



Institutional explanations for patterns of entrepreneurial activity: The case of the Dutch task market

Werner Liebregts

Document Identifier

D5.3 Case Study on Dutch Solo-Self Employment

Version

2

Date Due

M12

Submission Date

31st May 2016

Work Package

5

Lead Beneficiary

Utrecht University



Grant Agreement Number 649378

Table of contents

List of abbreviations	4
List of tables.....	5
List of figures	5
Executive summary.....	6
1. Introduction.....	8
2. Towards an entrepreneurial task market	10
2.1 From labour market to task market	10
2.2 Two-dimensional model for all workers.....	12
2.3 Ambitious entrepreneurial activity	14
2.4 Conclusions	15
3. Patterns of Dutch entrepreneurial activity	16
3.1 Independent entrepreneurial activity	16
3.2 Entrepreneurial employee activity.....	19
3.3 Hybrid and rotational forms of entrepreneurship	23
3.4 Conclusions	23
4. Institutional explanations	25
4.1 The Dutch case	25
4.1.1 Tax facilities	25
4.1.2 Incentives for solo self-employment.....	27
4.2 Conclusions	28
5. Conclusion	29
References.....	31

List of abbreviations

APS	Adult Population Survey
EEA	Entrepreneurial employee activity
EIA	Energy investment deduction
EU	European Union
FOR	Tax retirement reserve
GEM	Global Entrepreneurship Monitor
IBO	Interdepartmental policy research
IEA	Independent (early-stage) entrepreneurial activity
KIA	Small-scale investment deduction
MIA	Environment investment deduction
MIT	SME innovation promotion Region and Top industries
R&D	Research & Development
RDA	Research and Development Deduction
SME	Small and medium-sized enterprises
WBSO	Law Promotion Research and Development

List of tables

Table 1 – Prevalence of IEA and EEA as % of adult population (2011 and 2014)	20
--	----

List of figures

Figure 1 – Two-dimensional model of the Dutch task market	13
Figure 2 – Self-employment in the Netherlands (1996 – 2014) (x 1,000).....	17
Figure 3 – Non-ambitious and ambitious IEA as % of Dutch adult population (2002 – 2014)	19
Figure 4 – Prevalence of ambitious IEA and EEA as % of adult population (2014)	22

Executive summary

This case study investigates the rise of solo self-employment in the Netherlands as well as the increasing importance of entrepreneurial activity by employees. A fifty percent increase in the number of Dutch solo self-employed in the last decade has led to more than 800,000 individuals now working for own risk and reward. A minority can be regarded as ambitious with respect to innovation orientation. Figures about entrepreneurial employees have only been collected since a few years. In the short term, the share of entrepreneurial employees in the Dutch adult population seems to be stable. Their current number has been estimated on more than half a million. More and more individuals combine multiple jobs, or are employed and self-employed simultaneously.

The report attempts to explain which institutions have contributed to the deviating pattern in Dutch solo self-employment numbers from a European perspective. We argue that changes in formal institutions regarding the judicial and tax treatment of self-employed as compared to that of employees are the main determinant. Especially tax facilities like the profit exemption for SMEs, the self-employed deduction, and the starters deduction have increased the attractiveness of working as or working with solo self-employed since the second half of the nineties. Who benefits most from the difference in tax treatment, either the solo self-employed individual or his/her client, depends on the parties' bargaining power when negotiating about the hourly rate.

The developments in the Netherlands fit into the broader shift from the managed economy to a more entrepreneurial economy. It is argued that, mainly driven by globalisation and technological change, labour is increasingly organized in sets of tasks. On a task market, the total amount of work is divided among all workers, i.e. both employed and self-employed. Workers differ with respect to the completeness of their labour contract, and the degree of innovativeness of the tasks that are specified in that contract, either implicitly or explicitly.

Policy should aim for developing and improving workers' modern skills like creativity and innovation, rather than educating people for specific jobs. Also, workers should be made



aware that they themselves are increasingly responsible for human capital investments during their own career. Finally, given the blurring boundaries between employment and self-employment, the current legal distinction should be loosened by providing all workers with equal access to the welfare system.

1. Introduction

Entrepreneurship – the discovery, evaluation and exploitation of opportunities to create future goods and services (Shane & Venkataraman, 2000) – is an important mechanism to create new value that ultimately leads to a high welfare level in society. With regard to entrepreneurship one often thinks of people involved in setting up a business or being the owner-manager of a new business (Reynolds et al., 2005). However, there are more individuals in society who take on an entrepreneurial role than just those who exploit opportunities for own risk and reward (Jensen & Meckling, 1976; Knight, 1921). Also people with a paid job can contribute to a country's economy by means of entrepreneurial behaviour. If so, we are dealing with entrepreneurial employees. Often these are also referred to as intrapreneurs, a term first coined by Pinchot (1985).

Entrepreneurial employees are individuals who contribute to the development of a new idea that they themselves have initiated, and that creates added value for their employer. Extant research indicates that this type of entrepreneurial activity may be more beneficial for welfare in developed economies than independent entrepreneurship, because even though they work for their own risk and reward, independent entrepreneurs do not necessarily develop new goods and/or new services (Stam, 2013a). The Dutch situation, in which a growing number of solo self-employed did not go hand in hand with an increase in innovation at the country level, is also called the Dutch entrepreneurship paradox (Stam, 2013b). Only a minority of these self-employed can be regarded as ambitious in the sense that they hope to grow a business and introduce new products or product-market combinations. Together with entrepreneurial employees they form the share of ambitious entrepreneurial activity in society.

In this case study, we analyse the state of entrepreneurship in the Netherlands – taking into account both solo self-employed and entrepreneurial employees – how this developed over time and why. Here we particularly emphasize changes in Dutch government policy, as other possible determinants of the Dutch rise in solo self-employment also hold for countries that have not experienced an increase in self-employment levels. We argue that the boundaries



between employment and self-employment are blurring; on the one hand we have entrepreneurs that each and every day perform the same tasks as they would have done as an employee, and on the other hand there are employees who are entrepreneurially active for one or more employers. Moreover, employees are increasingly asked to get involved in business activities that increase the firm's competitiveness.

We conclude that the traditional dichotomy between employers and employees does not fit future-oriented policy about work and new value creation in the Netherlands anymore. Developing a perspective on entrepreneurship by all workers seems to be more appropriate. Hence, a transition towards an entrepreneurial society (Thurik, Stam & Audretsch, 2013) also necessitates a policy standpoint on how to stimulate entrepreneurial activity by employees, next to ambitious forms of (solo) self-employment.

The remainder of this report is structured as follows. First, we describe the current transition from a labour market to a market for tasks. Second, we give an overview of the patterns of and trends in entrepreneurial activity in the Netherlands over time, differentiating between the two different types of entrepreneurship as well as combinations hereof. Third, we evaluate the Dutch case by discussing a number of formal institutions and their effects on solo self-employment levels. Finally, the report concludes by sharing implications and recommendations for policymakers and (other) stakeholders.

