



Guidance and Counselling for Selfemployment. "SELF-EMPLOYMENT"

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## D3.5 Recommendation Report Austria Finland Poland Romania

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self employment D3.5 Recommendation report

Guidance and counseling for Se

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## **1. INTRODUCTION**

The present report is developed within the framework of Self-Employment project, i.e. "Guidance and Counselling for Self-employment", financed under EU Leonardo da Vinci Programme. This report suggests recommendation of the most efficient assistance schemes for entrepreneurs (milestone on WP3 i.e. work package 3).

One of the main challenges facing the European Union Member States is the need to boost entrepreneurship. That is one of the ambitious objectives set by the Lisbon European Council in March 2000, and reinforced later in 2005 in the "Partnership for growth and Jobs" with a view to improving performances in terms of employment, economic reform and social cohesion within the European Union.

For the EU as a whole some 29 million people were self-employed (i.e. working in their own business, professional practice or farm for the purpose of earning a profit) in 2004, compared to around 161 million employees. This puts self-employment's share of total employment at around 16% in 2004, up slightly (by 0.2 percentage points) on the year before. However, at EU level the share has remained more or less stable around 16% since the late 1990s, and has remained essentially unchanged compared to 2000. Excluding agricultural employment, the self-employed population in the EU totalled 24 million in 2004, equivalent to a share of around 13% of total non-agricultural employment.<sup>1</sup> Within the EU-25, self-employment accounted for about 16.0 % of total employment across the nonfinancial business economy<sup>2</sup> in 2005, with over three times as many male self-employed workers as women<sup>3</sup>.

According to a Euro-barometer survey held within the European Economic Area and the United States in April 2004, a relatively high proportion of EU-25 citizens declared a preference for being an employee; with 50 % aspiring to be employees compared with 45 % who would prefer to be self-employed (5 % 'do not know').

Among those EU-25 citizens that declared a preference for ideally being self-employed, the main reason given was that self-employment was perceived as providing independence and

<sup>&</sup>lt;sup>1</sup> European Commission Directorate-General for Employment, Social Affairs and Equal Opportunities Unit A.1, Manuscript completed in September 2005 Employment in Europe 2005, Recent Trends and Prospects

<sup>&</sup>lt;sup>2</sup> The non-financial business economy excludes agriculture, public administration and other non-market services, as well as the financial services sector. <sup>3</sup> Eurostat, Statistics in focus — Industry, trade and services — 24/2006

self-fulfilment. Other overlapping reasons were an interest in the tasks accomplished (77 % of respondents), as well as the possibility of creating their own working environment  $(16 \%)^4$ .

The five-member consortium of highly professional and experienced organisations, coming from four EU and ACC, is conducting "Self-employment". This complementary partnership represents background of counselling and guidance, academic and education, research and analysis fields strengthen by small business orientation and experience in self-employment project. They represent environments of different level of national awareness, policies and educational offer.

The aim of the whole project is to identify the location and the value of guidance and counselling services addressed to people considering self-employment. The project conducted a survey of existing guidance and counselling services in different location addressed to self-employed for maximum 1 year and who considered such occupation as the main employment and how they were assisted and provided necessary guidance. The project partners are from Austria, Poland, Romania and Finland. In the whole project self-employment is defined as a one-person company.

A standardized questionnaire was used to investigate the needs of people interested in selfemployment to improve their ability to succeed. Sample for each country was defined as 400 persons who are already self-employed for maximum 1 year.

Additionally, a total of 40 in-depth interviews (10 per country) with experts from training field as business psychology and career counselling were provided. The aim of qualitative research was to identify and examine the efficiency of existing support services and counselling addressed to people considering self-employment from institutional point of view.

The present report is based on the findings of the field study, aiming to identify:

- $\rightarrow$  the real needs of the self-employed and of the people considering self-employment;
- $\rightarrow$  if supporting services available are suited to their needs;
- $\rightarrow$  good solutions in guidance and career counselling to suit the self-employed needs.

<sup>&</sup>lt;sup>4</sup> European Commission Flash Eurobarometer 160, 'Entrepreneurship' Directorate General Enterprise and Directorate General Press & Communication

The report was drawn-up having in mind that focusing self-employment at the governmental and regional programmes could have significant influence on the unemployment level and other economical factors. Special measures addressed to self-employed are not wide spread into development plans, even measures connected with fostering entrepreneurship are included.

