

HOW TO IMPROVE THE SELF-EMPLOYMENT SYSTEM: SOME EUROPEAN EXPERIENCES

Daniela SARPE
Mihaela NECULITA

Department of Economics
University „Dunărea de Jos” of Galați
d_sarpe2000@yahoo.fr

The paper is based on the research results of an European project which is aimed to describe the conditions of self-employment system in four European countries: Finland, Austria, Poland and Romania. The authors opinion consider that the transfer of the entrepreneurship experience from the more advanced countries to the central and eastern European ones could be a chance to improve the competitiveness of the system.

Keywords: self-employment, guidance and counseling, entrepreneurship

1 Introduction

The objective of this paper is to present the outcomes and findings of the project “*SELF-EMPLOYMENT - Guidance and Counseling for Self-Employment*” (For further project information and downloads please see www.self-employment.org). The aim of the project is widely meant promotion of self-employment. Researches are to describe the condition of one-person-enterprises and help in developing suitable support service system addressed to people being self-employed or considering it.

The main purpose of the project was to identify the location and the value of guidance and counseling services aimed at people considering self-employment. The project partners were from Poland, Romania, Finland and Austria. In the whole project self-employment is defined as a one-person company.

This paper presents identified strengths and weaknesses of existing support services concerning self-employment in Finland, Poland, Romania and Austria.

2 State of the art of self-employment in the partner countries

It is very important to research self-employment. Micro, small and medium-sized enterprises are socially and economically important, as they represent 99 % of all enterprises in the EU and provide around 65 million jobs and contribute to entrepreneurship development and innovation (1).

A fundamental need referring to additional research in the field of one-person-companies is to complete statistical inquiry by data about one-person-companies and persons in self-employment without employees. This approach would be necessary in partner countries and the European Union in general.

The research question was divided into the following two sub-questions: How is self-employment defined? What kind of national support for and actions on self-employment are there?

In **Poland**, the Polish law does not offer an unequivocal, universal definition of self-employment, although the phenomenon itself has been existed for many years. An accelerated growth of enterprising, including self-employment, occurred particularly during the years of the so called “government and economic transformation”, i.e. after 1989. Nevertheless, as indicated by the authors of the report “Self-employment in Poland in the context of accession to the European Union”, this concept is used mainly in the context of business, on another basis than an employment contract. In practice it essentially means “*being employed by oneself*” (2).

There are three situations/groups of persons that contribute to the decision of taking up self-employed activity:

- persons entering the labour market and functioning outside of it, e.g. graduates or unemployed persons, for whom the decision to become self-employed results from the desire/need to create a work place for themselves – “*self-employment as a chance*”
- persons already operating on the labour market who come to the conclusion that self-employment will be a more efficient form of employment for them – “*self-employment as a conscious and free choice*”
- persons already operating on the labour market who decided to take up self-employment under the pressure from their employer – “*forced self-employment*”

There are two sources of information on the condition of self-employment in Poland: the REGON register and the Labour Force Survey in Poland (BAEL). As result from the BAEL survey in the 3rd quarter of 2004 there were 2 470 000 persons working for their own account, including 856 000 outside of individual agriculture. In the same time period, the total number of working persons was 13 974 000. It follows that nearly 18% of working persons are self-employed.

The most popular area for self-employment is the trade domain and it is interesting to mention that self-employment is a form of activity more popular in the male part of population than in the female one. As it states in its report “Labour Force Survey in Poland - III Quarter 2004” in the 3rd quarter of 2004 there were 1 559 000 men working on their own account and only 910 000 women.

Self-employment, as a relatively new occurrence on Polish labour market, is quite poorly investigated on the national level. As in the case of services and trainings, in the research field the interest is focused more on the SME sector than on the phenomenon of self-employment as such. However, it is unquestionably a subject that emerges more and more frequently in the context of analysis of the labour market and the changes that take place there.

In 2003, there were 124,000 self-employed persons in **Finland**. At the same time the number of entrepreneurs with employees was 89,000. At the end of 2003, the total number of enterprises (excluding agriculture) was approximately 230,400. The number has been on the increase since 1995. Still, the number of enterprises per capita is lower in Finland than in the countries

with very high entrepreneurial activity. The number has increased most in real estate and business services, social and health care services and in other personal services.