2. Towards an entrepreneurial task market

It has been argued that developed countries have passed through a shift from the managed economy to the entrepreneurial economy (Thurik et al., 2013). An entrepreneurial economy is one increasingly dominated by knowledge and the capacity to engage in and generate entrepreneurial activity as production factors (Thurik, 2008). In this section, we claim that the same factors responsible for this shift, increased globalisation and technological change in particular, also instigated a transition in the organization of labour. Jobs nowadays are collections of tasks that have been specified more explicitly in labour contracts than they used to be. Moreover, these tasks increasingly require workers to act in a highly creative and innovative way. Ambitious workers do so, either as an entrepreneurial employee or as an independent entrepreneur. All of the above can be illustrated by a two-dimensional mapping of the Dutch task market.

2.1 From labour market to task market

Large firms with a long lifespan, operating in relatively stable product markets, dominated the managed economy. Employees had lifetime contracts, under which they predominantly carried out routine tasks. In this way, firms tried to achieve economies of scale and scope for a higher efficiency. However, a major shift has been taking place in the organization of developed economies (Thurik et al., 2013). Today, fewer people have lifetime contracts, partly because of the shorter lifespan of (listed) firms (Foster, 2012), and, boosted by globalization and technological development, a lot of routine labour has disappeared to less developed countries. Instead, distributed forms of innovation, and the emergence and growth of innovative firms have become increasingly important (Audretsch & Thurik, 2000; 2001; Kirchoff, 1994; Thurik et al., 2013). In such an entrepreneurial economy there are more fluid forms of organization with a shorter time horizon. There is higher uncertainty with regard to the development and availability of technology, and consequently, the demand for goods and services. This all leads to greater dynamics in the economy, requiring firms to have a thicker layer of flexible labour. We therefore argue that the shift from the managed economy towards the entrepreneurial economy goes hand in hand with a transition from a labour market to a task market.

On a task market workers perform certain tasks under various types of labour contracts that differ in the degree to which they have specified these tasks, i.e. how complete the contract is. Demand for and supply of labour increasingly takes place at the task level. Today, a job is a collection of tasks, and workers possess a set of skills that only partly overlaps with what is required for the tasks that used to be inseparable in the managed economy. These tasks increasingly require a high degree of creativity and (thus) continuous investments in workers' human capital. The routine tasks are increasingly done abroad or are replaced by technological innovations (Ter Weel & Kok, 2013).

The total amount of work (or, the number of tasks) is distributed among the total group of workers, consisting of employed and self-employed. The degree to which tasks can be regarded as innovative differs within and between jobs. On the one extreme, we have routine tasks, for example performed by factory workers on an assembly line. On the other extreme, we have workers that continuously perform highly creative and innovative tasks. As a result of the rise of computer technologies, the share of manual routine tasks in work has decreased in the past few decades, and the share of non-routine, creative tasks has increased (see e.g. Autor, Levy & Murnane, 2003). The type of contract between economic actors determines whether the worker performs tasks as an employee or as a solo self-employed individual. On the one hand, we (still) have employees with lifetime contracts that used to be the standard at large established multinationals (e.g. at Philips), but also in the public sector. On the other hand, there are very short-term contracts that the involved parties agree upon directly and/or on-the-spot (e.g. for handymen). The former type of contract leaves a lot implicit with regard to the tasks to be carried out, whilst the latter type of contract explicitly specifies what has to be done, how and when, i.e. is more complete. The completeness of contracts, however, does not coincide with the status of the worker. Self-employed in e.g. the care and cleaning sector face very specific tasks, whereas employees in e.g. law firms or marketing departments are given considerable freedom to perform their tasks as they see fit. And vice versa. In conclusion, in studying entrepreneurial activity it makes more sense to distinguish on tasks and contract completeness than on job status alone.

2.2 Two-dimensional model for all workers

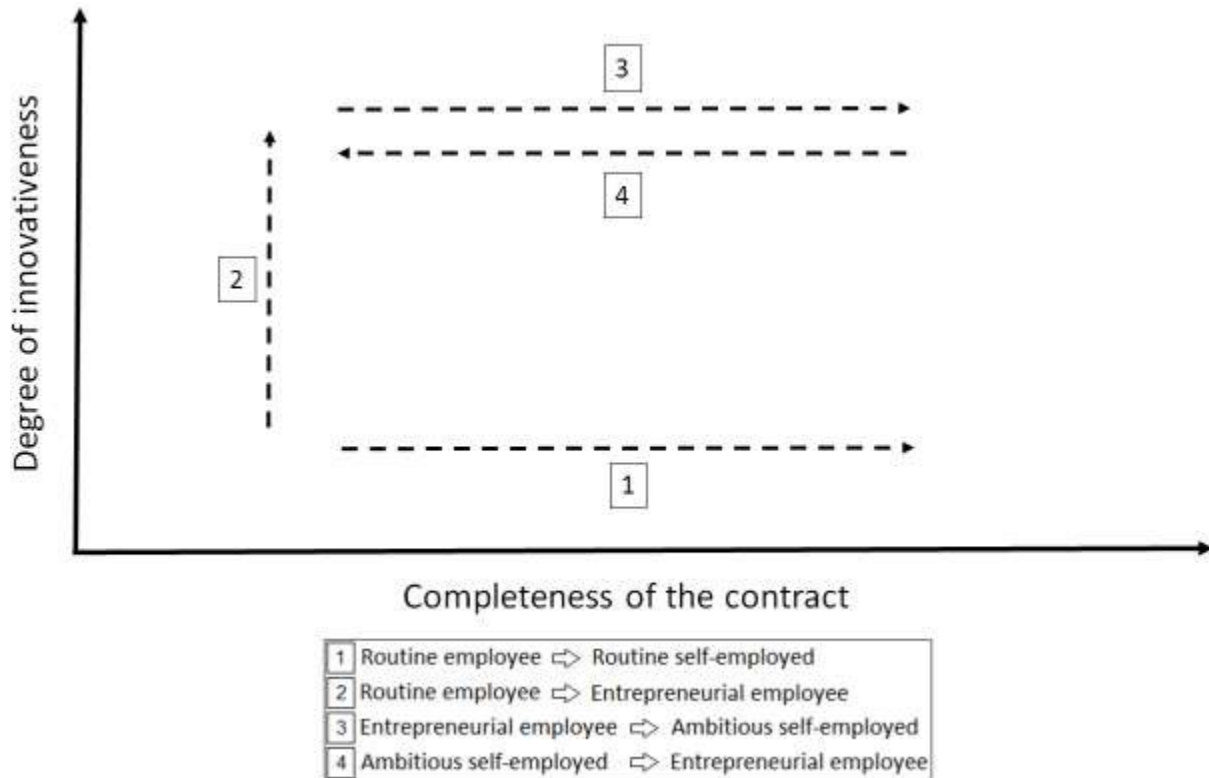
The flexibilisation of labour contracts has led to blurring boundaries between employment and self-employment. In that sense, we should rather talk about workers than holding on to the traditional dichotomy between employers and employees. Solo self-employed who only work for one client are like employees, but without the protection and social security that employees enjoy. Conversely, a large and increasing amount of workers possesses multiple temporary contracts at different employers. Thus, one could say that the traditional duality between employers and employees is slowly being eroded.