One-person-enterprises are creatively and dynamically managed. Counselling on high quality level addressed to them could bring a synergy effect and reinforce this companies their doubtless strengths significantly.

This D3.5 recommendation report is based on the following sources:

1. Deliverable D3.5 from each country i.e. the Romanian, Polish, Finland and Austria Recommendation Reports on needs investigation, resulting from analysing survey results.

The survey was carried out by each of the partners in their respective country during spring -summer 2006, as follows:

- In Austria by FO.FO.S Forum for Supporting Self-Employment on a group of 337 participants all over the country, with the support in dissemination of various organisations and multipliers in the field of one-person-companies. Austria also included in target group self-employed, who are longer self-employed as one year. More than half of the respondents are self-employed as an one-person company for over one year, around one fourth between 1 and 3 years and less than one fifth under one year;
- in Finland by SBI, Small Business Institute at Turku School of Economics on a group of 400 participants. The survey was conducted through Internet, using Webropol (www.webropol.com);
- in Poland by ASM on a group of 400 participants using face-to-face interviews all over country;
- In Romania by Dunarea de Jos University of Galati (DJUG) on a group of 400 persons, with the support in dissemination all over the country of Galati County Employment Agency.

Targeted respondents were selected at random according to the projects possibilities. Because no previous database with studies about self-employment was available, *the survey did not have a probability sample character*.

- Evaluation comments, suggestions and recommendations given by external experts in counselling, training as well as decision makers. The interviews were carried out in 2006, following a predetermined list of topics, questions prepared for this purpose by Self-Employment project.
- **3.** Other information gathered in Work Packages 2 and 3 of the Self-Employment project and also available studies on self-employment in Romania, Poland, Finland and Austria, and other European countries.

# 2. SITUATION OF BEING SELF-EMPLOYED

#### Background data on self-employment

Generally, statistics on self-employment distinguish three main sub-categories: selfemployed without employees, or "own-account workers"; self-employed with employees, or "employers"; and unpaid family workers.

Self-employed is defined in the project as **one-person company.** In each of the participating countries the legal or statistical definition of self-employment is more or less close to the one in the present project.

**Austria** – One can find two types of self-employed: one-person-companies, sole proprietorship or limited company, with trading licence (members of Chamber of Commerce) and having no employees and also "new self-employed", persons who can conclude work or service contracts without holding a trading licence, under which they are paid for a specific job or service. Freelance workers, such as journalists, artists, veterinarians and dentists, also form part of the group of new self-employed people.

**In Finland** the preconditions for entrepreneurship are estimated favourable. Self-employed person is a person with no employees, the same definition as in the project.

**Polish** law does not offer an unequivocal, universal definition of self-employment, although the phenomenon itself has been existing for many years<sup>5</sup>. This concept is used mainly in the context of activities performed for businesses on a basis other than an employment contract. In practice it essentially means "being employed by oneself". An existing non-legal definition of self-employment is the one used by Central Statistical Office (GUS): "A self-employed person is a person performing independent business activity or activity in the form of a sole proprietorship enterprise of a natural person, not having employees".

**Romanian** legislation defines self-employed as a person who conducts his/her activity at his/her own headquarters (authorised individuals/ natural independent persons) or runs an individual business without employing other persons, with the possibility of assistance from unremunerated family members (family associations). The same applies for the statistical

<sup>&</sup>lt;sup>5</sup> 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.

data available in Romania, self-employed data includes both authorised individuals and family association.

In order to have a unitary view on dimensions of self-employment in the four participating countries, we collected data on population, employment and self-employment from EUROSTAT website, Population and social conditions, Labour market, Labour Force survey, LFS main indicators and LFS series-Self-employed.

2006-Q4 (thousands)	EU 27	AT	PL	RO	FI
Total Population*	485884 <i>p</i>	8168.7	37398.6	21570.2	5254.8
Active Population*	232811.1	4151.9	16987	9880.1	2614.3
Total employees*	215178.5p	3952.3	14911.3	9080.9	2437.8
Total unemployed* (seasonally adjusted data)	17692.6	188.5	2092.3	730.8	195.7
Self-employment by economic activity (1000)					
Employers and self- employed - all NACE branches	32624.1	489	2911	1913.7	296.5
Self-employed - all NACE branches	22790.7	283.1	2326.9	1776.8	198.3

\*LSF -adjusted series p= provisional values

where,

Employed persons are persons aged 15 and over who during the reference week performed work, even for just one hour per week, for pay, profit or family gain or were not at work but had a job or business from which they were temporarily absent because of, e.g., illness, holidays, industrial dispute and education or training.

