

# It is beautiful but remains small...

A study on graduation showing  
that it is all about our missing memory

Albert Kraaij and Klaas Molenaar

**THE HAGUE**  
UNIVERSITY OF  
APPLIED SCIENCES





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Financial Inclusion and New Entrepreneurship  
The Hague University of Applied Sciences

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Why is it that we know and still act as if we do not know? SMEs are considered engines of job creation and therefore growth and generation of income but is it really true that the solo self-employed and micro entrepreneurs will become small or medium entrepreneurs, e.g. graduate? We knew in the 80's that this assumption needed to be looked at critically. Research revealed that graduation hardly existed. Practitioners in MSME support and development programmes entertain few illusions about their programmes actually leading to graduation, while NGO and Government policy officers, from behind their desks, often presume that graduation occurs frequently. Actual graduation rates and the extent to which they can be attributed to interventions remain an unresolved and important issue.

After more than three decades it is justified to the question whether it is still true that graduation hardly exists? If that is the case one needs to take a critical look into prevailing policies and programs in support of the SME sector.



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***IT IS BEAUTIFUL BUT  
REMAINS SMALL ...***



“Small is beautiful” as Schumacher rightly argued also in the economy (Schumacher, 1973). Since the early 70’s we have learned to appreciate this and much attention has been given to promote, stimulate and create small businesses. Programs to develop, support or promote SMEs have been evaluated regularly and intensively. Already in the 80’s a global evaluation carried out by the UN systems (UNIDO, UNDP and ILO) and the Netherlands Government generated analyses that led to adjustments of policies and programmers (Keddy, 1998). Since then we know that it is important to strive for a good balance between the enabling environment, growth of primary sectors and an enabling environment with a level playing field for SMEs to emerge and develop. Service provision must be demand driven and be left in the lands of the private sector and not be the task of governments.

Success of a company can be defined as the hiring of additional employees. Graduation is the process of firm’s job growth and when the firm transitions into a subsequent size class (Liedholm & Mead, 1995). Successful companies can grow from micro size to small size to medium size and even large size. The former classification of the SME sector in classes was suggested by Farbman and Lessik (1989). They define graduation as a transition between classes. We come to accept that this classification of the SME sector is an effective one. (Gosses, 1989, pp. 105-122). Later this was expanded by incorporating survivalists and hybrid entrepreneurs (Molenaar, 2015 - forthcoming).

With the emergence of the minimalist approach, micro-lending became the eye of the development hurricane. The past decades the international community has indeed spent considerable human and financial resources to promote and develop micro-credit programs and institution bundling of micro-finance organization. This was first done with focus on poverty alleviation and empowerment of the poor and socially excluded. Gradually it has become fashionable to promote microfinance as a tool for enterprise development. Recently we also saw the limitations of microfinance to foster entrepreneurship (Roodman, 2011). The introduction of the concept of the missing middle is presented as the missing link in the spectrum of enterprising out of necessity to create an opportunity and even growth oriented enterprising (Beck, 2006). It seems to be based on the assumption that there is a logical graduation from survival economic activities to small or medium sized enterprises.

While policy documents by donor agencies and NGOs often claim graduation rates of around 10%, practitioners in the field will tell you that this can only be achieved through pre-selecting already relatively better-off beneficiaries. A recent publication shows that survival (‘necessity-driven’) entrepreneurs are qualitatively distinct from growth-oriented (‘opportunity-driven’) entrepreneurs, and that graduation thus should be expected to be the exception that confirms the rule (Berner et al. 2012).

In the early 90’s Donald Mead and Carl Liedholm already found that migration or graduation from survival to micro-sized companies to small-sized then to medium-sized companies, hardly existed and that graduation could not be linked to job creation (Liedholm & Mead, 1999). They systematically collected information on enterprises in developing



economies and more specifically about degree of graduation from survival activities (enterprising out of necessity) self-employed to micro or small enterprises and the effects of such graduation on job creation (Liedholm & Mead, 1995). They also tried to identify determinants specific to the entrepreneurs of businesses that could be related to such job creation.

If such graduation did not or hardly existed, this should have had consequences on policies that support the SME sector, especially policies aimed at stimulating growth and graduation of start-ups assuming that such graduation would eventually create jobs.

Over the past decades policies and programmes are of a more generic nature and based on the assumption that the self-employed will become entrepreneurs and small enterprises will graduate into medium ones, thus generating the necessary job opportunities in society. With the dramatic growth in numbers of the (solo) self-employed particularly in modern society (OECD, 2015) it is indeed valid to question this.

The authors of this paper questioned themselves whether the findings of Liedholm and Mead are still valid nowadays. This would best be tested by conducting comprehensive research in a representative sample of countries. As a first step research was conducted between 2008-2011 in the Netherlands to shed more light on the question whether graduation would exist. It served as a pilot research in order to see whether such research is feasible and to draw methodological lessons for follow-up studies on a multi-country scale.

