YEPA Workshop 2
Innovative and high-growth entrepreneurship for young entrepreneurs

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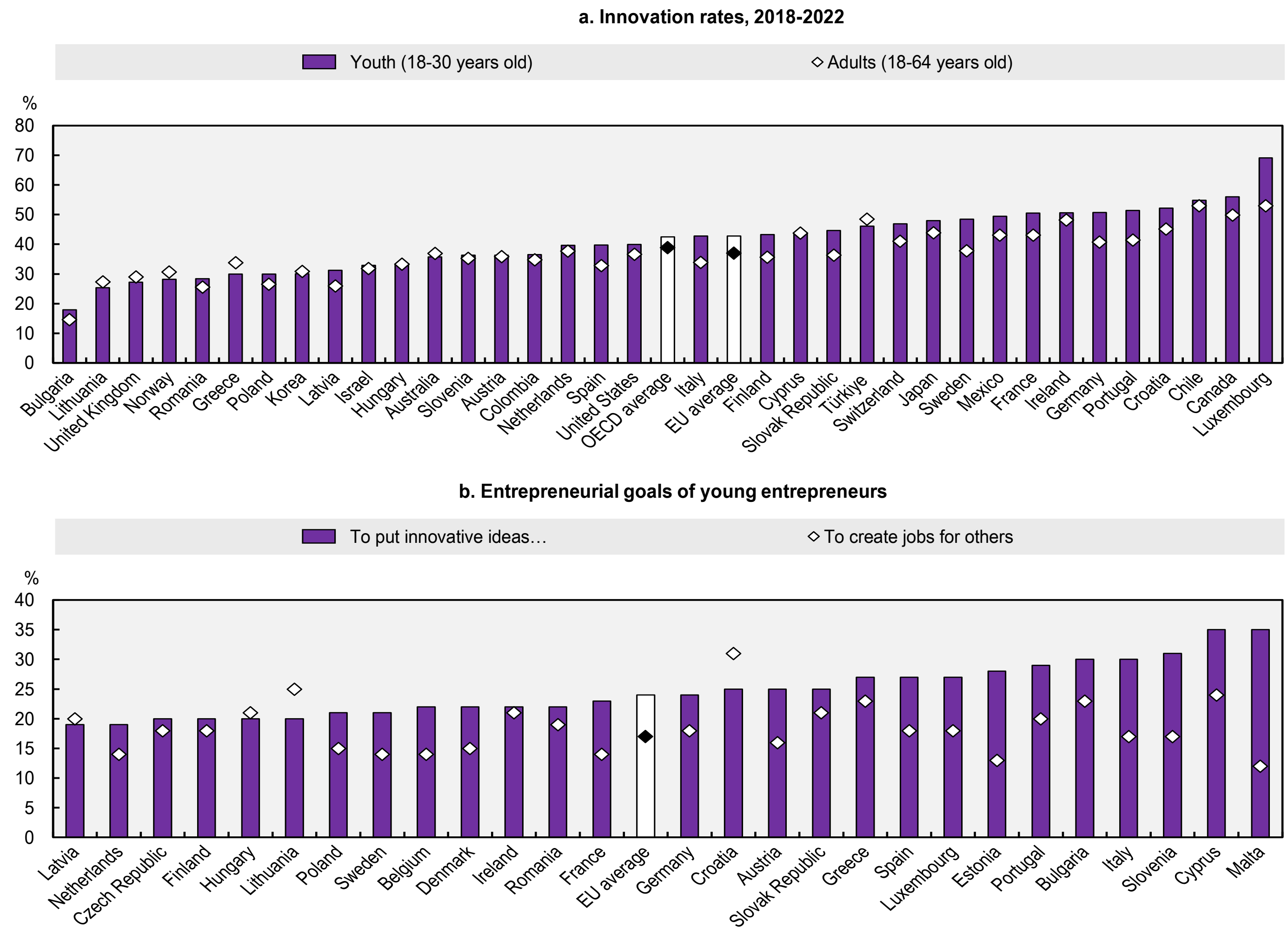
Innovative and high-growth entrepreneurship

Why is innovative and high-growth entrepreneurship for young entrepreneurs a priority policy issue?

