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# Start-up Grant – A Key to Entrepreneurship

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Pekka Stenholm,  
University of Turku, Turku School of Economics, TSE Entre

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# Outline

- Background
- Recent results
- Conclusions

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# BACKGROUND

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## Start-up Grant 1(3)

- Monthly payment for nascent entrepreneurs to promote the establishment of new businesses and employment
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- Provided by the Ministry of Employment and the Economy
    - For the livelihood, not for the business
    - Max. 18 months (three phases), on average 590 € per month (in 2009)

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## Start-up Grant 2(3)

- In Finland the Start-up Grant was introduced in 1980s
  - Continuous increase in unemployment
  - After an experimental phase it was regularized in 1988
  
- In 2005 phase II Start-up Grant was launched
  - Similar aims, but now also non-unemployed individuals were able to apply the grant
  - The second phase was regularized in 2007

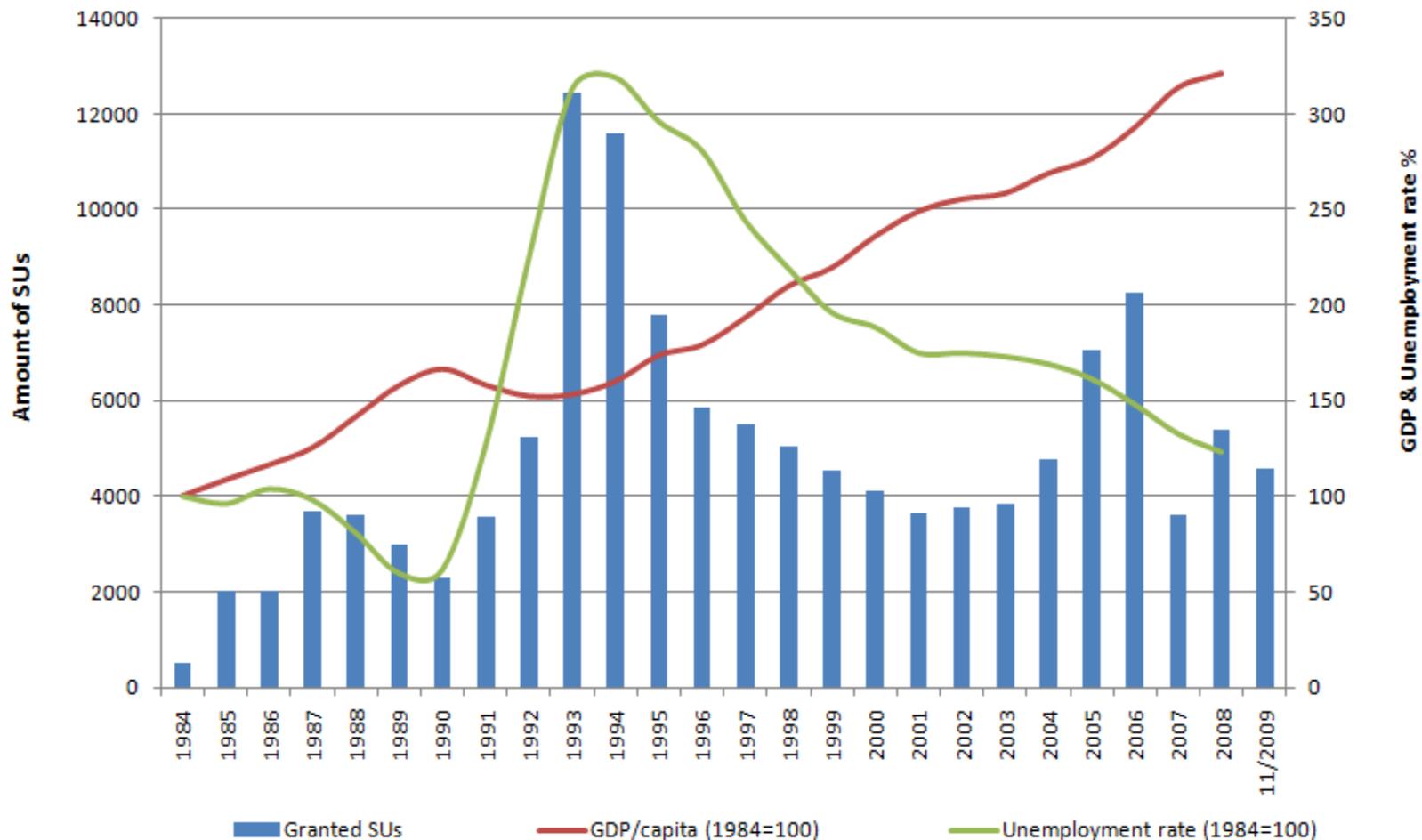
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## Start-up Grant 3(3)