Explorative research was undertaken, based on a unique set of longitudinal data of 629 start-up companies in The Netherlands which made it through the first four years. This study revealed (again) that no graduation takes place from self-employed level to micro level nor from micro to small nor from small to medium enterprise. It also generated more insights in methodological issues for a global study. Such multi-country research covering micro, small and medium enterprises in both developing and developed economies is indeed justified as many policies and programmes are still based on the assumption that graduation indeed exists and that job creation be realised by such graduating entrepreneurs. This is an assumption that needs to be looked at critically and as a consequence policy makers and practitioners are challenged to review related generic policies and programmes.

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# NOTES

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# ***GRADUATION***



## Graduation defined

According to the 2013 World Development Report on jobs, 600 million jobs are needed worldwide over the next 15 years to keep employment rates at their current level (Worldbank, 2012). Creating new jobs is one of the major challenges for countries in the developed and non-developed world. Governments, non-governmental organizations (NGOs) and donors have spent and continue to spend large amounts of money on targeted programmes and broader policies to enhance employment creation through the creation of new firms. The main idea behind these policies is that entrepreneurs will graduate by benefiting from these programmes and broader policies. Starting survivalists or self-employed are expected to accrue resources and rise out of poverty or unemployment: they are meant to start hiring additional staff members and thus create jobs for others. This phenomenon of moving from one segment of the spectrum of self-employment and MSME sector into the next one is also known as graduation. In spite of its relevance for policies for private sector development, graduation has largely been neglected in academic research over the past decades. Researchers have focused more on other topics such as sustainable business models, the impact of microfinance on household welfare, value chain financing or the missing middle.

Graduated enterprises are enterprises that started small either as micro enterprise or even as a income generating activity of the single self-employed and have made a transition to the next, higher levels. So a micro enterprise could have entered the small enterprise segment; a small the medium enterprises segment and the MSME spectrum.

Farbman and Lessik (Farbman & Lessik, 1989) systematised thinking on policies in support of SME development by introducing a general classification of enterprises based on connotations rather than on precise definitions. Their classification of SMEs was later expanded by incorporating survivalists and hybrid entrepreneurs (Molenaar, 2015 - forthcoming). It helps policy makers to categorise enterprises in six different groups: survival activities of the poorest, self-employed, hybrid entrepreneurs, microenterprises (1 to 10 employees), small-scale enterprises (10-50 employees) and medium enterprises (50 and above<sup>1</sup>).

Carl Liedholm and Donald C. Mead conducted a systematic research project during the 1990's in the past century within the framework of the USAID supported GEMINI programme (Liedholm & Mead, 1995, p. 35). In their research they focused on micro-enterprises that started with 1-4 employees and transitioned to at a segment composed of small enterprises with at least ten co-workers or employees.

Project data were collected in six countries (Botswana, Kenya, Malawi, Swaziland, Zimbabwe, and Dominican Republic) with comprehensive survey data on enterprise dynamics between 1991 and 1993. They focused especially on starting (micro) enterprises (with 1 to 4 employees// co-workers) and their possible transition to the next

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<sup>1</sup>The cutting off point: the entrepreneur/ owner-founder is not engaged anymore in leading the company

segment (5 to 50 employees). Furthermore, surveys in other countries that contained significant information about enterprise dynamics were used to draw conclusions (Liedholm & Mead, 1999, p. 26).

To calculate the graduation rate Liedholm & Mead looked at all enterprises that had been in existence for more than one year and had started with less than five (5) co-workers or employees. They excluded companies with incomplete or missing data. They did not look into the degree of decline of companies e.g. into the number of companies with shrinking employment as was done earlier by Little and others (Little, 1987). Liedholm and Mead reported a graduation rate of 1%-1.5% (Liedholm & Mead, GEMINI Action Research Program I : Final Report The Dynamic Role of Micro and Small Enterprises in the Development Process, 1995, pp. 38,40). In other studies on the subject similar results were reported for both developed and developing countries (Gomez, 2008, pp. 6-9). Given the fact that those studies demonstrated that no or hardly any graduation exists one might expect that policies and programmes in support of promotion of MSMEs and aimed at job creation would have been adjusted and reflect that knowledge. But in 2012 researchers at the Institute of Social Studies (ISS) state however: “Surprisingly, few solid empirical studies on graduation exist” (Berner, 2012). They also state that most existing interventions are based on the implicit assumption that all entrepreneurs are growth-oriented, they often fail to address the specific needs of survivalists (Berner, 2012). In 2013 Molenaar, leading the research unit on Financial Inclusion and New Entrepreneurship of The Hague University of Applied Sciences noted as well that policies and programmes in support of MSMEs are still of a generic nature and based on the assumption that what starts as beautifully small will eventually become big (Molenaar, *Je kunt een rivier maar twee keer oversteken.*, 2013). He concluded that new research needs to be conducted to find out whether the findings of Liedholm and Mead are still valid.