Young people are at the forefront of the digital and green transitions, introducing various innovative practices to address the various social and environmental challenges facing the world today. Innovation is an important driver of economic and social change as well as job creation. It can signify both an activity and the outcome of an activity yet must entail a degree of novelty (OECD/Eurostat, 2018). For example, business innovations are a new or improved product or business process that differs significantly from previous processes or products. Innovation is a strong driver for young entrepreneurs with many of them introducing business innovations. Moreover, young entrepreneurs reported slightly higher rates of innovation (i.e. introducing a new product/service) compared to the overall adult population on average in the EU (43% of youth vs. 37% adults) as well as in OECD countries (42% of youth vs. 39% adults) between 2018 and 2022 (Figure 1).

Innovation and growth play a role in motivating young people to pursue entrepreneurship. Nearly a quarter of young entrepreneurs report innovation as a primary goal to achieve by starting their business and nearly 20% indicate that they wish to create jobs for others (Figure 1). While innovation covers a variety of activities and is influenced by a wide range of factors, public policy can encourage and support young entrepreneurs in pursuing innovation. Many countries have implemented policy actions designed to increase innovation rates and the growth potential of businesses operated by youth entrepreneurs, including management training, and strengthening networks (OECD/European Union, 2019).

Figure 1. Innovation is a priority for young entrepreneurs



Note: Panel B reflects that answer to the question "If you were to set up your own business, which of the following goals would be most important to you?".
Source: Flash Eurobarometer #513 (2023) and GEM special tabulations (2023)

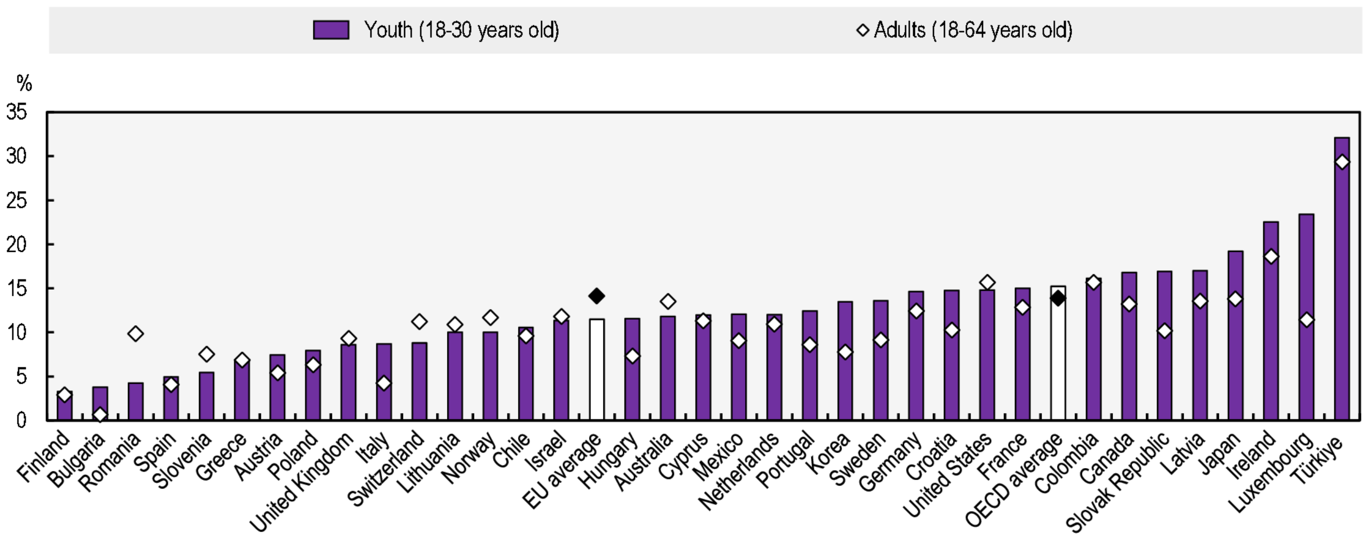
A major driver of innovation and job creation are high-growth start-ups (see Box 1 for more information). While the share of high-growth start-ups tends to be small (usually only a few percentage points of the population of firms), they contribute substantially to net job creation. For example, high-growth enterprises accounted for 22% of new jobs created in the Netherlands and 53% of new jobs in France over five-year periods between 2001 and 2012 (Criscuolo, Gal and Menon, 2017). Moreover, the positive impacts of high-growth potential firms extend beyond innovation and job creation rates. They also drive competition, create knowledge spill-overs and strengthen the overall entrepreneurial ecosystems. There is also evidence that suggests that these firms can contribute to raising wage and income levels (OECD, 2019).