- Rather strict preconditions
  - Before 2005: At least 3 months of unemployment
  - Applicant has to have necessary skills and know how\*
  - Applicant is not receiving any other financial aid for his/her livelihood
  - Business plan has to be reviewed separately
  - *"Enterprise would not be started without Start-up Grant"*

\* If not, then the applicant has to participate in a course on entrepreneurship

# The development of unemployment, GDP (PPP), and the amount of Start-up Grant (1984-2009)



Sources: Ministry of Employment and the Economy, Statistics Finland

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# Theoretical background

- Entrepreneurial intentions (Davidsson 1991, Krueger et al. 2000, Shapero 1982)
  - Perceived skills
  - Perceived opportunities
  - Aspiration for starting up a business
  
- Labor economics
  - Policy measure to tackle the unemployment
  - Later, a measure to expand the entrepreneurial aspirations within non-unemployed persons

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# RECENT RESULTS

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## Study:

### Data and definitions used in this presentation

- Nascent entrepreneurs (NE) who received Start-up Grant (1/2005-3/2007)
  - n=1.756 (response rate 56%)
- Nascent entrepreneurs who did not receive Start-up Grant they applied (1/2005-3/2007)
  - n=218 (response rate 46%)
- Two groups of individuals
  - Unemployed nascent entrepreneurs
  - Employed nascent entrepreneurs

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## Background data 1(2)

- Unemployed/non-unemployed: 66/34%
- Majority of the nascent entrepreneurs (NE) operates in services (66%)
- Entrepreneurial experience before start-up:
  - None: Unemployed 75%, non-unemployed 82% ( $p < .001$ )
- Experience in the industry of the start-up:
  - None: Unemployed 24%, non-unemployed 19% ( $p < .05$ )

## Background data 2(2)

- The perceived desirability of entrepreneurship was higher among non-unemployed persons ( $p=.058$ )
- Similarly, they perceived their skills higher than unemployed persons ( $p<.05$ )
- Most important reasons for start-up (%):

	Unemployed (n=1.158)	Non-unemployed (n=596)
To create a job	45	30
Exploit an opportunity	8	13
To gain independence	18	22
Other reasons	29	35
Total	100	100

( $p<.001$ )

# The importance of Start-up Grant in starting a business

Would you have started the same business without the Start-up Grant that you received?

	Unemployed (n=1.160)	Non-unemployed (n=596)
Yes	51	65
No	24	16
Don't know	25	19
Total	100	100

( $p < .001$ )

