quite competitive as regards the entrepreneurial rate, but not in terms of the number of employees in paid employment. Consequently, the focus should not be on continuously increasing the number of starters, but instead on enhancing job creation for starters with growth potential, a point that will be addressed later on.

Focusing on the transition towards becoming an entrepreneur in Flanders, we conclude that that step is mainly taken by people in paid employment in another stature (40%) and inactive people (e.g. female or male householders returning to work) and school leavers (31.1%). Nevertheless, the chance that a Flemish person in paid employment makes the switch towards self-employed status is smaller than the EU average. Flanders apparently fails to encourage large numbers of employees to shift to entrepreneurship. The same goes for unemployed people who, compared to the EU average, stand a lesser chance of making the transition to life as an entrepreneur. And yet Flanders has a high entrepreneurial rate. This may be explained by the relative stability of entrepreneurship in Flanders: compared to the European average, self-employed people in Flanders have a higher chance of still being self-employed one year after they've started their business. We may therefore conclude that Flanders has a good entrepreneurial rate, but also shows a quite limited mobility between employee/unemployed status on the one hand and self-employed status on

the other. Two important nuances must be added as regards the relatively limited chance of transition from unemployment to entrepreneurship: first of all, this does not mean that entrepreneurship cannot play an important role in the fight against unemployment. After all, entrepreneurship may provide additional jobs in the long run and thus 'absorb' unemployment (the so-called entrepreneurial effect) (Thurik et al., 2008). This point will be revisited later, under the second objective of the study. Secondly, the transition from unemployed to self-employed only merits additional attention from a policy point of view once it is certain that it has a good chance of fulfilment. The durability of such transitions is an important indicator in this respect. However, a comparison between the group of employees who have made the step towards self-employment in either quarter of 2010 and the group of unemployed persons who made the transition during the reference period, leads to the conclusion that the chance of survival as a self-employed person is considerably greater in the former group than in the latter.

4.2 Entrepreneurship, a driving force behind job creation

The second part of this study investigated whether starting entrepreneurship actually contributes to employment growth in the Flemish, Brussels Capital and Walloon Regions. For that purpose, we checked how starting entrepreneurship has evolved in these regions. The 2007 start-up rates for the respective regions were 65.9, 88.4 and 57.7. These figures correspond to growth rates of 60%, 40% and 36%, respectively, in the period between 1990 and 2007. However, that trend was not a constantly positive one. After a decline in all three Regions in 1999, they showed a strong and quite constant rise as from 2003. For Flanders, the recent policy measures in the field of financing, knowledge and skills development, innovation and internationalisation may have contributed to the increase. Initiatives to stimulate an entrepreneurial climate, (efforts towards) administrative simplification and encouragement of entrepreneurship in the education sector may also have boosted the start-up rates.

However, the average regional numbers hide a considerable regional variety, both in terms of start-up rate and its evolution. In 2007, municipalities reported a minimum start-up rate of 9.5, whereas the maximum amounted to 148.7. Furthermore, a cluster analysis identified seven groups of municipalities with different start-up rate evolution levels. For instance, some municipalities recorded a high start-up rate in 1990 and showed considerable growth since. Other municipalities showed an equally high start-up rate in 1990 but failed to record any or significant growth, and yet a third group had a low start-up rate but considerable growth to show for. International research identifies the following main reasons for regional differences in start-up rates: population density; unemployment rate; local government policies on entrepreneurship; availability of funding; income growth; educational level of the population and industrial structure of the regional changes therein (*inter alia*: Armington & Acs, 2002; Lee et al., 2004). Unfortunately, these causes cannot be verified for Flanders, Wallonia and Brussels at this time. Data relating to population density, average income and unemployment rate per municipality are, however, available for 2005. Based thereon and in line with existing research, we found a positive relation between population density and start-up rate on the one hand (0.15, $p<0.05$) and between average income and start-up rate on the other hand (0.18, $p<0.05$). This points towards agglomeration effects (Armington & Acs, 2002): densely populated regions with high average incomes have a higher probability of a large market for products and services, and this will attract starting companies. Start-up rate and unemployment rate have a negative correlation (-0.22, $p<0.05$), a fact that might be explained by the highly developed social security system: replacement incomes lower the tendency to become self-employed from necessity. However, it is also possible that regions with high start-up activity create substantial employment, and thus reduce the unemployment rate. Specifically that relationship was also tested in this study.

