

ASIA-EUROPE FOUNDATION

Experts Working Paper

Startups and Youth Employment

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Introduction

Youth entrepreneurs drive innovation, as they react faster to new trends and business opportunities (WHITE & KENYON, 2001). This has been increasingly evident in recent years with the surge of innovative tech start-ups established by youth entrepreneurs. Despite this anecdotal evidence indicating that youth entrepreneurs have the potential of launching some of the world's most successful and innovative firms, there is little research on the contribution of youth entrepreneurs to economic growth and employment.

We believe that whether youth entrepreneurship can substantially contribute to increasing youth employment depends on factors that are specific to each country. By contrasting Asia with Europe, we will provide two views on what youth entrepreneurship can offer in terms of job generation. One view, suggesting that youth entrepreneurship can be a major contributor to employment in some countries, will be discussed in the section on Europe. The opposing view, suggesting that youth entrepreneurship might not be a major generator of employment in certain countries, will be presented in the section on Asia. The division is made in order to present contrasting views on the job generation ability of youth entrepreneurship, without making an argument that youth entrepreneurship can make a bigger impact in Europe than in Asia, or vice versa. We believe that, ultimately, youth entrepreneurs' ability to create jobs depends on the specific conditions prevalent in each country.

In this report we adhere to Brockhaus' (1980) definition of an entrepreneur as "... a major owner and manager of a business venture not employed elsewhere." (p.50). Furthermore, we use the United Nations definition of youth as individuals in the age group 15-24 years (UNHCR, 2013). Young entrepreneurs are defined as individuals in the age group 18-30 years.

Entrepreneurship as way of employment

Entrepreneurs can be divided into two categories; depending on whether they have launched a company based on identifying a business opportunity or because of necessity, due to that they were unable to obtain a job. Most companies that created a substantial number of jobs were launched by entrepreneurs that identified a promising business opportunity. By being young, youth entrepreneurs often lack work experience, which is a drawback when launching a business. In most cases, this translates into youth entrepreneurs launching a business with less capital resources and smaller business networks than older entrepreneurs (WHITE & KENYON, 2001). By having a lower liquidity buffer than older entrepreneurs, youth entrepreneurs are more vulnerable to economic downturns.

In the wake of high unemployment amongst youth, governments and policy makers are urgently looking for solutions both to boost consumption (and thereby the economy) and create new jobs, either by self-employment or encouraging the setup of new companies to increase hiring. To assist with the establishment and growth of youth ventures, policy makers should look at addressing the following barriers: lack of access to funding, competition, lack of access to good advice, lack of self-belief and limited access to internships (GEM, 2014). Increasingly governments around the world are choosing to aid entrepreneurs by offering e.g. micro-financing, grants, soft loans and venture financing.

A look at what makes an entrepreneur

Half the world's entrepreneurs are between the ages of 25 – 44. In the age group of 18 – 34 who are entrepreneurs, China dominates with 57% while Asia together with Oceania 27% and the European Union stands at 19% (GEM, 2014). Kauffman Foundation's research

(WADHWA, HOLLY, AGGARWAL, & SALKEVER, 2009) on the Anatomy of an Entrepreneur found that:

1. The average and median age of an entrepreneur is 40 years old
2. 95.1% of them graduated with a Bachelors degree
3. 75.4% of them worked as employees at other companies before launching their own
4. Only 1% comes from extremely rich or extremely poor background
5. 69.9% were already married when they started their first business
6. 93.2% had at least one child when launching their first business
7. 74.8% sees building wealth as an important motivation in becoming an entrepreneur
8. Only 4.5% cited inability to find traditional employment as an important factor in starting a business

The vast majority of entrepreneurs choose to obtain post-secondary education and they also, in most cases, have worked as employees before launching their own company. To finish post-secondary education and obtain work experience is difficult to achieve until reaching the 24th birthday, explaining why many youth entrepreneurs choose to both study and run their own business at the same time.

Youth Entrepreneurship in Asia

In this era of high youth unemployment in Europe and certain parts of Asia, governments and policy makers have been scrambling to find suitable solutions to arrest the declining economy and many have, or may be tempted to turn to entrepreneurship, as one of the key solutions. However, in many countries, youth entrepreneurship might not be the silver bullet that solves youth unemployment.

There are significant superstars that capture the imagination of a global audience when it comes to startups.

Unicorn companies, defined as having \$1billion turnover or more, have sprung up in recent times raising significant amount of resources and many of these businesses have grown to become core elements of society today. There are truly successful companies like Google, Facebook, Skype and Twitter that began as start-ups and now have become part of any operating system both on mobile platforms and on laptops. Companies that are moving out of the start-up phase and into Unicorn status like Spotify, Pintrest, Uber, and Slack have all been extremely successful, not just from the revenue angle but from the ability to raise significant amounts of investment in each funding round. In Asia, where dollar per funding round is increasing rapidly, companies like Zalora, GrabTaxi and PropertyGuru have all begun to reach the \$0.5billion mark in their funding rounds. There is no denying that such success stories drive the perception that we are in a phase of global growth where technology is allowing start-ups to grow into unicorn companies in a short span of time. However, the aforementioned companies have some common traits that can be discomfoting:

Mostly Technology-Driven

Almost all the soon-to-be unicorn companies are technology platforms or their solutions to existing problems are technology-based. While it is now a way of life, the existing unemployment situation may be due to the fact that the skill sets available in the unemployment pool are not technology related.

