

Access to labour for innovative entrepreneurship

How does access to labour affect innovative entrepreneurship?

Access to labour and labour conditions are key determinants in the success of innovative entrepreneurs. Skilled labour, in particular, is essential for innovative businesses, since innovation is a key driver of their success. Moreover, high labour costs or cumbersome hiring and firing conditions can adversely affect innovation in firms by reducing flexibilities with regards to employment.

The challenge of accessing to labour can be particularly difficult for innovative start-ups for the following reasons:

- **SMEs are found to suffer disproportionately from a lack of available qualified personnel**, compared with their larger counterparts.
- **The administrative burdens of employment are relatively larger for smaller businesses**, since expansion is often riskier for new ventures. This can have distorting effects on competition and divert human and financial resources away from business activity. However, the empirical evidence on the direct effects of employment protection legislation (EPL), on type of administrative burden, on entrepreneurship is mixed.
- **Immigrants may specifically affect innovative entrepreneurship in that immigrants may contribute to the economy as entrepreneurs.**

What are the key policy dimensions regarding access to labour and innovative entrepreneurship?

As for innovative businesses in general, common policy challenges across three policy dimensions are particularly relevant and include:

- How to balance innovative businesses' need for labour flexibility with job protection (see [Costs of hiring and firing](#) [1]).

→ Costs of hiring and firing (see [Costs of hiring and firing](#) [1]) consists of the norms and procedures regulating hiring, dismissals and the costs of hiring and firing. These norms and procedures determine the efficiency of the labour market (for example, some factors discourage employment, as when companies subcontract rather than take people on as employees) and key costs related to expansion. These norms and procedures can also create barriers to entry and in this way affect market competition.

- How to encourage innovative companies to invest in training their employees (see [Skilled labour](#) [2]).

→ Skilled labour (see [Skilled labour](#) [2]) refers to highly educated and experienced individuals in the labour market.

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- How to encourage the immigration of skilled labour in the context of global competition for such labour (see [Migration](#) [3]).

→ Migration (see [Migration](#) [3]) includes long-term and short-term immigration and emigration, and deals with regulation issues, such as immigration quotas, procedures and special regulations for skilled workers.

What are the main rationales for policy interventions in support of access to labour for innovative entrepreneurship?

As in the context of innovative businesses in general, market failures can affect access to labour, requiring policy discussions and potential interventions:

- While the social returns from employee training might be high, as society and entrepreneurship in general benefit from increased human capital, the return on investment may not be as great, since employees might join competitor firms.

A series of conditions are specific for innovative entrepreneurship:

- System failures may lead to a lack of skilled labour, and this mismatch between supply and demand can hinder innovative entrepreneurship in particular. Single entrepreneurs may find the cost of establishing adequate training facilities to be prohibitive, even though such facilities will collectively benefit all entrepreneurs. Inadequate labour regulations, including those impacting on migration, can also have a negative effect on innovative entrepreneurs.

What are the main policies that influence access to labour in the context of innovative entrepreneurship?

As for innovative businesses in general, public policy can influence:

Costs of hiring and firing (see [Costs of hiring and firing](#) [1]) by:

- Mitigating labour costs, particularly for smaller businesses and innovative start-ups (e.g. subsidies for some sectors and assistance with recruitment).
- Focusing on workers rather than jobs (e.g. by sustaining workers during periods of unemployment and job-to-job transitions).
- Minimizing the uncertainty and time delays caused by contested dismissals that are legally challenged.
- Abiding by principles of good regulation (e.g. simplifying the principles and application of regulations, and having transition periods to new regulations).
- Improving access to information regarding employment legislation (e.g. by creating a single point of contact for information).

Skilled labour (see [Skilled labour](#) [4]) by:

- Strengthening lifelong education and training for innovation (e.g. raising attainment levels and the general quality of education, and introducing innovative learning practices into traditional disciplines).
- Strengthening an innovation culture and raising public interest in science and technology (S&T), in order to attract young people to pursue higher education in S&T disciplines (e.g. through large public communication and joint research projects involving youth and senior scientists).
- Identifying future skill needs and ensuring the delivery of the right mix of skills through education.
- Facilitating the mobility of a highly skilled workforce to aid in the cross-fertilization of ideas and learning, and to address structural mismatches in supply and demand for highly skilled workers (e.g. by allowing transferable pension rights and providing advice and training programs to help in job transitions).

Migration (see [Migration](#) [5]) by:

- Supporting and attracting skilled foreign students, workers and entrepreneurs (e.g. by providing education, training, guidance and mentoring, and improving their network-building capacities).
- Supporting existing migrant entrepreneurs' businesses and already established migrant entrepreneurs in host countries by increasing their human and social capital. Measures may include providing training, guidance and mentoring, and improving their network-building capacity. Strengthening networking between entrepreneurs and intermediary agencies may contribute to improving the effectiveness of such support measures.
- Facilitating access to credit by migrant entrepreneurs. Migrant entrepreneurs face greater problems accessing financing than native entrepreneurs. One explanation is that migrant enterprises typically lack a credit history due to their shorter existence and because credit histories are often not recognized across borders. This lack of credit history makes it more difficult for banks to assess the creditworthiness of migrant entrepreneurs. To overcome this problem, governments could implement bilateral and multilateral agreements to improve the exchange of credit information at global, regional and bilateral levels.

Another obstacle is that credit institutions often lack understanding of migrant entrepreneurs, perceiving them as high-risk borrowers. Governments could mitigate this problem by promoting better understanding between credit institutions and migrant entrepreneurs through financial literacy programmes. Finally, governments could help immigrants get better access to finance by creating and supporting alternative funding sources outside regular financial channels.

References

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- OECD (2011), Skills for Innovation and Research, OECD Publishing. <http://dx.doi.org/10.1787/9789264097490-en> [7]
 - OECD (2010), SMEs, Entrepreneurship and Innovation, OECD Studies on SMEs and Entrepreneurship, OECD Publishing. <http://dx.doi.org/10.1787/9789264080355-en> [8]
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