Whether starting enterprises create jobs may depend on the type of enterprise. Here, a distinction is made between necessity entrepreneurship, e.g. from a situation of unemployment, and opportunity entrepreneurship, e.g. against the background of a promising market opportunity (Thurik et al., 2008). It is assumed that the first type of entrepreneurship offers the least chance of success and hence will create fewer jobs than the second type. This assumption is somewhat substantiated by the results described above, namely that entrepreneurs starting from a situation of unemployment have a smaller chance of survival than those starting from an employed status. No data was available concerning the reasons behind the start-ups. We did, however, avail of the 2007 municipal employment and unemployment rates. A cluster analysis carried out on this information in combination with the start-up rates, provided an indication of the extent to which regional differences in the current start-up rate are associated with the economic situation. The analysis showed considerable profile differences between the Flemish Region on the one hand and the Brussels Capital Region and the Walloon Region on the other. But for a few exceptions, the Flemish municipalities reported medium to high employment rates and medium to low unemployment rates. Remarkably enough, with respect to start-up rates, Flanders shows two groups in this context: one group that combines it with a relatively high start-up rate, and one which combines with a relatively low start-up rate. The Brussels Capital Region, however, combines a high start-up rate with a high unemployment and low employment rate. The Walloon Region showed a more varied pattern. Particularly the Hainaut province, parts of the province of Luxembourg and a range of municipalities from the Namur and Liege provinces combine very low start-up rates with high unemployment and employment rates. The highly entrepreneurial province of Walloon Brabant records average employment and unemployment rates. The above suggests that in Flanders, starting enterprises could lead to growth of employment,

that this is not or only slightly the case for the Brussels Capital Region and that in the Walloon Region, it depends on the area.

In order to be able to verify the effects of entrepreneurship on growth of employment, we distinguished between short-term, medium-term and long-term effects (De Winne & Sels, 2008). After all, when an entrepreneur comes to the market, this initially has a direct effect on the employment situation, either because (s)he was unemployed, or because (s)he vacates a paid position. This direct and positive short-term effect is obviously even greater if the entrepreneur employs staff from day one. However, a considerable part of the starters will lack competitiveness and will leave the market. Furthermore, competitive starters will force less efficient companies to lower production or even leave the market. At a constant production level, this creates a net reduction of employment in the medium term. Indirect positive effects on employment may again be felt in the long run: the new enterprises may expand the existing offer of products and services and hence open up new markets, or introduce cutting-edge products or services that do not necessarily harm existing companies. Their subsequent growth will then boost employment rates. The present study tested this logical reasoning for Flanders, Wallonia and Brussels, using longitudinal data with respect to both the growth of employment at a municipal level and the start-up rates. The analyses run on the Flemish data confirm the theoretical presumption and show a small, yet positive direct effect of the start-up rate for job creation. In the medium-term (after three years), the effects make a negative turn and then become positive again after seven years. Although slightly positive, the total effect is not significantly different from zero. Brussels shows a negative pattern, both in the short, medium and long term. The total effect is also negative and significant. This may be explained by the profile of Brussels starters, who seem to have a rather limited ambition to employ large numbers of staff (Brussels Enterprise Agency, 2007). The added negative effect may be the result of commuter movements: only 46.62% of people employed in Brussels actually live in the city. It is therefore possible that start-ups in Brussels indeed have a positive effect on the number of jobs in the region, but that these are mainly filled by commuters. Consequently, the positive effect in Flanders may also be exaggerated. For Wallonia we found a positive long-term effect, but negative consequences in the short and medium term. The total impact is negative, but not significant. The reasons for this may be threefold: (1) a high dependency on tourism as a result of which successful starters witness the quick downfall of existing companies in this fully saturated market; (2) lower population density resulting in slower growth among starters and reducing their innovativeness; and (3) the higher share of long-term unemployed in the total unemployed population, which may be an explanation for a lower representation of innovative starters who often demand high qualifications from their staff.

5. Conclusions and policy implications

This study aimed at investigating the state of affairs as regards entrepreneurship in Flanders on the basis of international comparisons. Its second objective was to check to which extent entrepreneurship indeed lives up to the much ventilated assumption that it offers added value for employment growth. Primarily focusing on the entrepreneurial rate, the study concludes that Flanders does not take a substandard position in this respect. In a country with an education system that reportedly fails in teaching the necessary entrepreneurial skills; a country that is said to have a downright risk-averse culture and a social security system that particularly stimulates paid employment, and where the amount of rules and regulations is said to suppress any initiative, Flanders manages to show quite an attractive entrepreneurial rate indeed. It isn't all as bad as it seems. Flemish entrepreneurship is at a better level than is often assumed.

This study particularly tried to show that in the scope of future encouragement of entrepreneurship, a solid monitoring system of a broad range of key figures and performance indicators is of utmost importance. This should not be limited to static comparative analyses, but also include more dynamic data about entrepreneurship, such as which persons take the step towards self-employment, for instance. Career history usually remains a 'black box'. Although this study managed to slightly open that box, there is still a lot of room for subsequent research, also from a European comparative perspective.