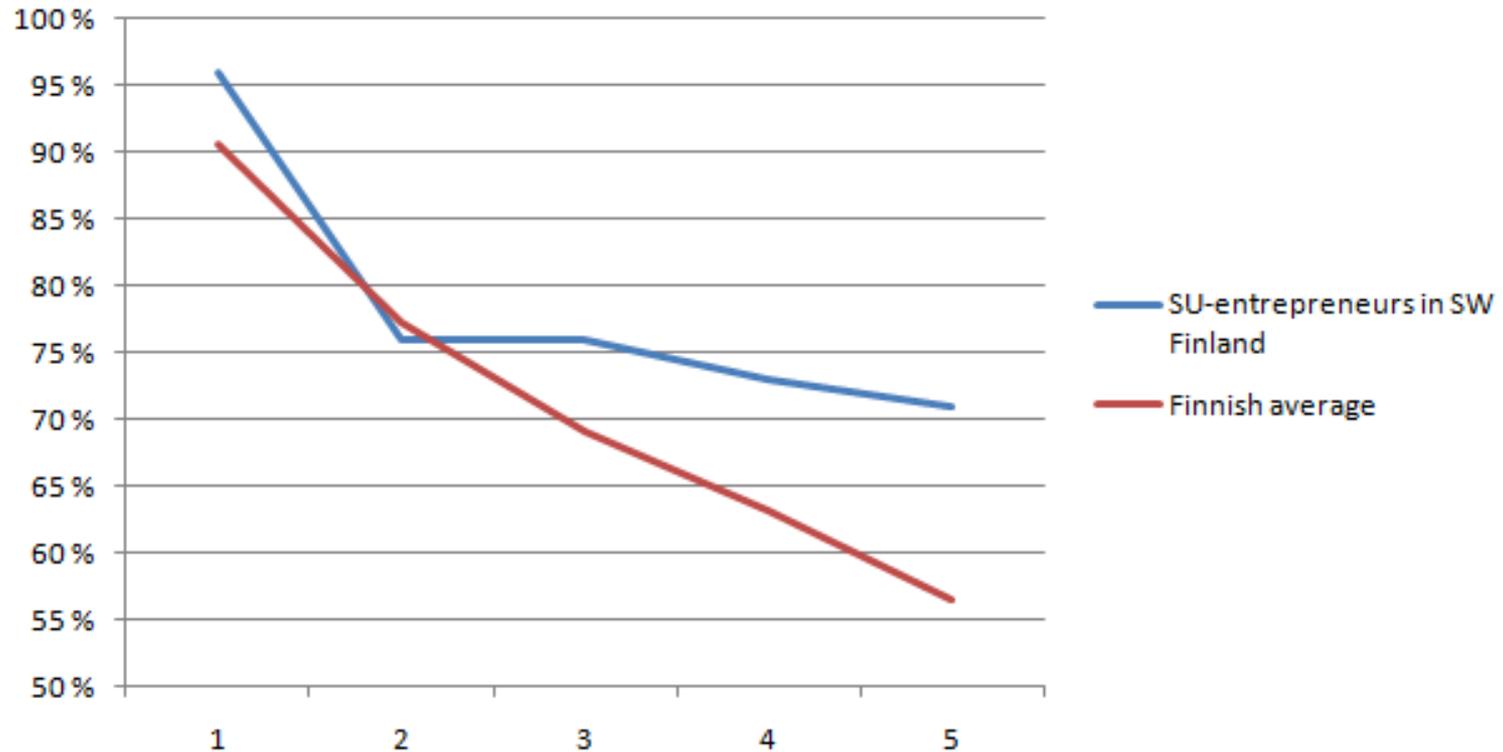


# Factors affecting the importance of start-up grant

	Model 1	Model 2	Model 3
Employment status (1=non-unemployed)		1.85***	1.70***
Other finance (1=has applied)		1.37**	1.29*
Other finance (1=has received)		0.62*	0.65*
The amount of SU		0.92**	0.92***
Reason for start-up (1="to create a job")			0.64***
Considered a start-up (1=less than a year)			0.84
Has used expert services (1=yes)			1.23*
Entrepreneurship education (1=yes)			0.85
The nature of the start-up (1=new)			0.86
Gender (1=male)	1.22*	1.22*	1.12†
Entrepreneurial experience (1=yes)	1.02	1.04	1.03
Experience in industry (1=yes)	1.12	1.10	1.12
Education (1=higher)	0.94	0.97	0.93
Age of the respondent	0.99	1.00	1.01
-2LL/Nagelkerke	2258,2/0.05	2192,8/0.06	2160,6/0.08

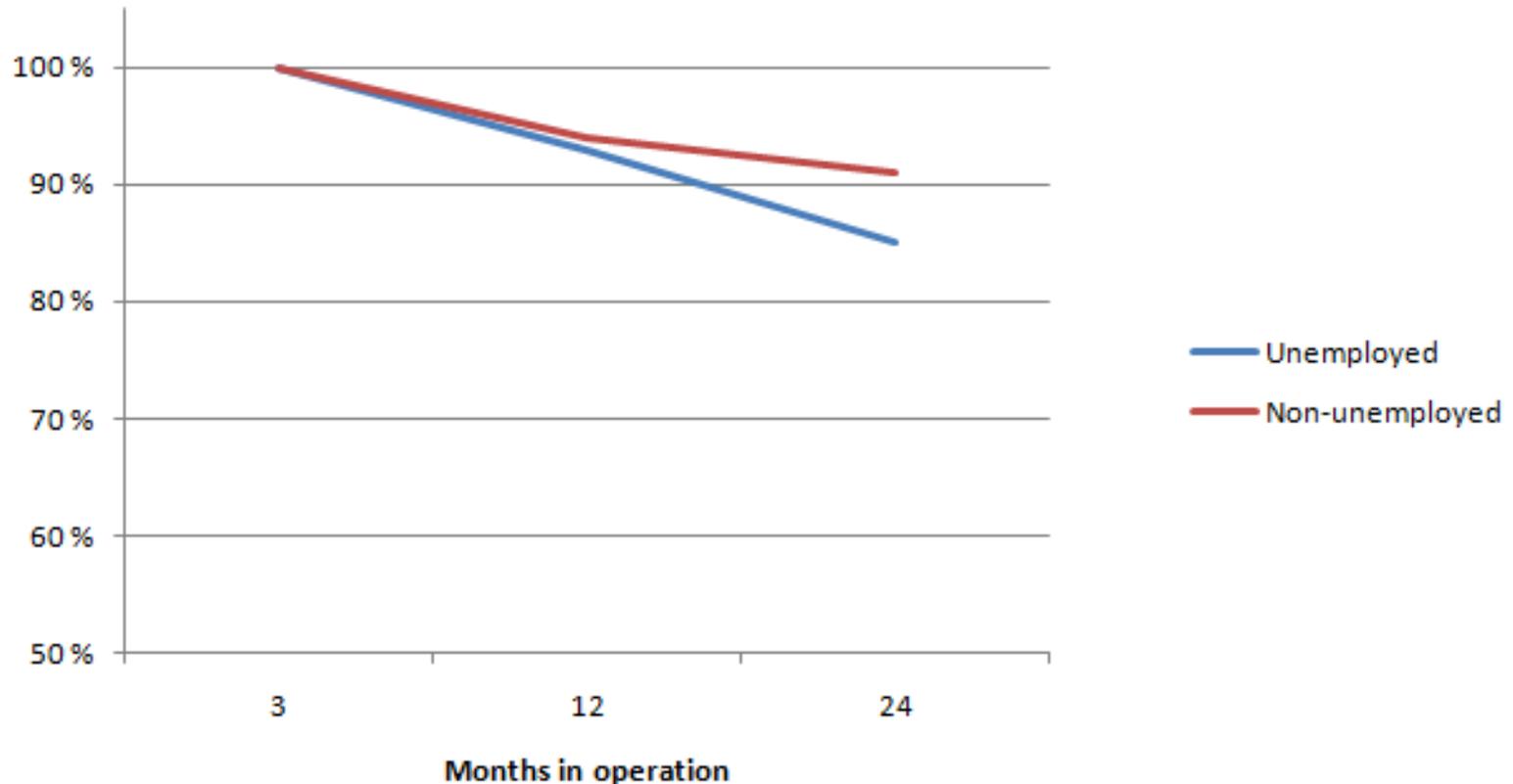
DV: Would have started without the SU Grant, n=1.219, Logistic regression, †<.1, \*<.05, \*\*<.01, \*\*\*<.001