Also, employers increasingly expect that employees initiate and realise new business activities, either in teams or individually. Think of attracting external funding for scientific research at universities and research institutions, establishing new business units at consultancy agencies, and developing new products, product lines and/or services at medium-sized technology firms. New forms of devotion and commitment to employers become more popular. Employees who have left the firm more often stay in contact with their previous employer, and sometimes they even bring in new knowledge that they gained in their new role (Hoffman, Casnocha & Yeh, 2013).

The above is illustrated in a simple, two-dimensional model of the Dutch task market (see figure 1). Both axes represent a continuum where different types of workers find their place. On the horizontal axis, we have the completeness of the contract, under which a worker performs one or more tasks. To the left, we have people with very long-lasting jobs, perhaps even for their entire working life, with contracts that leave very much implicit. That is, such a contract only includes a broad job description e.g. a tenured professor at a university. To the right, we have people performing tasks as a result of an on-the-spot transaction on a product market, e.g. an ice cream vendor hired to sell ice cream at a given event. In this case, the tasks are narrowly defined in a contract, and they will be carried out in the short term. On the vertical axis, we find the degree of innovativeness of the performed tasks. When the degree of innovativeness of tasks is low, we deal with routine tasks. Tasks with a high degree of innovativeness are carried out by both entrepreneurial employees and

ambitious self-employed, depending on the completeness of the contract. Both dimensions of work should be considered together in order to be able to determine the type of worker.

Figure 1 – Two-dimensional model of the Dutch task market



Although static in nature, the model allows for workers moving within the figure. We will discuss a few examples based on the four arrows that are drawn on the grid:

1. From a routine employee to a routine self-employed individual: Here, the worker keeps on performing (similar) routine tasks, but now based on a more complete contract on a product market between him/her and a client. Example: A courier that used to be employed, but now becomes self-employed (whether or not out of opportunity, dependent or independent).
2. From a routine employee to an entrepreneurial employee: In this case, the worker starts getting involved in more creative and innovative tasks than he/she used to, not necessarily for the same employer, but still under an incomplete labour contract. The existing literature describes various antecedents of entrepreneurial behaviour by employees within organizations (see e.g. De Jong, 2016; De Jong, Parker, Wennekers

& Wu, 2015; Stam et al., 2012). Example: A factory worker that used to perform routine tasks, but now develops a new product line in a leading role.

3. From an entrepreneurial employee to an ambitious self-employed individual: Now the worker moves from an occupation with an incomplete labour contract to one with a more narrowly specified contract, but stays entrepreneurially active. Example: A frustrated entrepreneurial employee sets up his/her own innovative business, for example as a spin-off of its current employer.
4. From an ambitious self-employed individual to an entrepreneurial employee: Here, a worker takes the reverse route of the previous movement. This might happen when an innovative self-employed individual is hired (again) by a certain organization, and he/she can continue his/her creative tasks, but now under a less explicit labour contract. Example: A solo self-employed individual in need of more (financial) resources to make his/her innovative idea work, something the new employer offers to him/her.

The latter two movements in essence illustrate those of a rotational entrepreneur; entrepreneurial individuals are alternately (or, simultaneously) active as ambitious self-employed and as entrepreneurial employees (Liebregts, Preenen & Dhondt, 2015). Individuals can make multiple movements at the same time, for example in the case of hybrid entrepreneurship, a situation in which a worker combines self-employment with employment. Then, an individual can be placed on two positions on the grid at the same time.

2.3 Ambitious entrepreneurial activity

An increase in the number of solo self-employed in the Netherlands has not led to higher innovation levels at the macro level, a phenomenon called the Dutch entrepreneurship paradox (Stam, 2013b). Many solo self-employed perform routine tasks and/or do not have the ambition to grow, but rather continue what they are doing.¹ A relatively small share of

¹ Another literature does show that entrepreneurship increases well-being for the workers involved. Such increases in well-being, coming from more autonomy, flexibility and a better work-life balance, sometimes referred to as lifestyle entrepreneurship does increase well-being but is not picked up in GDP or innovation measures.



the Dutch solo self-employed can be regarded as ambitious. Entrepreneurial employees, in contrast, are innovation-oriented by definition, as these are individuals who develop new business activities for their employers. Together, entrepreneurial employees and ambitious self-employed form the part of the population that is involved in ambitious entrepreneurial activity.

“An ambitious entrepreneur is someone who engages in the entrepreneurial process with the aim to create as much value as possible” (Stam et al., 2012: 26). Thus, in line with the definitions of entrepreneurship by Gartner (1985), and Shane & Venkataraman (2000), and of ambitious entrepreneurship of Gundry & Welsch (2001), such an entrepreneur “... identifies and exploits opportunities to create new products, services, processes, and organizations with high aspirations to achieve entrepreneurial success ...” (Stam et al., 2012: 25-26). Hermans et al. (2015) emphasize the relevance of taking into account entrepreneurial employees when studying ambitious entrepreneurship. If ambitious entrepreneurship is what we are after, the key message here is that policy should aim for ambitious types of entrepreneurial activity, regardless of whether these activities are carried out by employed or self-employed individuals.

2.4 Conclusions

The shift from the managed economy to the entrepreneurial economy goes hand in hand with a transition from a labour market to a task market. On a task market, the total amount of work is divided among all workers. Tasks differ in the extent to which they can be made explicit in the worker’s contract – or put differently, how complete the contract is – and their degree of innovativeness. A model of the task market with two continuous dimensions leaves room for all different kinds of workers, so that there is a less sharp distinction between routine and innovative tasks, and employed and self-employed individuals. This better fits the current organization of the Dutch economy. Entrepreneurial employees and ambitious self-employed together form the share of the working population that is involved in ambitious entrepreneurial activity.

3. Patterns of Dutch entrepreneurial activity

There are multiple ways in which individuals can be entrepreneurially active. The most obvious one is by setting up a firm, and, if desirable and possible, growing it. Independent entrepreneurs or (solo) self-employed are people who work for their own (financial) risk and reward (Jensen & Meckling, 1976; Knight, 1921). In contrast, entrepreneurial employees initiate and develop new business activities for their employers, and only run career-related risks like a degraded reputation or status, decreased career opportunities, or, at worst, loss of the job (Bosma et al., 2011). A relatively recent, large-scale investigation of entrepreneurial activity by employees provides first insights into their prevalence. Also, hybrid and rotational forms of the two types of entrepreneurial activity become more and more common. This chapter looks into patterns of and trends in the numbers of the different types of entrepreneurial activity and combinations thereof in the Netherlands.