Box 1. Defining high-growth entrepreneurship

The OECD and Eurostat define a "high-growth firm" as an enterprise with at least 10 employees and an average annual growth in employment or revenue exceeding 20% over three consecutive years (Eurostat and OECD, 2007), while the European Commission has a broader definition. According to the European Commission enterprises with 10% annualised growth in employment over three consecutive years that had at least 10 employees at the beginning of their growth are considered high-growth firms (European Commission, 2014).

However, there is mixed evidence on the potential for businesses operated by youth entrepreneurs to lead to substantial job creation. On one hand, evidence suggests that older entrepreneurs are much more likely than young entrepreneurs to operate high-growth firms - a 50-year-old starting a business in the United States is 1.8 times more likely to achieve high-growth than a 30-year-old (Azoulay, P. et al., 2018). On the other hand, young early-stage entrepreneurs expect similar levels job creation to the overall adult population. Around 12% of youth, on average, in the EU have high-growth expectations (i.e. they expect to create at least 19 jobs over the following 5 years) relative to 14% of adults, compared to 15% of youth and 14% of adults across OECD countries (Figure 2). Furthermore, youth entrepreneurs expected higher levels of job creation than adults in 25 EU and/or OECD countries between 2018 and 2022.

Figure 2. Young entrepreneurs have high expectations for job creation, 2018-2022

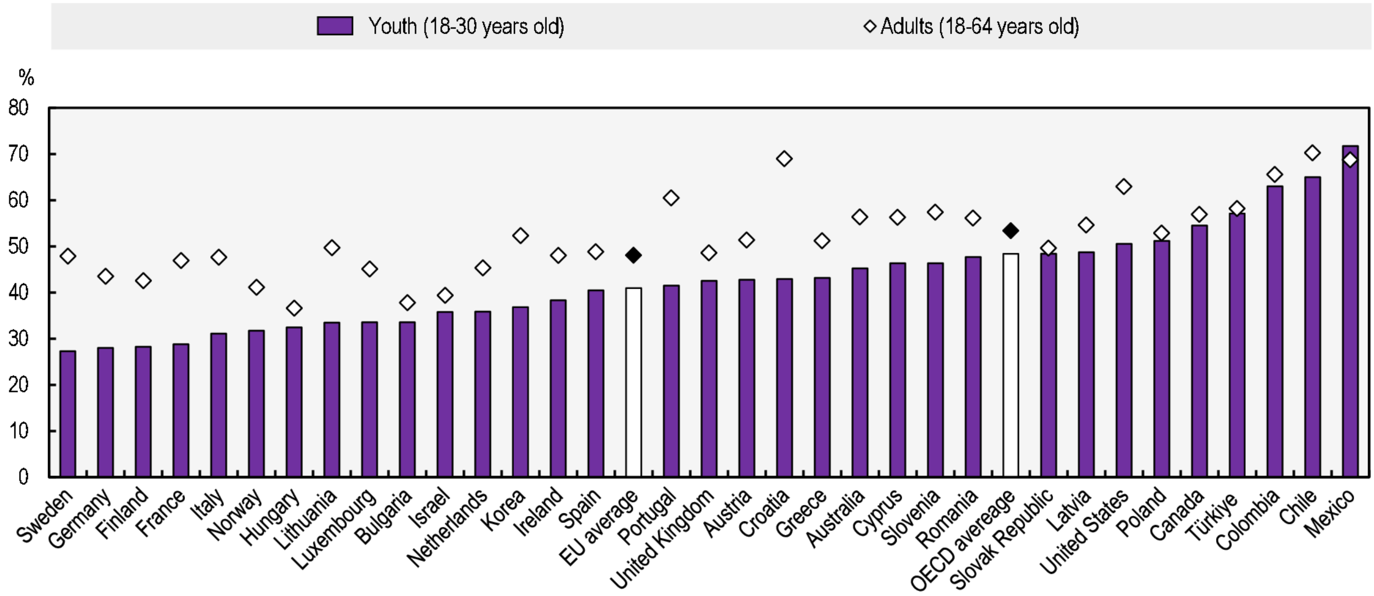


Source: Flash Eurobarometer #513 (2023)

What challenges do young entrepreneurs face in innovation and high-growth entrepreneurship?