Unemployed persons are persons aged 15-74 who were without work during the reference week, were currently available for work and were either actively seeking work in the past four weeks or had already found a job to start within the next three months.

The economically active population (labour force) comprises employed and unemployed persons.

Self-employed are persons who work in their own business, farm or professional practice. A self-employed person is considered to be working if she/he meets one of the following criteria: works for the purpose of earning profit, spends time on the operation of a business or is in the process of setting up its business.

Employees are defined as persons who work for a public or private employer and who receive compensation in the form of wages, salaries, payment by results or payment in kind; non-conscript members of the armed forces are also included.

According to an OECD study<sup>6</sup>, an examination of the countries where self-employment has grown fastest during the 1990s, including Canada, Germany and the United Kingdom, suggests there is no unique set of causes. Some of the growth in self-employment may have been generated by the opportunities it offers to pay fewer taxes; some stems from changes in industrial organisation, such as the increase in outsourcing; and some is no doubt simply

<sup>&</sup>lt;sup>6</sup> OECD, Employment Outlook 2000, chapter 5, The Partial Renaissance of Self-Employment



a response to the new opportunities offered by OECD economies. Policy may also have played a role, as governments in an increasing number of countries have sought to use selfemployment both to reduce unemployment and foster entrepreneurship.

#### **Common characteristics**

Self-employment may be seen either as a survival strategy for those who cannot find any other means of earning an income or as evidence of entrepreneurship and a desire to be one's own boss. Entrepreneurship of opportunity, number of persons who establish their own business as an option out of other possible and wanted options, is specific for economies with high incomes like Finland and Austria, while entrepreneurship of necessity, number of persons who establish their own business because of lack of employment opportunities or unsatisfying character of jobs available, is specific for low income economies, like Romania. The survey showed that in general, respondents chose self-employment because they either seen it as a chance to enter/re-enter labour market or as a more beneficial form of work which allowed them to better use their knowledge and experience.

People managing a one-person enterprises do not form a homogenous group. On the contrary, people managing one-person companies represent very different social environments and professions. Among them one can meet craftsmen, shop-owners, sales representatives, couriers in courier companies, employees of taxi corporations along with lawyers, medicine doctors, architects, journalists, people working in show-business, athletes, interpreters, computer programmers, analysts and many others. This diversity causes that it is impossible to create recommendations that would refers to the needs of all these people at the same time.

Main characteristics according to the survey:

Self-employed persons participating in the survey are more active in services sector than trade. They address both private persons and institutional clients. It is interesting to mention that in Austria and Finland, more developed economies, the percentage of respondents working in services was higher (88.10% and 87.5%) than in Romania and Poland (67% and 60.8%)

- The respondents most often work home or at clients' premises. Others location indicated by respondents as place of work were: in the field in country and abroad, an own external premise built next to house, building site or customers plot, car, taxi, van, film location, outdoor, in nature, in the field, exhibitions, fairs, and seminar locations.
- Almost half of the interviewees work 41-60 hours per week, more than a regular employee. This is valid for almost all the countries where the survey took place. In Romania, Austria and Poland average working hours per week for an employee is 40, in Finland the average is 36.5 hours. The self-employed more often worked over 60 hours (12.5%) than less than 20 hours (7.5%) in a week.
- In spite of the long working hours only 29.8% considered the income obtained as sufficient, and almost half as rather sufficient;
- Close to 60% of respondents are using external help in their current activities and mostly for financial issues and tax purposes; again rather similar answers are obtained on one hand in Austria and Finland, more developed economies, and on the other hand in Romania and Poland;
- The greatest advantages of being self-employed are considered to be: being one's own boss followed by facing new challenges;

### **Challenges and recommendations**

Since self-employed are a heterogeneous group, covering a large range of professions and activities further research might be done to identify the specific needs of self-employed working in different domains. *Support services could be tailored to the specific situations of different fields of activities.* 