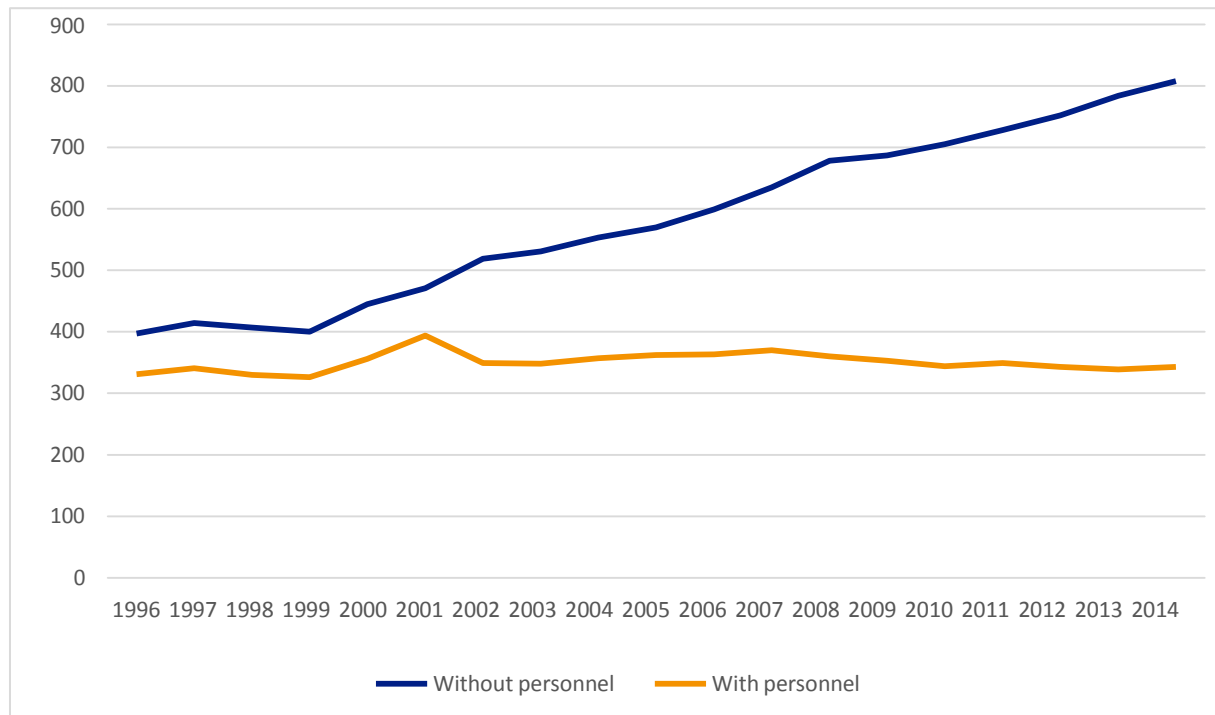
3.1 Independent entrepreneurial activity

When it comes to independent entrepreneurial activity, the Netherlands has experienced quite a remarkable development in its self-employment level. Figure 2 clearly shows a sharp increase of the number of solo self-employed in the Netherlands over the past two decades. Their number increased from 397,000 in 1996 to 808,000 in 2014, so the group currently is more than twice as large as in the mid nineties. Their number in 2014 makes up eleven percent of the Dutch active labour force. The share of solo self-employed in the Dutch labour force rose significantly faster in the last decade than on average in the European Union (EU) (Rijksoverheid, 2015). Such high rates of self-employment spell problems for social security systems that rely heavily on employed contributors and undermines the representativeness of labour and employer associations alike. The Netherlands faces more severe consequences for its system of labour relations, taxation and social security than any other European country.

A first thing to note is that the number of self-employed with personnel has remained fairly constant in the same time frame, with the exception of a small spike in 2001. In 2014, the Netherlands had 343,000 self-employed with personnel, bringing the total number of Dutch

self-employed to more than 1.1 million people. This is approximately sixteen percent of the Dutch active labour force.

Figure 2 – Self-employment in the Netherlands (1996 – 2014) (x 1,000)



Source: Statistics Netherlands

When we distinguish between solo self-employed who mainly supply their labour or services (e.g. a self-employed consultant in the business services industry), and those who predominantly sell products or supply raw materials (e.g. a self-employed baker or butcher), we observe that more than three quarters (77 percent) of the Dutch solo self-employed belongs to the former group. The distinction is relevant, because many topical policy debates revolve around solo self-employed who only supply their labour. Think of the political and legal discussion about dependent self-employment, a phenomenon sometimes also called false or bogus self-employment (see e.g. Böheim & Muehlberger, 2006), denoting the practice of contracting out work to employees by the formula of dependent self-employment (Román, Congregado & Millán, 2011). Dependent self-employed are workers who perform the same tasks for the same employer for whom they used to work as an employee, but now not being entitled anymore to the social security provisions that come with having a paid job. Dependent self-employed are not likely to perform tasks with a high

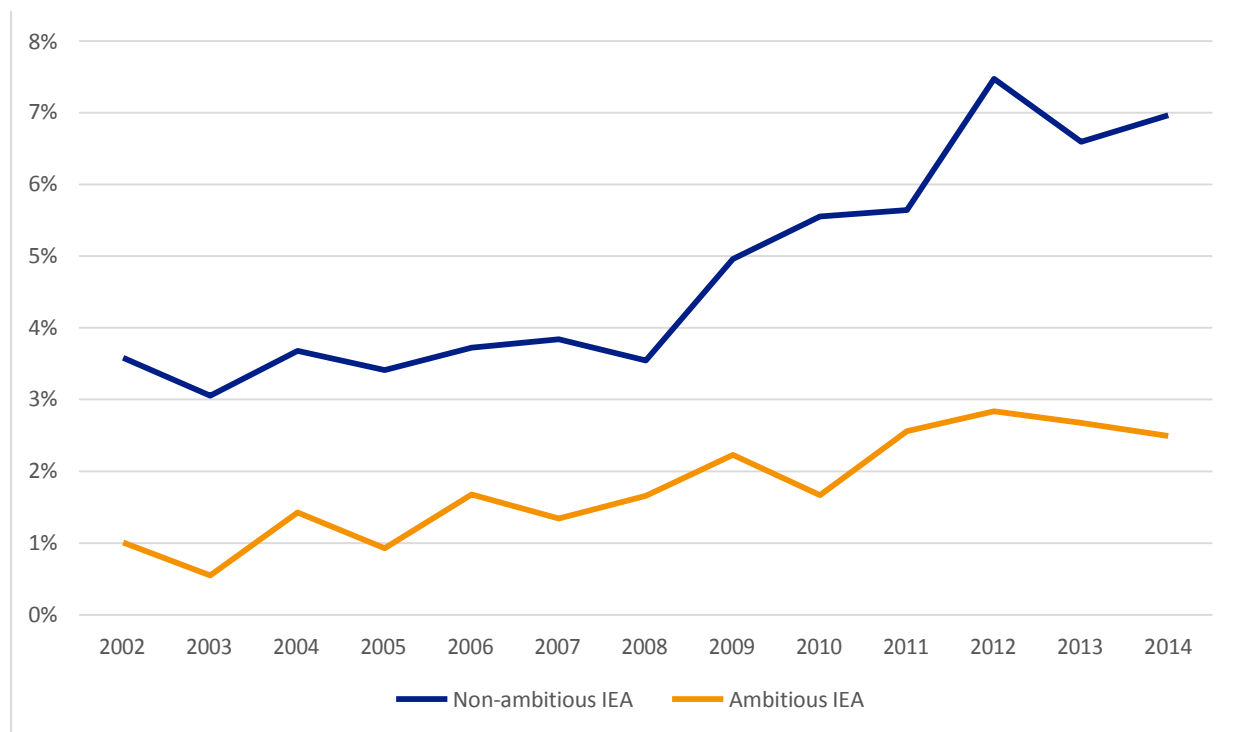


degree of innovativeness, and thus mostly follow the movement as indicated by arrow 1 in figure 1.