All the needs of an enterprise in the different stages of its life cycle are usually taken into account by the public administration in order to support entrepreneurship. Business start-ups may qualify for a start-up subsidy or training subsidies. Advisory and funding services are available for small and medium-sized enterprises or rural business enterprises that want to develop, broaden or internationalise their operations. There are hardly any supports, actions, or services tailor-made for one-person-companies. They are all more or less addressed to the SMEs. This is a positive thing, as in this way all the support needed by the companies (whether big, medium or small) can be found in the same place.

The available *public business advisory services* are targeted to all firms but particularly to the SMEs. The usage rate of business advisory services among certain customer segments such as individuals with low level of vocational training, firms operating in the service sector and firms having difficulties to cope is low and these groups need to be emphasized in the public business advisory service schemes. There are and have been several different kinds of *regional and local initiatives* on self-employment. However, they are not usually only aimed at self-employment. It is more common that they are aimed at SMEs as a whole and all people considering entrepreneurship; not only to people considering self-employment.

There is also a wide range of *supporting services* available. Here also, the main characteristic of the Finnish system is that most of the information on the supporting systems can be found on the Internet. Additionally, there are all kinds of *privately funded services* aimed at people considering self-employment. Here also it should be noted that they are not usually only aimed at self-employment.

Enterprise Finland (5) Internet pages are a key source of information for people considering self-employment in Finland and at the same time they are an excellent example of the Finnish networked society and the abundant usage of the Internet as a means of offering information.

The Enterprise Finland online service provides information on the obligations towards public authorities that need to be taken into account

when setting up an enterprise and acting as an employer. Special provisions and limitations apply to international trade, both imports and exports. The online service also provides information on public funding for enterprises and other potential sources of special funding. In Finland the public sector is the most important one, due to the welfare state system. However, the amount of state /municipality funding is in decrease due to the changes in the public sector. Therefore the private funding is increasing for all organisations.

In *Austria* the quota of self-employment according to EUROSTAT has been 10.9 % including agriculture and 8 % without agriculture in 2002. From altogether 408.000 persons in self-employment, 229.000 work in the field of services, 126.000 in agriculture and 52.000 in the field of production. Although according to Austrian data for 2000 more than 50 % of persons in self-employment are one-person-companies without employees, most of the support services in Austria are designed for growing foundations that create additional jobs while the fact that a one-person-company has already created a job for its founder seems to be neglected in many statements related to labor market policy.

Some of the most common important success factors of self-employment are economic experience, knowledge and contacts of the founder before starting self-employment. Considering existing guidance and counseling services in Austria, persons in self-employment should be targeted in groups that take into consideration the economic past of a one-person-company founder: 1) one-person-companies that enter into the labor market as first economic experience of the founder, 2) persons in self-employment with certain professional experience and motivated to a foundation due to unemployment, 3) founders who directly (want to) change from employees into self-employment. More or less in the shade there is another group of one-person-companies in Austria, 4) freelancers that do not assign to classical professions like lawyers, architects etc. Although there are first initiatives, one-person-companies and especially those in new self-employment, still have to be regarded as a business sector without a political lobby.

One of the most important approaches of the public sector in the field of start-up companies and persons in self-employment is to safeguard

support services around all counties and regions of Austria. This is done by regional centers for innovation and entrepreneurship as well as regional business agencies which are largely publicly financed. As regional business centers mainly offer working places and meeting rooms for subsidized rent providing infrastructure, networking, common marketing activities and sometimes own kindergarten, bigger business agencies like in Vienna also offer support focused especially on the needs of female entrepreneurs.

Financial programs vary in the different counties of Austria by their focus on industry sectors, duration and target groups. They mostly address to small and medium-sized companies rather than to persons in self-employment. For counseling purposes the public sector comes up with a large offering of information and guidelines to inform about the phase of founding a company. Though there remain critical discussions about the offering and effectiveness considering how counseling and training is handled during and after a foundation or being self-employed.

The term 'self-employed' is not legally defined in *Romania* (except authorized individuals and family associations), but statistically it is defined as "a person who conducts his/her activity at his/her own headquarters or runs an individual business without employing other persons, with the possibility of assistance from unremunerated family members." Because self-employed persons are not conceptually deemed an important component of the labour market, the legislation in force does not include any special provisions regarding this category.

Neither the political decision makers nor civil society have been specifically concerned with the status of self-employed persons. Statistics indicate that the number of the self-employed persons in Romania in 2000 was 1,717,000 (29.1 percent of whom were women and 15.2 percent in urban areas), and that self-employed persons and unpaid family members comprised 42.4 percent of the active population, including 91 percent in rural areas. These statistics are misleading, however, since self-employment in rural areas is a means of survival, and not an income-generating enterprise.