Innovation often comes up in "one's" head. In our knowledge society, one-person-companies are able to develop innovation that can be used in the value creation and supply chains of larger enterprises. Therefore *measures supporting innovative one-person-companies could be offered.* The fact that important recent and future questions and problems make social innovations necessary could be a *driver to support one-person-companies strategically their developments of solutions to social problematic.* 

Many self-employed work at home. Of course, this can provide needed flexibility and economic benefits, but many of the respondents found it difficult to balance between



professional and private life. One problem all one-person-enterprises but especially those working at home is being alone with all decisions and also isolation. The situation in home-offices is reflected in a positive, as well as negative way. Negative answers mainly are articulated on the side of disturbed private and business environments. *An easy solution would be availability of business meeting rooms at short notice as well as financially affordable micro-offices. Against the socially isolated situation of many one-person-companies, shared office places could also be supported. Guidance and counselling could also be strengthened in the field of more and better co-operations between one-person-companies. In order to realize as an one-person-companies, <i>practical support would be needed to show how partnerships function and should be structured.* 

Self-employment is associated with an irregular working schedule and with long working hours which vary each day. The working conditions of the self-employed differ from those of employees in a number of ways. Self-employed people tend to report poorer working conditions, including longer hours of work, and less training, less use of computers, and feelings of lower job security. While the self-employed claim that they are more able to adjust instruments and equipment for their own comfort, they are nevertheless less likely to report wearing protective equipment and more likely to work in painful positions. They are more likely to report working at night and at weekends. *Further steps should be consider to improve the working conditions for self-employed*.

By contrast to contractual jobs, self-employment does not always grant the possibility of obtaining regular constant income, social security is weaker, and uncertainty is higher. A person managing a one-person business enterprise is threatened by the instability of economic market circumstances even more than small and medium-size companies. Almost half 47.7% of the interviewees considered that is rather possible to make a living out of self-employment, only 29.8% said that they really can make a living, while 17.7% said that cannot really make a living and 3.4% not at all. *While most governments encourage SMEs in hiring new employees by reducing social contributions though a range of different programmes, there is no or little direct such help specifically to the self-employed. There should also be consider these kind of programmes targeting self-employed and the proper importance and support should be given to the person creating his/hers own job.* 

## 3. SYSTEM OF SUPPORT SERVICES (TRAINING, COUNSELLING)

It seems that support services tailor-made for one-person-enterprises are still very rare, although this group of entrepreneurs are a significant part of the active business operators. Most services are addressing start-ups or SMEs, without enough differentiation concerning company size, history and developments, business to business or business to consumer sectors and branches. In each participating country, the attention paid to self-employment is different. Recently the situation in Austria is changing, as one-person-companies are realized more and more at the side of media, lobbies and politics and some research has been done on this specific field of enterprises.

Furthermore training and consulting mostly do not differentiate enough between persons working in productions or services, an office or at home (i.e. regarding financial aspects), in the business-to-business or business-to-consumer sector (i.e. regarding marketing strategies).

Main findings according to the survey:

- When planning to start their business, 35.8% of the respondents were not interested in finding information regarding support measures available, more than half (51.4%) looked for information superficially. Only 12.3% searched extensively information on training and guidance for self-employment;
- Less than half of the respondents took advantage of the support measures available for self-employment. The most common reason indicated is that the support available was not tailored for their needs. They rather preferred to use self-study or help from friends;
- On the other hand, many of the self-employed that attended training or career counselling sessions evaluated them as positive and useful experiences;

#### Low level of use of support services

A large part of the one-person-companies participating in the survey is not informed about existing support offerings. This missing awareness regarding institutions that offer support for self-employed persons shows a remarkable potential for support services for one-personcompanies – provided that they are communicated specifically for different target groups. As only 12.3% of self-employed interviewed is informed very actively, it can be supposed that knowledge about available institutions and the range of their support services can be broadened even by the most known institutions in this field.

### Lack of offer responding to self-employed needs

Most trainings and information material available cover all important aspects of a company foundation comprehensively. Thus information offered for free is mainly concentrated on "hard" facts like legal forms of a company, taxes or insurances but doesn't necessarily include the development of "soft" skills, which is provided in cost-intensive seminars mainly. In the field of *marketing skills* i.e. most training offerings are structured relatively theoretical and academically and therefore neglect very practical, efficient and simple solutions suited for immediate implementation in a one-person-company.