Given that a vast majority of the Dutch solo self-employed mainly supplies its labour, you could expect many to be dependent self-employed. In popular press, it is often stated that especially couriers, truck drivers, construction workers, and independent (home) care providers are vulnerable to such practices. A recent, comprehensive interdepartmental policy research (IBO) by the Dutch government concludes that a limited share of the solo self-employed would actually prefer regular employment; the share of dependent self-employed in a few industries that have been investigated (i.e. construction, transport, care, and business services) ranges from two to seventeen percent (Rijksoverheid, 2015). Research has also shown that solo self-employed were hit hard by the economic crisis and recession of 2008-2014, with many barely making the social minimum. It remains to be seen if they are also the first to benefit from the recovery.

Data from Statistics Netherlands does not provide the opportunity to distinguish between solo self-employed with a different degree of innovativeness. Therefore, we have to make use of data of the Global Entrepreneurship Monitor (GEM), an annual large-scale international study on the prevalence of entrepreneurship as of 1999. According to the GEM, independent (early-stage) entrepreneurial activity (IEA) is carried out by individuals who are setting up a business or who are owner-managers of a new business (Reynolds et al., 2005). Unfortunately, the category only partly overlaps with the one covering self-employed, let alone solo self-employed. Nonetheless, it gives us clear indications of the prevalence of and trends in non-ambitious and ambitious forms of independent entrepreneurship. Ambitious independent entrepreneurs are those who develop a new product or product-market combination, i.e. are innovation-oriented, similar to entrepreneurial employees who contribute to the development of such a new business activity by definition.

Figure 3 – Non-ambitious and ambitious IEA as % of Dutch adult population (2002 – 2014)



Source: GEM

Figure 3 shows clear upward trends in both non-ambitious and ambitious IEA in the Netherlands since the early zeroes. However, the increase of the share in the Dutch adult population is more pronounced for non-ambitious entrepreneurs. This suggests that individuals setting up a business without innovative orientation drove the increase in Dutch (solo) self-employment levels. Only a minority of the Dutch independent entrepreneurs can be regarded as ambitious.

3.2 Entrepreneurial employee activity

Since a few years it is possible to map the number of entrepreneurial employees in the Netherlands, and to put this number in an international perspective. In 2011, the Adult Population Survey (APS) of the GEM for the first time included a set of questions about what they call entrepreneurial employee activity (EEA). Individuals are involved in EEA when they are continuously involved in the development of new business activities for their main employer. Moreover, these individuals need to have a leading role in at least one of the two phases of the developmental processes, being the phase of idea development, and the

phase of preparation and implementation (Bosma et al., 2013a). Hence, according to this narrow definition, someone does not qualify as an entrepreneurial employee when he or she did not initiate the new business activity. Moreover, it needs to be a substantially new activity. That is, not an incremental process or product innovation. A new business activity by entrepreneurial employees according to the GEM may, for example, be the establishment of a new outlet or subsidiary as well as the development of a new product or new product-market combination. The report of the GEM itself mentions the example of Ken Kutaragi, who was responsible for the development of the PlayStation as an employee of Sony (Bosma et al., 2013a).

The GEM 2011 APS has been carried out in 52 countries in total. In 2014, the questions about entrepreneurial employees have been included again in GEM's survey, now covering seventy countries. GEM's samples cover a wide range of countries in different stages of economic development, distinguishing between developing, transition, and developed economies (also called factor-, efficiency-, and innovation-driven economies, respectively). In 2011, the sample included 21 out of 28 member states of the EU. In 2014, this number increased to 23. Table 1 shows the prevalence of IEA – both non-ambitious and ambitious – and EEA as a percentage of the adult population in the EU member states in 2011 and 2014.

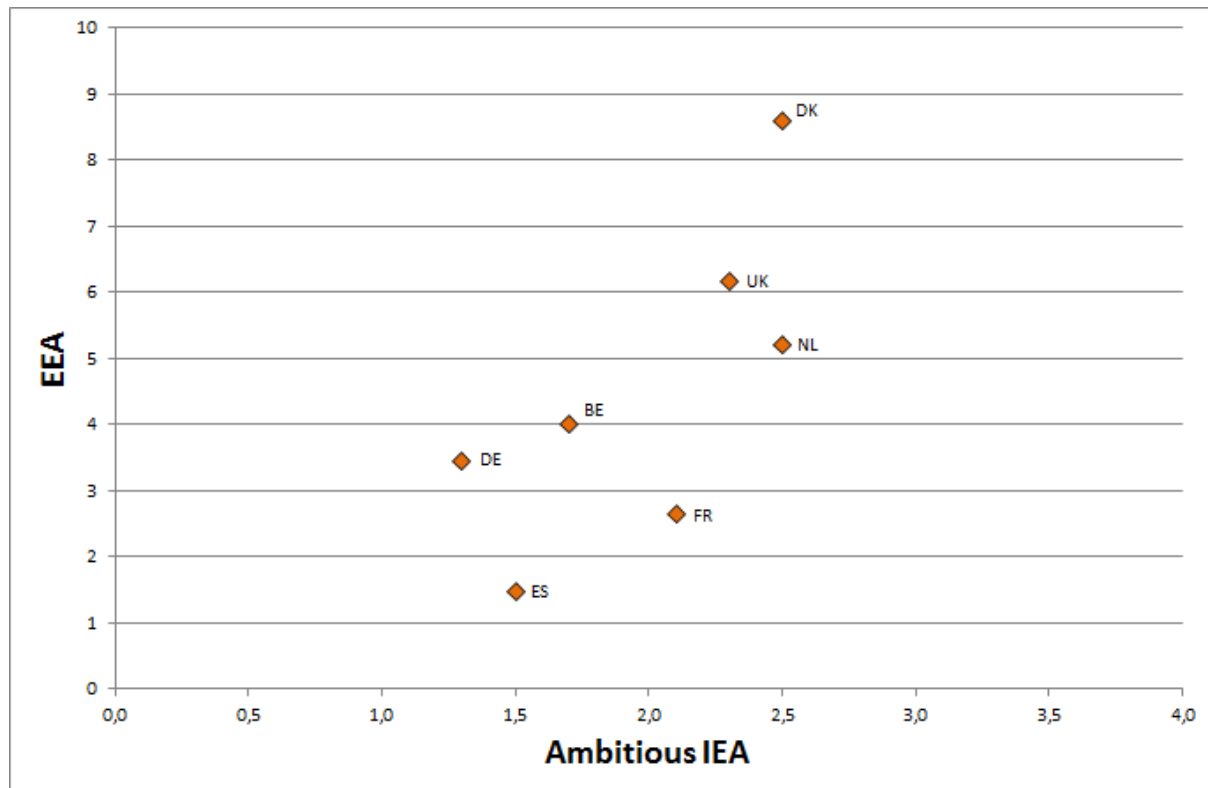
Table 1 – Prevalence of IEA and EEA as % of adult population (2011 and 2014)