It is important to note that many young entrepreneurs overestimate their business management abilities and underestimate the challenges that they will likely encounter. This is most notable in terms of high growth expectations and actual jobs created. While young people tend to have higher risk tolerance than adults, they often lack the business and management skills, the financial capital, and networks to scale their businesses. Moreover, young people tend to self-report lower levels of entrepreneurship skills than adults (Figure 3). Only 40% of youth in the EU reported that they had the needed skills to start a business. This was slightly higher than in OECD countries, where about half of youth believe that they have the skills to start a business.

Figure 3. Young people are less confident in their entrepreneurial skills compared to adults, 2018-22



Source: GEM special tabulations (2023)

Innovative youth entrepreneurs also lack access to finance, including from traditional banking institutions as well as venture capital and angel investors. This can be due to barriers on both the entrepreneur side and the investor side. For example, young people may lack the knowledge and understanding of how to be investment ready. On the other hand, investors may be less likely to engage with young entrepreneurs as they are seen ask higher risk due their lack of collateral, debts (i.e. student loans), lack of preparedness, and limited professional experience and connections.

Another challenge faced by youth entrepreneurs is their limited professional networks. This is primarily because youth entrepreneurs have had less time to invest in fostering relationships within the business community and building their professional networks. Many youth entrepreneurs rely on their family and friends for support instead of more valuable professional connections as they tend to lead to connections with potential customers, suppliers, and other entrepreneurial ecosystem stakeholders. Limited networks can greatly impact a young entrepreneur's ability to access financing and obtain resources needed to innovate and grow their entrepreneurial activities.

Box 2. Inspiring innovation: A conversation with young entrepreneurs

Who are the panellists?

- **Hannah Wundsam** (AustrianStartups) - Co-managing director at AustrianStartups, which is an independent non-profit platform for innovative entrepreneurship in Austria.
- **João Lopes** (bloq.it) - Co-founder and CRO of Bloq.it, which provides smart locker solutions and develops networks of urban smart lockers.
- **Kjartan Thorsson** (Prescriby) - Co-founder and CEO of Prescriby, which is a platform that provides for the creation of personalised treatment plans and education materials to provide safer treatments of prescription opioids and other addictive medication.

What did they say?

The panel discussion explored how youth entrepreneurship policies can facilitate innovation among young people and support them in creating and growing their own business. Each panellist shared their journey to entrepreneurship and how their motivations for starting their companies. Lopes shared how he knew from a young age that he wanted to be an entrepreneur and pursued business creation early in his studies before eventually leaving his course to start his company. Wundsam highlighted how finding an entrepreneurship club while she studied abroad gave her the initial spark to pursue entrepreneurship once back at home. Kjartan was motivated by the need for a solution in the medical field, which led him to develop the idea himself and start a company to fill the gap.

They each highlighted that working with their co-founders in a team had been beneficial to the success of their companies and to their ability to navigate the various opportunities and challenges they faced. Each entrepreneur also shared their experiences participating in different support programmes, ranging for entrepreneurship clubs and networks, bootcamps, workshops, hackathons and financial supports (e.g. grants). While they had all faced obstacles in their journey, they highlighted the importance of being able to pivot, persevering and being adaptable. They all called on the need to create a supportive environment that is accepting of change and open to failure as young people introduce new ideas and solutions. Policy makers can do more to bolster the entrepreneurial spirit, promote existing opportunities and foster skills development.

What are governments doing?

Supporting innovation through business development services

Policy can play a supporting role in promoting economic growth, innovation, and job creation among youth entrepreneurs by addressing market and institutional failures that inhibit their ability to scale up their entrepreneurial activities (e.g. information asymmetries, access to finance). One of the main methods used by governments to support youth entrepreneurs in pursuing innovation and high-growth entrepreneurship is through incubation and acceleration services (Box 3). Evidence suggests that youth entrepreneurs stand to benefit more than adult entrepreneurs from business incubation programmes as they often lack experience and have small networks (Albort-Morant and Oghazi, 2016).

Box 3. Incubation and acceleration services

Business incubation programmes typically combine training programmes with other integrated support services, such as networking opportunities, consultancy, mentoring, coaching, workspace, and introductions to investors (OECD/European Commission, 2023). Support can last for several years and may include pre-incubation as well as post-incubation support once youth entrepreneurs have completed the programme. However, incubation differs from business acceleration programmes as accelerators focus on managing accelerated growth in a shorter timeframe (i.e. less than 12 months). Moreover, many accelerator programmes take ownership stakes in the companies that use their services, whereas this is not the case with business incubation services.