The respondents participating in the survey, who informed themselves about the existent support measures were also asked if the offers covered and to what extent several domains. The interviewees indicated *Dealing with risk, failures, isolation in decision making, feeling alone and Networking* as less covered areas with 55.4% and respective 53.10% answers of Rare offers and No offer. Next domains named as insufficient covered or not at all covered were: *Self-organisation/time-management; Selling, negotiations (talking to customers, suppliers, cooperation partners); Marketing, PR, advertising; Entrepreneurial acting & thinking; Set up of a computer (hardware, software, maintenance), all indicated with 40 to 50%. It seems therefore that there is a market demand for training of this sort (although whether the self-employed would avail themselves of any such offer would depend on a number of factors such as price, place and time of a course).* 

There is lack of one stop places in which the self-employed person could access information and advices and counselling on his or her business and business development. There are plenty of support and guidance organization, but there are too little of those that concentrate only to the self-employed people. *There needs to be more emphasise to create user friendly one stop services for the self-employed to save their resources and also the services providers' resources.* 

Because of their isolation, the self-employed people need a lot of psychological support. Many of the interviewed experts indicated the psychological support as a key form of support. *Mentoring-like and other psychological support tools need to be offered more. The* 



advice related to the ways of dealing with stress, failure, self-reliance and the necessity to make all decisions would be particularly useful.

#### **Financial support**

In general, financial programs vary in the participating countries by their focus on industry sectors, duration and target groups, according to each country specific development plan. They mostly address to small and medium-sized companies rather than to persons in self-employment. One-person-enterprises often are very little informed about possible economical support and are not able to get support due to their little company size. *It could be an aim to adjust economical support measures regarding the differences in size of small and medium-sized enterprises as well as for persons in self-employment without any employee. The access to micro-credits for founders and one-person-companies can be a significant factor regarding the motivation for a foundation and the economical security as well as the growth of a company. A better use of the EU resources, a more specialized and individualized help including not only the preliminary stage and the stage of a one-person company establishment, but also the phase of monitoring and supporting within the existing funds the first 12-18 months of the company functioning (the most crucial period for its future existence).* 

#### Institutional support vs. informal support

As "important source of information" as well as "alternative to training and counselling" the informal way is often used by self-employed. They do consult friend, family members and other self-employed. In a way a "semi-expert" can explain a subject easier than an expert who sometimes knows "too much" and sometimes overwhelm a beginner. *It seems to be a good idea to combine the institutional help with the informal support by means of the so-called coaching (mentoring) conducted by the self-employed people themselves, acting already on the market for a few years and offering their first-hand knowledge and experience to the new adepts of the business world (peer groups). As self-employed do have not a lot of time to be mentor for other self-employed their time should be monetary compensated.* 

# 4. FRAMEWORK

Main findings according to the survey:

- ✓ The main obstacles for being self-employed are considered to be: legal framework, bureaucratic barriers and lack of financing, all these answers registering over 50% answers, and they were close followed by long periods with hardly any income in the beginning with 45.2%;
- ✓ When it comes to the organisations representing interests of self-employed only 36.3% of the respondents believed there were some forces, institutions or organisations in their country that represented the interests of people running oneperson businesses;
- ✓ When compare themselves with employees, self-employed interviewed consider that that they earn more money, pay more taxes, work more hours, their work receives more recognition from the society, overtake more responsibilities, have to have a better knowledge of legal framework and have more financial risks. But when they compare themselves with small companies' owners they think the opposite: selfemployed are less recognised by society, earn less money, pay less taxes, have fewer law knowledge, carries less financial risks, and overtake less responsibilities but have to work more hours.

The respondents of the survey have talked about problems regarding their self-employment status in detail. Generally, one-person-companies have the wish for a better recognition from society and a lobbying institution that represents their interests and is orientated on their specific needs.

### Definition of one-person-enterprises

A possible step in order to enhance the situation of one-person-companies could be to structurally show up the differences between self-employed persons without employees and those small and medium-sized companies having employees. Similarly to the differences in laws and regulations concerning employees and unemployed persons, it would support one-person-companies to take into account their individual situation also in the field of legal framework, i.e. their age, qualification, care responsibilities etc.