EU member state	Country code	2011		2014	
		IEA	EEA	IEA	EEA
Austria	AT	N/A	N/A	8.7	4.3
Belgium	BE	5.7	8.6	5.4	4.0
Bulgaria	BG	N/A	N/A	N/A	N/A
Croatia	HR	7.3	3.7	8.0	3.0
Cyprus	CY	N/A	N/A	N/A	N/A
Czech Republic	CZ	7.6	3.2	N/A	N/A
Denmark	DK	4.6	9.2	5.5	8.6
Estonia	EE	N/A	N/A	9.4	2.8

Finland	FI	6.3	8.0	5.6	3.7
France	FR	5.7	3.9	5.3	2.6
Germany	DE	5.6	3.5	5.3	3.5
Greece	GR	8.0	1.3	7.9	0.6
Hungary	HU	6.3	2.6	9.3	1.8
Ireland	IE	7.2	4.6	6.5	5.6
Italy	IT	<i>N/A</i>	<i>N/A</i>	4.4	0.6
Latvia	LV	11.9	2.2	<i>N/A</i>	<i>N/A</i>
Lithuania	LT	11.3	3.4	11.3	3.3
Luxembourg	LU	<i>N/A</i>	<i>N/A</i>	7.1	5.1
Malta	MT	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>	<i>N/A</i>
Netherlands	NL	8.2	5.6	9.5	5.2
Poland	PL	9.0	2.3	9.2	2.3
Portugal	PT	7.5	2.6	10.0	2.4
Romania	RO	9.9	3.0	11.3	4.1
Slovakia	SK	14.2	2.7	10.9	4.3
Slovenia	SI	3.7	4.1	6.3	3.8
Spain	ES	5.8	2.5	5.5	1.5
Sweden	SE	5.8	13.5	6.7	4.7
United Kingdom	UK	7.3	4.3	10.7	6.2

Source: GEM 2011 & 2014 APS

Figure 4 – Prevalence of ambitious IEA and EEA as % of adult population (2014)



Source: GEM 2014 APS

Figure 4 illustrates the prevalence rates of ambitious IEA and EEA in a few selected EU member states in 2014. We observe that the Netherlands scores relatively high with regard to the share of entrepreneurial employees among the adult population as compared to other EU countries. Furthermore, from table 1 we know that the share remains fairly stable in the short term; the Netherlands experienced a slight decrease from 5.6 percent in 2011 to 5.2 percent in 2014. The percentage in 2014 means that, back then, there were more than half a million Dutch entrepreneurial employees, which is a quite a substantial number.

At the same time, a country like Denmark, in many respects similar to the Netherlands, scores more than three percentage points higher (8.6 percent) on EEA while being similar on IAE. In developing and transition countries there are significantly less entrepreneurial employees than in developed countries (Bosma et al., 2013a; Bosma, Stam & Wennekers, 2011; 2014; Singer, Amorós & Moska, 2015). On the other hand, less developed countries have higher prevalence rates of IEA. These, however, are predominantly entrepreneurs that

started out of necessity, i.e. because there were no other options for work. In general, these countries provide fewer opportunities to get a paid job at established organizations. The relatively high prevalence of large organizations in developed economies makes it easier to enter employment, and eventually grow into an intrapreneurial role (Jütting & De Laiglesia, 2009).

3.3 Hybrid and rotational forms of entrepreneurship

Next to the more than 800,000 solo self-employed who indicate self-employment to be the main source of income, there are approximately 600,000 Dutch solo self-employed who have another source as their main income (Rijksoverheid, 2015). This other source is likely to be a paid job, making them so-called hybrid entrepreneurs. Recent figures by Statistics Netherlands show that increasingly Dutch employees combine multiple jobs. The highest increase in the number of people with multiple sources of income can be found among those who combine their paid job with income from solo self-employment as a second source.

The group of solo self-employed is very dynamic, and faces a high turnover. The inflow comes from people who had a job, were unemployed, or inactive. Those who leave solo self-employment mostly enter employment (again), and a smaller part becomes unemployed or inactive (again) (Rijksoverheid, 2015). From existing studies it seems that entrepreneurial people alternate both roles; at one moment as an independent entrepreneur, at another moment as an entrepreneurial employee, or in quite some cases simultaneously in both roles (Liebregts et al., 2015). Entrepreneurial employees have experience with independent entrepreneurship significantly more often than other employees. Moreover, they significantly more often have the intention to start up an independent firm (again), possibly as a spin-off from their current employer (Bosma et al., 2013a ; Liebregts et al., 2015).

3.4 Conclusions

The Netherlands has experienced a sharp increase in the number of self-employed over the past two decades, something almost entirely due to the rise of solo self-employment. The



more than 800,000 solo self-employed in 2014 represent more than eleven percent of the active labour force in the Netherlands. From a European perspective, the Netherlands has a medium share of (new) independent entrepreneurs and a relatively high share of entrepreneurial employees in the adult population. The share of entrepreneurial employees in the Dutch adult population seems to be reasonably stable in the short term; the GEM twice measured a share of more than five percent, which is about half a million entrepreneurial employees in the Netherlands. We cannot yet observe a trend regarding the number of entrepreneurial employees in the Netherlands. A minority of Dutch independent entrepreneurship is innovation-oriented, yet covering a relatively large portion of the adult population as compared to other EU member states. For approximately 600,000 solo self-employed self-employment is not their main source of income; for example, they combine self-employment with employment. We also know that entrepreneurial employees are more likely to have been an independent entrepreneur, either in the past or currently combining two occupations, and to become an independent entrepreneur (again).

4. Institutional explanations

The institutional context is an essential condition for entrepreneurship to be an important mechanism for a prosperous society. Many have hypothesised that the institutional framework in a country determines the allocation of talent in society (Acemoglu, 1995; Baumol, 1990; Bosma, Wennekers & Stam, 2013b; Murphy, Shleifer & Vishny, 1991). And of entrepreneurial talent in particular, because institutions affect the relative benefits of different types of entrepreneurial activity. In this chapter we take a closer look at the consequences of Dutch government policy. We hereby investigate changes in various tax facilities for employed and self-employed, and their consequences for entrepreneurial activity in established and newly established organizations.