In Romania, self-employment is at the same time one of the oldest forms of labour and a very modern one. Its existence is connected to well-established sectors like agriculture, as well as to newly developing high-tech sectors involving information and communication technologies and

tele-work. It includes established occupational forms like the sole trader and the independent professional, as well as new occupations that arise from the use of new technologies and the growing flexibility of labour forms and contracts. The *self-employed* can view themselves as entrepreneurs, as workers bearing a heavy load of economical and social risks, or as something in-between. The self-employed are an increasingly diverse and heterogeneous group, who cannot easily be brought under one definition.

Recently has been adopted a new law regarding authorised individuals and family associations that simplifies the procedures of authorization. The law nr.300/2004 lays down the conditions for individuals, Romanian or foreign citizens coming from EU member states and the states in the European Economic Area, to carry out economic activities within the territory of Romania as freelancers or organised in household associations. So, under self-employment, two types of unincorporated agents, without legal personality, are grouped: on the one hand, so-called own-account workers, and, on the other hand, family associations and other small-scale unincorporated businesses. The common feature of these entities is that their capital is not distinguished from the personal assets of their owners, therefore the income they draw from operations is included in the gross operating surplus (GOS) of the household sector.

From the economic point of view, there are also two types of individual or family businesses from which the GOS of households takes its source: one is rural and agricultural; the other is urban and mainly geared on services. The most numerous and also the most traditional ones are family agricultural farms, which may be of a very small size and appears as the "heritage" of what the communist system was always obliged to let to rural households so that these may get their foodstuff. These farms are mainly oriented towards the self-consumption of their owners.

Besides, there is another type of small businesses dealing with services in urban areas and which is definitely more dynamic and modern. Small enterprises appear as the economic agents' best adapted to the transition context: first of all, the size of start-up capital needed for operation is very low; taxation is lower. Such an enterprise has maximum flexibility and accommodates the easiest the product/services or market innovations (3). They are generally operating in the services

sector, taking advantage of the previous underdevelopment of this sector and the consequent high demand; until the excess demand in services has not been answered, small enterprises provide their managers with higher than average incomes.

According to official data, self-employment has been on a growing trend since the mid-nineties. The number of self-employed and non-paid family workers increased by 11.8% and 9.7% respectively between 1996 and 2001. In 2001, according to the Romanian surveys, of the total employed population, 54.3% was employees, 24.1% self-employed, and 20.2% non-paid family workers. Employers, whose number has been decreasing since the mid 1990s, represented only 1.2% of the total employed population in 2001. Self-employment is nearly entirely in agriculture (89.2% of all self-employed) while 80.2% of the employers are in the service sector, in particular, in trade (62.8% of all employers) (4).

3. SWOT analysis results regarding the self – employment supporting services

All of the four countries have the strength that the support services for self-employment are available in the whole country. The services are also low cost or even free of charge. A common strength is also that there are many types of services available, via the different support service providers, e.g. Employment and Economic Development Centres, Business Development Agencies, Regional Business Development Agencies and so on. The Finnish case presents also the strength that nearly all information, forms and contact information on the support services for self-employment can be accessed through the Internet; there is less bureaucracy and a better access to the services. Raising awareness about the increasing group of persons in (new) self-employment and other structural changes on the labor market and the organized platforms for networking between one-person-companies are also important strengths for the Austrian case.

There are also many common weaknesses in the partner countries. One problem is that the image of one-person-companies is not so high-profile; there are barriers in the society concerning the image of one-person-companies. One weakness is that financial know how, management & risk taking knowledge and other instruments linked with the entrepreneurial culture are generally missing. So, the usage of support services should be higher also after the start-up phase of the

company. The innovative potential of the cooperation and interaction between companies and e.g. universities is not fully exploited. The Austrian survey mentioned also the difficulty to access the micro-credits

A common opportunity in all partner countries is that self-employment could offer many people a good way to get employment. There is an important potential in women's, environmental friendly and social entrepreneurship. The Internet brings many new opportunities, e.g. for the new kinds of learning areas. Simplifications in the handling with authorities and the legal documentation and also the development of the lobbying for one-person-companies became for the Austrian case a very important opportunity too.