Governments can support these services both directly and indirectly. Direct approaches include establishing public incubation and acceleration programmes, providing facilities for these programmes to operate, and providing the initial funding/subsidising incubation and acceleration services that are delivered by non-government organisations. Indirect approaches include providing training and support to delivery organisations to ensure that programmes are best serving young entrepreneurs. Governments can also play an important role in raising awareness of incubators and accelerators among young people as well as helping to build links between incubators and resources in the entrepreneurial ecosystem. It is important that governments facilitate access to incubation and acceleration services for young people, including through improving access to mainstream programmes (e.g. quotas, dedicated outreach campaigns, adaptations to the format to better address the needs of young people, tailored support services, etc.).

Addressing the gaps in access to finance

Governments can also address barriers to access to finance, notably growth finance, through providing direct funding (e.g. grants, loans, guarantee schemes, venture capital and equity investment) and indirect supports (e.g. financial literacy training, investor readiness courses, funding to other financial support provides, etc.). Over the last two decades, governments have prioritised improving financial literacy and have integrated financial literacy programmes into existing entrepreneurship training schemes as well as into school curriculum. These programmes often cover subjects such as sources of start-up funding, how to open and manage a bank account, basic accounting methods (e.g. budgets, revenue forecasts, invoicing, inventory management, etc.), cost and project management, identification and management of financial risk, taxation, etc. (OECD/European Commission, 2022). Another approach is to offer free financial literacy resources through online platforms, making information readily accessible to young entrepreneurs. These platforms often include instructional videos, articles and templates for financial materials.

Governments also offer investor readiness schemes to help prepare young growth-oriented entrepreneurs for investment opportunities. These programmes aim to increase knowledge and skills needed to identify and succeed in obtaining venture capital and equity investments. These are often integrated into existing support programmes, such as incubation and acceleration services. They often include modules on preparing pitches, market analyses, business models and financial forecasts as well as provide opportunities for young entrepreneurs to interact with investors.

Moreover, governments employ a range of instruments to directly fund young entrepreneurs and their businesses. This includes dedicated financial measures for young entrepreneurs, including grants, repayable start-up loans, allowances (i.e. regular payments to cover living costs during start-up phase), credit guarantees for private sector loans, microfinance schemes as well as government-backed youth-dedicated venture capital funds.

Facilitating networks for young entrepreneurs

Policy makers can also enable access to networks for young entrepreneurs as networks can have a profound impact on the success the success of entrepreneurship projects by young people. Governments have three primary approaches to facilitate the creation of entrepreneurial networks for young entrepreneurs: create dedicated networks designed to build connections among young entrepreneurs and the broader business community, build networks in parallel to other entrepreneurship support programmes (e.g. training, mentoring and coaching, incubation, innovation hubs, entrepreneurship centres, etc.), and broaden existing network initiatives to create a more diverse and inclusive network for young people (Halabisky, 2015).

Supporting network development is particularly important for young people and entrepreneurs outside of urban centres and metropolitan areas. Through their networks, young entrepreneurs can access new markets and expand their customer base beyond their local context, which is especially important for high-growth potential start-ups that wish to scale (Box 4).

Box 4. Fostering innovative entrepreneurship and the next generation of innovators

Country host and Case Study: Oddur Sturluson, Iceland

Promoting and supporting innovation and entrepreneurship

Oddur is currently the project manager of the Innovation Hub for Education and has been active in the startup and innovation communities in Iceland. He is not only a founder himself but has also worked as an entrepreneurship support provider for early-stage start-ups at Klak prior to joining the university.

The University of Iceland has various projects related to innovation and entrepreneurship, including through its innovation centres which provide entrepreneurship and innovation support services to its students and staff through Sprotamýri (Entrepreneurship Centre of the University of Iceland) and Mýrin (Innovation Centre of the University of Iceland). As part of the integrated support, Sprotamýri provides an open workspace for entrepreneurs and support from entities such as KLAK – Icelandic Startups (e.g. business acceleration and entrepreneurship workshops). Additionally, the centre acts a hub for many important actors in the innovation ecosystem, including entrepreneurs, start-ups funders, Icelandic Start-ups, Auðna-TTO and Iceland Design and Architecture.