4.1 The Dutch case

The rise in the number of self-employed in the Netherlands in the past two decades can be attributed to various developments (Bosma & Wennekers, 2004; Stam, 2008; Thurik et al., 2013; Van Es & Van Vuuren, 2010a; 2010b). For example, it partly is a consequence of the rapid technological development, especially in IT, which has created many new opportunities for people to act upon. Also ageing might have had its influence, as elderly people often face difficulties in getting a paid job (again), forcing them to start as a solo entrepreneur. However, causes like these are not exclusively applicable to the Netherlands, and still the share of solo self-employed in the labour force rose significantly faster than on average in the EU (Rijksoverheid, 2015). Hence, the Netherlands probably faces more severe consequences for its system of labour relations, social security and taxation. An explanation for this large difference has to be found in institutional factors solely applicable to the Netherlands, in particular the difference in judicial and tax treatment of self-employed as compared to employees.

4.1.1 Tax facilities

Dutch solo self-employed are entitled to various tax facilities that are available for entrepreneurs and/or small and medium-sized firms. All facilities lead to a lower tax and premium burden, or higher allowances for self-employed with and without personnel. These



differences in institutional treatment between employed and self-employed have grown since the second half of the nineties, and – presumably not coincidentally – coincide with the rise in the number of solo self-employed ever since, as has been depicted in figure 2.

There are many such tax facilities for entrepreneurs (as determined by the Dutch tax authority). The most important ones are the self-employed deduction, starters deduction, the random depreciation for starters, the starters disability deduction, the cooperation deduction, the discontinuation deduction, the profit exemption for SMEs, and the tax retirement reserve (FOR). The number of entrepreneurs making use of any of the facilities is highest for the profit exemption for SMEs (approximately one million in 2015), followed by the self-employed deduction (840,000 in 2015), and the starters deduction, which basically is an extra self-employed deduction for starters (167,000 in 2015) (Rijksoverheid, 2015). These are also the three most generic facilities in the sense that they are applicable to all entrepreneurs meeting the criteria. For example, one usually has to satisfy the so-called hour criterion, meaning that he or she has to have worked at least 1,225 hours in the firm in the previous year. Entrepreneurs are only entitled to any of the other facilities in specific circumstances, for example when having invested in certain assets in case of the random depreciation for starters.

In addition, for small and medium-sized firms (including solo self-employed) the Dutch government also offers the small-scale investment deduction (KIA), the energy investment deduction (EIA), the environment investment deduction (MIA), the tax reduction for maritime firms, the tax exemption agriculture, the tax exemption forestry, the tonnage regime, the reinvestment reserve, the equalisation reserve, and various random depreciation arrangements. Obviously, none of the tax facilities mentioned here are available to all entrepreneurs, but they do increase the attractiveness of being or becoming an entrepreneur (in a certain industry), as they lower the tax burden for running a business in a certain industry or doing certain investments.

The same holds for various institutions that aim at increasing research and development (R&D). For example, the Law Promotion Research and Development (WBSO), the Research



and Development Deduction (RDA), both incurring R&D tax credits, the SME innovation promotion Region and Top industries (MIT), and the Innovation credit out of the Innovation fund SME+. These institutions make research and development activities attractive either by lending money or by creating tax exemptions for investments with this purpose. Only the first two facilities are available for Dutch solo self-employed.

4.1.2 Incentives for solo self-employment

The tax facilities discussed above create a relatively large difference in the judicial and tax treatment between employed and solo self-employed. This holds particularly for those who are considered to be solo self-employed according to the tax authority, as they are (also) entitled to various tax facilities for entrepreneurs, like the self-employed and starters deduction. It provides incentives for both demand and supply of labour to favour solo self-employment over employment.

Dutch self-employed themselves are responsible for any income during periods of disability, sickness, a temporary lack of work, or holidays. Being excluded from the employee benefits in all those contingencies, of course the self-employed are also not required paying into the social security programs. Being exempt from social security payments and enjoying the tax benefits creates a significant gap between the so called “wedge” between gross labour costs and net take home pay, favouring the self employed. The extent to which someone is able to discount his provisions for social security into the hourly rate charged from clients depends on the bargaining power of both parties during the negotiations. The higher the bargaining power for the solo self-employed individual, the larger the probability that he or she actually takes advantage of the tax benefits and can self-insure. If their bargaining power is low, however, then it is more likely that clients of solo self-employed individuals are able to appropriate the tax benefits while the self-employed simply go uninsured. It can sometimes happen that both the solo self-employed individual and his/her client are better off than when they would have had an employer-employee relationship. But whoever benefits most, and thus, whoever had the incentive to work as or with solo self-employed, the tax facilities can be regarded as the main drivers of the rise of solo self-employment in the Netherlands.

4.2 Conclusions

Although several macro-level developments definitely contributed to the sharp increase in the number of Dutch solo self-employed, they cannot explain why the trend deviates from that of countries similar to the Netherlands. In fact, this can mainly be attributed to the availability of quite some tax facilities for entrepreneurs and SMEs creating a relatively large difference in the legal and tax treatment of self-employed as compared to employed. Especially the profit exemption for SMEs (including solo self-employed), and the self-employed and starters deduction make self-employment more attractive for both demand and supply of labour. Who benefits most, solo self-employed or their clients, depends on their bargaining power in the negotiation process about the hourly rate.

5. Conclusion

In this report we discussed the rise of solo self-employment in the Netherlands and the increasing importance of entrepreneurial employees. Both developments have to be put in the broader context of a transition from a labour market with contracts with implicit tasks towards – what we call – a task market with contracts with more explicit tasks. The flexibilisation of work is mainly the result of globalisation and technological development. However, there are specific institutional explanations that only apply to the Dutch situation, the tax regime favouring self-employment being the most important one. This provides strong incentives to work with or to work as solo self-employed.

To get a complete view of the state of entrepreneurship in the Netherlands, one should not neglect workers who engage in innovative activities as part of their paid job. Whilst a large part of the (solo) self-employed is not oriented towards innovation, such entrepreneurial employees contribute to new value creation for their employers. Policies should thus be aimed at both ambitious self-employed individuals and entrepreneurial employees. Together they form the part of society that is involved in ambitious entrepreneurial activity. Entrepreneurial workers are entrepreneurially active in different roles, employed or self-employed, alternately or simultaneously. But no matter the occupation, workers should always be creative in order to create new value. In fact, they are increasingly responsible for investments in their own career, meaning investments in skills and expertise for current tasks as well as investments in entrepreneurial activities and collaborations in new contexts to create new tasks.

The above leads us to three important policy implications and recommendations. First, the educational system should be focused on developing and improving modern skills like creativity and innovation rather than preparing for jobs with a given set of stable tasks. As such, workers will be better able to perform tasks in different roles on the dynamic task market. Second, it is important to increase the awareness among workers of taking ownership of their career. More and more the ultimate responsibility for investments in sustainable productivity and employability lies with workers themselves. Third, we advocate



equal access to the welfare system for all workers. From a legal point of view, there still is a sharp distinction between employed and self-employed, while the boundaries are blurring. Losing access to welfare state arrangements should not prevent workers from moving flexibly over the task market. On the other hand, solo self-employed should not be allowed to compete in a race to the social security bottom.