To work out the differences between a one-person-company and an enterprise with employees in more differentiated ways would be necessary for a better understanding of the general framework and needs referring to self-employment and to realise one-personcompanies as an economic and social phenomenon.

Self-employed might be covered in the European SME Definition of European Commission as well as administered on national levels of the European Union as a separate group of SMEs/micro-enterprises.

#### Lack of statistics

There is significant lack of statistics referring to the group of self-employed. Actually, they rarely exist as a separate subject. They are treated mostly like the micro-entrepreneurs. Having such a poor background there is no possibility to estimate the impact of one-person companies on local, regional and national economy. Without knowing problems and needs of this group of entrepreneurs implementation and promotion of this kind of employment among graduates and unemployed is pointless.

# Red tape

Considering authorities and legal documentation (tax declaration etc.) adjustments could also help to improve the every day work of an one-person-company. Laws and regulations in the field of taxes and social insurance that are much too complicated for a one-personcompany that is doing all work without any employee. *Considering this fact could lead to a reduction of documents and formulas needed for social matters, tax etc. helping both sides, one-person-companies and authorities, to work more transparent and faster. It could be seen as an aim to simplify regulations for duties and taxes in a way that one-personcompanies could easily comprehend and utilize them. Interfaces in public institutions were self-employed get in contact with public administration could be more "customer"-friendly. Civil servants could be more sensitive to the situation and needs of self-employed. The attitude towards one-person-entrepreneur could be changes, as they do have definitive have another working situation as an Entrepreneur with employees, which main function is managing.* 



In many European countries, the registration of the activity can be performed on-line via the Internet or by hand in all the necessary forms at "one-stop shops". Unfortunately in Poland such possibility still does not exist.

#### Lack of representative of self-employed interests

The self-employed despite that they are a big social group do not have their own representation capable of joining the dialogue with the authorities and to represent the interests of this group of entrepreneurs. Only one third of the questioned one-person company owners indicated that they felt their interests were well-attended to. Still, there exist many issues linked to the binding laws and legislation the change of which might in a significant way act to improve the functioning of one-person enterprises and in a wider perspective - to help to improve the development of entrepreneurship. *The obvious solution might be to form an association grouping self-employed people and representing the interests of the self-employed* 

#### Plans to grow

More than half of respondents indicated that they don't have any plans of expanding business and hiring extra help, and about 17% were undecided. In Austria, one third (29%) believe in making the step from a one-person-company to a micro-entrepreneur. 71% of the self-employed asked don't plan to hire an employee. In Finland, 44% of the respondents planned to grow their business whereas 55,3% did not. In Poland, a half of the interviewees (50.5%) stated that within the next three years they do not intend to expand their business and hire employees. 18.3% of the respondents found it hard to say whether they will decide to develop their companies. In Romania, close to half of the persons asked found it hard to say whether they will decide or not to develop their business, 13.2% have no intentions of expanding business, and 43% think they are going to grow their business in the next 3 years. Therefore, it is recommendable to differentiate support services for one-personcompanies in regard to their plans to grow or their plans to work on without employees, and accept that the large majority of one-person-enterprises are not able or willing to generate jobs for others. For the one-person-enterprises planning to grow special support services should be offered to facilitate the employment of the first employees, in sense of simplify bureaucracy at the beginning and running administrative, but also measures of guidance for leadership.

#### "False" self-employment

Several countries, at different times, have seen growing numbers of self-employed people who work for just one company, and whose self-employment status may be little more than a device to reduce total taxes paid by the firms and workers involved – the phenomenon of so-called "false" self-employment. While the main policy instruments involved are fiscal ones, labour market policies are also important, because incentives for "false" self-employment may also stem from overly strict labour protection laws.

## 5. Final remarks

Self-employment depends on various factors such as access to finance; administrative burdens; taxation; social policies like health, social insurance and pensions), "skills" (human capital, managerial skills) and "spirit" (or personal choice). Policy intervention should take all these dimensions into account. However, whereas governments can intervene to shape the general framework formed by the "conditions" and the "skills" in order to increase opportunities, the "spirit" rests on personal choices, vision, determination and willingness to take risks. These are conditioned by the culture, and by family and local traditions, and are not easy to modify.



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