There are also threats. For example, the lack of mental support of the new entrepreneurs for coping with the critical start-up phase is a threat. In Poland there is a low survival rate of one-person companies. In Austria, there is missing awareness for taking into account the situation of one-person-companies for the immigrant population and also they deal with an unclear legal definition and further problems about "new self-employment" in the context of legal matters, social insurance and taxes. In Finland there is a strong increase of public support services costs. And in Romania there is a poor sustainability of business support centres after the moment when the financing from the donors ceased. All the countries have many difficulties linked with the problem of missing evaluation of effectiveness of support programs and missing specific market knowledge of most consulting providers.

Information, guidance and counselling are identified as priority tasks in the Communication from the Commission "Making a European Area of Lifelong Learning a Reality" (2001) and in the Copenhagen Declaration (2002). Guidance services should be accessible to all citizens, especially those at risk of exclusion, and tailored to their needs through systems that are coherent, cohesive, transparent, impartial and of high quality.

The key objectives and goals of national policies for information, guidance and counselling services could be also described in order to identify other means to support self-employment. The general picture of the guidance and counseling model functioning in Romania involves:

- Counseling integrated in the educational process (by having the "Counseling and Guidance" Curricular area integrated in the national curricula, mainly as group activities). All the counselors have in-service or pre-service training in counseling.
- Educational and vocational guidance (mainly individual, operated in the County Psycho - Pedagogical Assistance Centers and the Inter-School Psycho-Pedagogical Assistance Offices);
- Vocational counseling focused on career development and placement (mainly individual) in the CICC (*Career Information and Counseling Centers* that exist in the framework of the National Agency for Labor Force Employment) which are located in all counties of the country and in the major cities and the Guidance regarding vocational route choice and placement on the Labor Market Departments .

It should be mentioned that the National Agency for the Development of Small and Medium Enterprises initiated entrepreneurial training programs that have counseling and guidance components. The measures and the actions undertaken by the National Agency for Small and Medium Enterprises and Co-operatives and the Ministry of Education - the main responsible factors in elaboration of policies for developing entrepreneurial culture to all levels – endorsed the introduction in the scholar curriculum, beginning with the gymnasium level, of disciplines tied to developing initiative spirit and of professional orientation capacity, as well as the developing of entrepreneurial competences through long life learning.

The initiatives of the Ministry of Education regarding the education and training of the entrepreneurs materialized as follows:

- Elaboration of normative regulations concerning the inclusion of entrepreneurship notions in the basic curriculum of the educational system;
- Realizing alternative textbooks;
- Further participation in the ECO-NET Programme through: revising the legislative framework, organizing seminars for disseminating the concept of "training firm" (for professors teaching economic disciplines and for headmasters.

The Chamber of Commerce also has training components on development entrepreneurial initiative.

As mentioned before, some ad-hoc community initiatives generated by parents, teachers, alumni, local authorities are aimed at placing citizens in the local labor force, encouraging participation in various projects or opening small businesses.

4. Conclusions

Self-employment in Romania is significantly larger than the official statistics show. Self-employment exists also as part of the underground economy and many skilled workers, (underpaid at their official job) are earning more money from independent activities. Thus although they are employed in the statistics, in fact they are mainly self-employed as regards their revenues structure. Efforts are to be made in order to promote self-employment and to "make official" parts of the self-employment activities that are not official due mainly to fiscal reasons.

It would be of interest to have more in depth data on self-employment and motivations of self-employees. Also it would be of interest to have a study regarding self-employment and small entrepreneurs in agriculture: how many from the official statistics are really entrepreneurs and how many are trying to survive.

There is not enough attention and support offered for the development of self-employment, especially in Poland and Romania. Even there are some legal rules and definitions on authorised individuals and family associations, the labour market regulations are too rigid and no specific measures targeting directly self-employment are available.

Characteristically for the support services for self-employment in Austria are their orientation on start-up companies. Programs and trainings focus on foundations willing and able to grow and don't meet the situation of one-person-companies, where one person is working alone in all fields of his/her business. In the aspects of law, insurances, taxes and bureaucracy the recent phenomenon of changes in self-employment are still seen as quite confusing for one-person-companies.

Anyway, the two EU countries cases (Finland and Austria) proved to be more advanced in terms of the state of supporting services and guidance/career counseling. That is why we think that the transfer of the entrepreneurship experience from the more advanced countries to the central and eastern European ones could be a chance to improve the competitiveness of the system.

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