In this conclusion, we also briefly address the question whether it is useful to focus on the entrepreneurial rate as an index number in monitoring entrepreneurship. In this context, 'index number' must be clearly distinguished from 'performance indicator'. An index number serves to make an estimate of the Flanders' international position, which is assumed to be determined largely by other factors than government policy and therefore not directly controllable by the government. Performance indicators, on the other hand, are indeed directly related to policy instruments. In that sense, the entrepreneurial rate would at best be the final piece in a solid monitoring system, and given their 'driver' function, performance indicators must be given priority as regards monitoring at a policy level. And yet, there is something to be said for a focus on the entrepreneurial rate. In the first place, the fact that it is based on the - comprehensive - internationally agreed definition of entrepreneurship, gives this index number a meaningful function. Secondly, Europe has broadly accepted the ELFS as the basis for, *inter alia*, labour market monitoring. Thirdly, there is the obvious advantage of European comparability, which provides an invaluable basis for international positioning. On the other hand, one must also consider the limitations: in the context of entrepreneurship, the entrepreneurial rate is not the only relevant index number. Two other important index numbers are 1) the share of adults actively setting up

a company (nascent entrepreneurship) and 2) the number of starters in proportion to the size of the labour force or entire population. There is of course a relationship between these parameters, namely in the form of a specific sequentiality (Donselaar et al., 2007). After all, in the long run the entrepreneurial rate is greatly affected by both nascent entrepreneurship and the actual addition of new entrepreneurs. Despite this logical interrelation, the latter element merits separate attention precisely because it may have a considerable effect on economic dynamics, innovation and productivity. However, its main objective being to chart the changes in the composition of the (working) labour force, the ELFS is unable to show the addition of entrepreneurs. It is not set up for monitoring (nascent) entrepreneurship. This is and remains the strong point of the Global Entrepreneurship Monitor, or GEM, which tries to outline the relations with key driving forces behind entrepreneurship.

The second part of the study focused on testing the economic value of 'increased entrepreneurship'. Based on the assumption that they enhance economic growth, innovation and employment, helping to increase the number of starting entrepreneurs is one of the corner stones of Flemish entrepreneurial policy and they are therefore supported with starter loans, fiscal incentives, 'easy' administrative procedures, etc. If an increased number of starters indeed leads to better economic performance, this study brings good news. After all, it concluded that compared to the OECD partners, the Flemish Region has a relatively high start-up rate. It also showed a quite spectacular increase of the start-up rate between 1990 and 2007. But the key question remains: What do we gain from all this? Not an abundance of new jobs, if we are to believe the robust econometric estimates from our study. For Flanders it was concluded that an increased start-up rate may contribute to job creation in the region in the short term, but also that the 'surviving' starters create crowding-out effects among their competitors, who under the pressure of the new market influx are then forced to reduce or even stop their activities. In the long run, the impact of the start-up rate on employment growth again becomes positive. The total effect is also slightly positive, albeit not significantly different from zero. A rather meagre result, in other words.

One could conclude that policy-makers should primarily focus on providing better incentives for job creation or the employment of staff by starting enterprises. But that kind of advice would exhibit a lack of recognition of the considerable efforts already provided by the government in this area. After all: international comparisons of support in first employment list Belgium as a 'best practice' country (European Commission, 2005). Furthermore, one should dare to ask the question whether a substantial increase of this type of incentives would have a significant effect. The researchers of this study doubt this very much: employment growth is not among the objectives of starters who managed to get through the initial phase. Of course job creation is only one of the objectives of economic policy. And the fact that an increasing start-up rate does not or hardly translate into net job creation, does not imply that an increase of the number of starters is considered to be without economic value. Still, the contribution to economic growth is regularly questioned. Given the profile of the average starter - who is seldom an 'entrepreneur' in the sense of people who build companies that provide growth, job creation and prosperity -, probably only a small part contributes to growth, internationalisation, technology spillover effects or radical innovation. Indeed, starting a company is often less exotic than we think. Flanders is crowded with traders, bakers, butchers, pub owners, etc. The 'shop on the corner' highly colours the picture of starting entrepreneurs, so one should beware of the image of the highly innovative starter who warrants a high level of product- and process renovation in the economy (although the figures will no doubt contain those as well).

So why do we stubbornly stick to an increase in start-up rate? What can we do? In fact we already know the answer to that question: we can focus on the small subpopulation of enterprises with a high growth potential. An increase in start-up makes little difference; much more important is *what* exactly is being started. That is obviously easy to say, but then how to distinguish those 'high potentials' from all the starting companies? Maybe in its support policy, the government should act more like a venture capitalist and mainly invest its time and energy in identifying, supporting and monitoring extraordinary, promising projects. If, by the way, in that identification process, the government were to initially look at the companies that actually receive support from venture capitalists, it would not be far from its target group.

Full reference of study report(s) and or paper(s) and other key publications of the study summarised here

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