Almost all have little or no assets

Uber is platform where consumers can book a taxi or private car conveniently - they own no cars and hire no drivers. Airbnb is a platform where consumers can book a room or home of another consumer. The company owns no homes nor rooms to call their own. These are companies that are the poster child of start-ups but own little or no assets of their own.

It largely services people who have the ability to consume

Because they are technologically driven, a majority of these start-ups service those who have the ability to consume. For example, Uber has no presence in developing countries. That means that as a company, they focus on generating revenue in countries that have a strong economy.

Asia has approximately 180 million people in the age group 10-24 years who are living in extreme poverty (McKINSEY, 2014). Estimates for the same age group shows that approximately 300 million people in Asia are under-employed. So, increasing employment opportunities for youth is, as in Europe, a very pressing problem for many Asian countries. There is an increasing focus on providing youth entrepreneurship education and programs to give young people the skill set to start their own businesses. One such initiative is the Singaporean government's funding of the Young Entrepreneurs Scheme for schools, which is an entrepreneurship learning program for schools (McKINSEY, 2014).

To summarize the viewpoint presented in this section; entrepreneurship might not be the magic bullet that policy makers hope it will be, as it does not hire sufficient workers in the startup phase. However, it does one thing that most cultures need; it gives hope.

Youth entrepreneurship in Europe

The European youth unemployment rate was 22.2% in 2014 (Eurostat, 2015). However, youth unemployment rates vary significantly in Europe. With a youth unemployment rate in 2014 of 53.7%, Spain has the highest youth unemployment rate in the European Union (Eurofound, 2015). With youth unemployment below 9%, Germany has one of the lowest rates in Europe.

In 2010, the youth unemployment rate in Asia-Pacific was 11%, the lowest of all geographic regions in the world (UNESCAP, 2013). This indicates that youth unemployment is a more pressing problem in Europe than in the Asia-Pacific region. In 2014 approximately 6.5% of young people in the European Union were self-employed (Eurofound, 2015). As in the case of youth unemployment, there is a large difference in youth self-employment across Europe.

During the last decade, Europe has performed considerably worse than the U.S. in terms of job generation. However, many European countries have been as effective as the U.S. in generating new firms. Compared to the U.S., Europe has been much worse in generating growing firms. The lack of fast-growing firms is one important reason for the European continent performing far worse than the U.S. in terms of job creation, as fast-growing firms have a key role in creating jobs (BIRCH & MEDOFF, 1994; DELMAR, DAVIDSSON, & GARTNER, 2003). Research has shown that the fastest growing one percent of all firms generates almost the whole net growth of new jobs (Henrekson & Johansson, 2010). These fast-growing firms are often also more innovative than firms that grow slow (HÖLZL, 2009). The fast-growing firms are also more likely to generate employment for the individuals that are having the most trouble establishing themselves on the job market, namely youth and immigrants. A key question for policy makers is whether they see startups as a creator of youth employment opportunities by the number of jobs the firms create or the number of firms that are started by youth. In order to generate substantial numbers of jobs, youth entrepreneurs generally need to run fast-growing firms.

A study conducted on all privately-held LLCs in Sweden that employ between 1-100 people showed that the entrepreneurs in the age group 18-30 years are over-represented as owner-operators of fast-growing firms (WENNBERG, EFENDIC AND ANDERSSON, 2014). In the aforementioned study, "fast-growing" firms were defined as the "10% fastest growing firms in a population". The study showed that 13% of all firms run by young entrepreneurs were growing fast. This is substantially higher than the corresponding rate for entrepreneurs in the age group 30-50 years, of whom only 8% were running fast-growing firms. However, only 441 fast-growing firms were run by entrepreneurs who were 18-30 years, while the number of fast-growing firms run by entrepreneurs who were in the age group 30-50 years amounted to 10205 firms. In other words, young entrepreneurs in Sweden are in relative terms running the highest number of fast-growing firms of all age groups, but in absolute numbers they run the fewest number of fast-growing firms. This is not a very surprising observation, as youth are more likely to be full time students than individuals of other age groups. In addition, youth entrepreneurs often have less professional and financial resources, which has a negative impact on firm growth and job generation. This is not to say that there isn't substantial potential for youth entrepreneurship to increase from the levels of today. Especially given that studies have shown that globally youth exhibit a higher interest than adults in becoming entrepreneurs (KEW et al., 2013). To summarize, a country's economic development is, to a large extent, dependent on the fast-growing firms, and young firms are more likely to exhibit growth than large and mature companies (BIRCH & MEDOFF, 1994; STOREY, 1994).



Participants at the ASEF Capacity Training on Public Speaking and Negotiation, 27-28 June, 2016, Manila, the Philippines.

Conclusion

In this report we have contrasted two views on youth entrepreneurship. In some countries, youth entrepreneurship can make a substantial contribution to job creation, while in others, it might not be the magic bullet for job generation. Whether or not youth entrepreneurship will be a major source of job creation depends on the prevailing conditions in each country.

From a job generation perspective, research indicates that policy makers should prioritize supporting youth ventures that are growing fast since they are more likely to generate new jobs than government intervention aimed at supporting necessity youth entrepreneurship. However, supporting high-growth entrepreneurship shifts resources from supporting necessity entrepreneurship, i.e. reducing the ability to start a company for people who are unemployed. Even if ventures that started out of necessity often do not generate large number of jobs, they can still play an important role for the entrepreneur as they, in some cases, provide their only way of earning a livelihood. Therefore, we recommend that policy makers carefully consider how they prioritize between supporting all types of youth entrepreneurship vs. reallocating some of the funding towards supporting fast-growing firms.

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