# The early-stage survival among unemployed SU-entrepreneurs and regular small business owners



Sources: Stenholm & Lehto 2001; Statistics Finland

# The survival among start-ups according to employment status



# Factors affecting the early-stage survival

	Model 1	Model 2	Model 3
The amount of SU		1.16***	1.15***
Employment status (1=non-unemployed)		1.69*	1.68*
Considered a start-up (1=less than a year)		0.61*	0.61*
Reason for start-up (1="to create a job")		0.74	0.75
Has used expert services (1=yes)		1.53*	1.51*
Entrepreneurship education (1=yes)		0.65*	0.67*
The nature of the start-up (1=new)			0.66
Industry (1=services)			0.88
Location (1=Capital area)			1.30
Gender (1=male)	1.03	1.03	1.04
Entrepreneurial experience (1=yes)	0.81	0.79	0.78
Experience in industry (1=yes)	0.92	0.91	0.95
Education (1=higher)	1.42	1.43	1.46
Age of the respondent	0.99	0.99	0.99
-2LL/Nagelkerke	823,7/0.01	784,9/0.07	781,6/0.08

DV: Nascent Survival, n=1.186 (only those who didn't anymore receive the grant), Logistic regression, †<.1, \*<.05, \*\*<.01, \*\*\*<.001

# The aspirations between non-/unemployed entrepreneurs

Growth orientation (p<.05)		
	Unemployed (n=963)	Non-unemployed (n=522)
Yes	32	37
No	68	63
Total	100	100

Innovation orientation		
	Unemployed (n=963)	Non-unemployed (n=522)
Yes	29	29
No	71	71
Total	100	100

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# CONCLUSIONS

## Main findings 1 (2)

- Start-up Grant has a role for nascent entrepreneurs
- Financially its importance varies remarkably
- Among unemployed individuals the mental support is highly appreciated
- After the reform Start-up Grant integrates entrepreneurship closer with paid work
  - Individual flexibility and career thinking are supported



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## Main findings 2 (2)

- Start-up Grant has a positive effect on nascent survival
  - Work status, use of expert services, and motivation matter too
  
- Early-stage survival rates are higher than on average
  - Observe: Biased sample!
    - Successful entrepreneurs are strongly represented
    - Everyone's business and business plan are reviewed

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# Start-up Grant's importance nationally?

## ■ New firm creation

- ❑ Annually 21.000-25.000 new firms are established
- ❑ 60% of them are genuinely new firms
- ❑ 40% of them are using SU Grant!

## ■ Employment effects

- ❑ Direct effects: new jobs for NEs
- ❑ In-direct effects
  - ❑ New jobs by NEs (about 30% of NEs)
  - ❑ New jobs by former employers (about 60% of FEs)

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# Implications

- For public policy
  - ❑ Not a solution for supporting high impact entrepreneurship
  - ❑ Not a quick fix, but a way to indicate a positive attitude to entrepreneurship
  
- For individuals
  - ❑ Paying enough attention to the recognized opportunity and its' requirements
  - ❑ Paying much attention to the business plan
  - ❑ Paying very much attention to the motivation

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## Conclusions

- Start-up Grant enhances entrepreneurship among unemployed individuals
- Start-up Grant has a positive effect on nascent survival
- Start-up Grant has direct and in-direct employment effects



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Thank you for your attention!

[pekka.stenholm@tse.fi](mailto:pekka.stenholm@tse.fi)