References

- Acemoglu, D. (1995). Reward structures and the allocation of talent. *European Economic Review*, 39(1), 17-33.
- Audretsch, D.B., & Thurik, A.R. (2000). Capitalism and democracy in the 21st century: From the managed to the entrepreneurial economy. *Journal of Evolutionary Economics*, 10(1-2), 17-34.
- Audretsch, D.B., & Thurik, A.R. (2001). What is new about the new economy: Source of growth in the managed and the entrepreneurial economies. *Industrial and Corporate Change*, 10(1), 267-315.
- Autor, D.H., Levy, F., & Murnane, R. (2003). The skill content of recent technological change: An empirical exploration. *Quarterly Journal of Economics*, 118(4).
- Baumol, W.J. (1990). Entrepreneurship: Productive, unproductive, and destructive. *Journal of Political Economy*, 98(5), 893-921.
- Böheim, R., & Muehlberger, U. (2006). *Dependent forms of self-employment in the UK: Identifying workers on the border between employment and self-employment*. IZA Discussion Paper No. 1963. Bonn: Institute for the Study of Labour.
- Bosma, N., & Wennekers, S. (2004). Trends in het Nederlandse starters- en ondernemersklimaat. In: Hulsink, W., Manuel, E., & Stam, E. (eds). *Ondernemen in netwerken*. Assen: Van Gorcum.
- Bosma, N., Stam, E., & Wennekers, S. (2011). *Intrapreneurship versus independent entrepreneurship: A cross-national analysis of individual entrepreneurial behaviour*. Tjalling Koopmans Institute Working Paper 11-04. Utrecht: Utrecht University School of Economics.
- Bosma, N., Stam, E., & Wennekers, S. (2014). Intrapreneurship versus entrepreneurship in high- and low-income countries. In: Blackburn, R., Delmar, F., Fayolle, A., & Welter, F. (eds). *Entrepreneurship, People and Organisations. Frontiers in European Entrepreneurship Research*. Cheltenham: Edward Elgar. pp. 94-115.
- Bosma, N., Wennekers, S., Guerrero, M., Amorós, J.E., Martiarena, A., & Singer, S. (2013a). *The Global Entrepreneurship Monitor. Special report on entrepreneurial employee activity*. London: GERA.

- Bosma, N., Wennekers, S., & Stam, E. (2013b). *Institutions and the allocation of entrepreneurship across new and established organizations*. EIM Research Reports No. H201213. Zoetermeer: EIM Business and Policy Research.
- Foster, R. (2012). *Creative destruction whips through corporate America*. Innosight Executive Briefing Winter 2012. Boston: Innosight.
- Hermans, J., Vanderstraeten, J., Van Witteloostuijn, A., Dejardin, M., Ramdani, D., & Stam, E. (2015). Ambitious entrepreneurship: A review of growth aspirations, intentions, and expectations. *Advances in Entrepreneurship, Firm Emergence and Growth*, 17, 127-161.
- Hoffman, R., Casnocha, B., & Yeh, C. (2013). Tours of duty: The new employer-employee compact. *Harvard Business Review*, 91(6), 49-58.
- Jensen, M.C., & Meckling, W.H. (1976). Theory of the firm: Managerial behavior, agency costs and ownership structure. *Journal of Financial Economics*, 3(4), 305-360.
- De Jong, J.P.J. (2016). Entrepreneurial behavior by employees in organizations. Available at SSRN 2721615.
- De Jong, J.P.J., Parker, S.K., Wennekers, S., & Wu, C. (2015). Entrepreneurial behavior in organizations: Does job design matter? *Entrepreneurship Theory and Practice*, 39(4), 981-995.
- Jütting, J., & De Laiglesia, J.R. (2009). *Is informal normal? Towards more and better jobs in developing countries*. Paris: OECD.
- Kirchhoff, B.A. (1994). *Entrepreneurship and dynamic capitalism: The economics of business firm formation and growth*. Westport, CT: Praeger.
- Knight, F.H. (1921). *Risk, uncertainty, and profit*. New York: August M. Kelley.
- Liebregts, W.J., Preenen, P.T.Y., & Dhondt, S. (2015). Niet iedere werknemer is een intrapreneur. *Economische Statistische Berichten*, 100(4706), 180-181.
- Murphy, K.M., Shleifer, A., & Vishny, R.W. (1991). The allocation of talent: Implications for growth. *The Quarterly Journal of Economics*, 106(2), 503-530.

- Pinchot, G. (1985). *Intrapreneuring: Why you don't have to leave the corporation to become an entrepreneur*. New York: Harper & Row.
- Reynolds, P., Bosma, N., Autio, E., Hunt, S., De Bono, N., Servais, I., Lopez-Garcia, P., & Chin, N. (2005). Global Entrepreneurship Monitor: Data collection design and implementation 1998-2003. *Small Business Economics*, 24(3), 205-231.
- Rijksoverheid (2015). *IBO Zelfstandigen zonder personeel*. The Hague: Ministry of Finance.
- Román, C., Congregado, E., & Millán, J.M. (2011). Dependent self-employment as a way to evade employment protection legislation. *Small Business Economics*, 37(3), 363-392.
- Shane, S., & Venkataraman, S. (2000). The promise of entrepreneurship as a field of research. *Academy of Management Review*, 25(1), 217-226.
- Singer, S., Amorós, J.E., & Moska, D. (2015). *Global Entrepreneurship Monitor 2014. Global Report*. London: GERA.
- Stam, E. (2008). Entrepreneurship and innovation policy. In: Nooteboom, B., & Stam, E. (eds). *Micro-foundations for innovation policy*. pp. 135-172. Amsterdam: Amsterdam University Press.
- Stam, E. (2013a). Knowledge and entrepreneurial employees: A country-level analysis. *Small Business Economics*, 41(4), 887-898.
- Stam, E. (2013b). De Nederlandse ondernemerschap paradox. Arbeidsmarktregulering en ondernemerschap in Nederland. *Tijdschrift voor Politieke Economie*, 7(4), 21-40.
- Stam, E., Bosma, N., Van Witteloostuijn, A., De Jong, J., Bogaert, S., Edwards, N., & Jaspers, F. (2012). Ambitious entrepreneurship. A review of the academic literature and new directions for public policy. The Hague: AWTI.
- Ter Weel, B., & Kok, S. (2013). *De Nederlandse arbeidsmarkt in taken. Eerste bevindingen uit de Nederlandse Skills Survey*. The Hague, CPB.
- Thurik, A.R. (2008). *The 'managed' and the 'entrepreneurial economy*. World Entrepreneurship Forum 2008 Edition. Evian: World Entrepreneurship Forum.
- Thurik, A.R., Stam, E., & Audretsch, D.B. (2013). The rise of the entrepreneurial economy and the future of dynamic capitalism. *Technovation*, 33(8), 302-310.



Van Es, F., & Van Vuuren, D. (2010a). *A decomposition of the growth in self-employment*. CPB Discussion Paper 145. The Hague: CPB.

Van Es, F., & Van Vuuren, D. (2010b). Een decompositie van de groei van het aandeel zelfstandigen in de beroepsbevolking. *TPEdigitaal*, 4(3), 126-148.