Innovation and creativity: A case study on rural innovations

Oddur presented a case study on Iceland's approach to fostering a more innovative and entrepreneurial environment. Iceland has introduced many entrepreneurship policies, support programmes and financial support schemes to foster business creation and to promote innovation among the population, particularly young people. He discussed how important creativity and hands-on learning are for fostering innovative thinking and providing opportunities to innovate. While many of the urban areas benefit from entrepreneurship support and innovation assistance, he emphasised how innovation and high-growth entrepreneurship are not limited to urban areas and are shaped by the culture, context and history of the environment. He highlighted the example of Kerecis – a company from Iceland's Westfjords region. While the region is the least populated in Iceland, innovation was not hindered by the environment but thrived as the company drew on the local context, history and knowledge of the fishing industry to develop skin grafts from fish skins, which have historically been a by-product of little value. Sustainability has been a principal objective of Kerecis. Not only have they transformed wound care through a waste-to-value model, but their manufacturing facilities use 100% renewable energy. In August 2023, Kerecis become Iceland's first Unicorn.

Moreover, governments can support innovation activities, encourage investment and develop new markets through the creation and promotion of innovation networks. These networks facilitate access to specialised knowledge, knowledge-based capital and technological resources as well as promote collaboration and create opportunities for connection with innovation support organisations, including incubation programmes, acceleration programmes, digital innovation hubs (Box 5).

Box 5. The importance of unleashing the power of networks

Case Study: Thanos Paraschos, Greece

Paraschos discussed the importance of networks for young entrepreneurs and the role they play in strengthening the entire entrepreneurial ecosystem in a case study on innovative ecosystems. Entrepreneurs who participate in start-up support programmes often are attracted by the variety of assistance offered, including access to capital, access to resources and facilities, and access to key stakeholders and entrepreneurial actors. He highlighted the need for a constructive and supportive environment for young entrepreneurs as they start and scale their businesses, particularly the additional support provided by a well-developed network. Networks provide access to capital through venture capital funds, angel investor networks and other investment opportunities. They also open up avenues to identify and interact with potential partners, suppliers and clients. While many entrepreneurship support programmes have integrated networking initiatives into the scheme, there are ways to unlock even more potential by engaging with entrepreneurs who have already completed the programme or alumni start-ups. He stressed the need for support providers to tap into this source of knowledge and talent as alumni start-ups can serve as role models, mentors and investors to up-and-coming entrepreneurs.

A common approach used by governments to create innovation networks is public-private partnerships, which allows governments to define and adapt their role in the network (e.g. initiator, facilitator, funder, etc.). These partnerships entail collaboration with public/private universities, research centres, government agencies and industry actors (i.e. entrepreneurs, large firms, SMEs, private financial institutions, etc.) in the short-term and long-term. Short-term collaborations tend to last between 2-4 years that often include project-based initiatives, while long-term approaches tend to be more intensive and include the development of more permanent structures (i.e. joint organisations, centres for innovation/excellence). A more recent trend is the utilisation of public service innovation networks for social innovation that aim to encourage social innovations by public and private actors. Overall, governments need to do more to make these types of networks more accessible to and inclusive for young entrepreneurs.

Questions for discussion

- How can policy inspire and maintain a stronger inclusive pipeline for young founders with growth-oriented and innovative businesses, notably among women?
- How can policy better provide innovation assistance and support network development among youth entrepreneurs?
- How can policy support and enhance youth-dedicated incubation and acceleration services? How can these spaces be made more inclusive?
- How can public policy boost financial literacy and investor readiness among young entrepreneurs?
- How can governments improve access to finance for young entrepreneurs, notably growth finance?

Takeaway messages

- Incubator and accelerator programmes can be more effective for young entrepreneurs if tailored to address their specific needs, placing emphasis on entrepreneurship and business management skills acquisition and network development.
- Policy makers could look to expand innovation support schemes to foster innovative ideas and support young people in implementing their ideas into business activities. This could include supporting the development of innovation hubs and networks that are accessible to young people.
- Entrepreneurship competitions and hackathons hold potential for young people interested in innovation and starting their own businesses. Policy makers could consider fostering a more innovative and entrepreneurial spirit by hosting more events such as these as well as creating dedicated outreach campaigns to inform young people are these opportunities.
- Policy makers can look to expand financial measures, notably repayable instruments, to help young entrepreneurs access the capital needed for the innovative entrepreneurship activities, which often require capital for R&D and other significant upfront expenses. Moreover, many young people face additional challenges in accessing traditional financing due to potential debt, such as student loans.

Further reading

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