### Graduation and job creation

In the GEMINI project researched by Liedholm and Mead graduation was related to the issue of job creation in micro- and small enterprises. Internal reports on job creation in the surveyed countries reveal that 22.8% of businesses that started with less than 5 workers had added fewer than 5 additional workers since their start. Those companies had not transgressed into the next segment in the spectrum e.g. not graduated but indeed showed a growth in the number of employees (Liedholm & Mead, GEMINI Action Research Program I : Final Report The Dynamic Role of Micro and Small Enterprises in the Development Process, 1995).

In both non-developed and developed countries it is often assumed that small businesses create most private sector jobs (Haltiwanger, Jarmin, & Miranda, 2010, p. 1). This idea has been propagated consistently over the past decades by various practitioners and policy makers. They refer to work done by Staley and Morse who were probably the first to systemically describe small scale industries (not yet enterprises a term that became more commonly used in the 1970's/1980's) and presented those as an engine

for growth and job creation (Stanley, 1965) . Their work was later supported by other researchers like Birch who concluded in 1979 that small firms create more jobs than large firms (Birch D. L., 1979). In line with this, both government and non-governmental organizations promote SMEs. This again can be done in two ways: focusing on new business creation by increasing the absolute number of independent entrepreneurs (Keeble & Wever, 1986) or increasing the chances of survival of the new and established firms (Schutjens & Wever, 1999).

SME policies and programmes nowadays are of a very general nature and based on a widespread belief that enterprise growth (graduation) and job creation will occur spontaneously. Since the late 80's there is a general consensus among development agencies that in the SME sector development policies and programmes the following are taken into account:

- There must be a general awareness in society (through information campaigns, education and general promotion) that enterprises and, entrepreneurship play a positive role;
- Primary sectors in the economy (agriculture, mining) but also tourism and remittances must generate sufficient additional, disposable cash income to create demand for goods and services from MSMEs;
- There must be an enabling environment with a level playing field for all segments of the MSME sector;
- Business support systems delivery must be left to private and semi-public – but independently run – organisations that aim at their own sustainability;
- Services must be designed on the basis of due assessment of the needs of the sector and offered in a demand driven manner.

Those insights are based on the outcome of in-depth evaluation of MSME in developing countries such as the RSIE studies (Keddy, 1998) and the subsequent debates on policies and programmes like the one organised by the government of the Netherlands (Gosses, 1989). If policies took the fore mentioned into account they would result in the emergence of a vibrant MSME sector with natural graduation and sustained creation of new jobs.

Recent research suggests that new innovative and growth oriented companies, rather than micro enterprises or self-employed, contribute most to the creation of new jobs by the private sector. Furthermore Haltiwanger et al. (Haltiwanger, Jarmin, & Miranda, 2010, pp. 27-29) found that there is no systematic relationship between firm size and growth when the data are corrected for firm age. Young firms have both high rates of job creation and job destruction, but young firms that survive, show more rapid growth than existing companies. For example, medium sized firms in the USA (with more than 500 employees) that have existed for 10 years or more account for 45% of all jobs in the U.S. private sector and 40% of both job creation and destruction, while new firms account for only 3% of employment but almost 20% of gross job creation. But those and other studies do not report on graduation from one segment to the next, as an explanation for job growth.

In 2009, Shane argues that only a limited number of start-ups in the United States generate jobs and enhance economic growth. He finds that, for example, in 2004 new firms accounted for 7% of the total number of jobs created that year. However, after their first year of operations those enterprises experienced a net job destruction with several of them closing down as from their second year. Furthermore it was reported that jobs created in new firms are merely of “a part-time character”; more permanent jobs are created in existing firms. Shane states that in order for an enterprise to grow, the new company would need to be more productive than existing ones. He encourages policy makers to focus mainly on the creation and development growth oriented companies (Shane, 2009) and thus not on graduation as such.

Davis et al., analysed the transition from a self –employed to a micro, small or medium entrepreneur, with the latter two employing co-workers or employees. The authors matched two databases to study the transition from what they call “the non-employer universe” to “the employer universe”. Their results indicate that most businesses start quite small and never become entities that give work to or employ others (Davis, 2007). Still, policy makers focus on small/micro firms and self-employment as the driving force of economic growth and job creation. Gibb also refers to the “myth of growth companies in job creation” and urge for a more critical view on growth and thus graduation (Gibb, 2000).

The question thus arises at what rate starting companies graduate, grow and eventually create – new- jobs? And related to the earlier question: Is the percentage of growing firms stable over the years? And do start-ups contribute to job growth?

# NOTES



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***THE EXPLORATIVE STUDY  
IN THE NETHERLANDS***



## The data set

The data set used to study the growth and graduation rate of start-ups stems from the Economic Institute for Small and Medium Enterprises (EIM) Business & Policy Research i.e. the Starterspanel; it contains information on a cohort of entrepreneurs that started in 2008. In 2008, a cohort of 1010 entrepreneurs that started their enterprise entered the panel and they were surveyed annually by telephone by means of a questionnaire. Personal characteristics, firm characteristics, and business strategy are topics covered (Ichou, 2010, p. 8). As a robustness check we also looked at a second set of data from an earlier panel (2000-2003) and found similar results.

Over the four years EIM conducted the longitudinal research (by interviews); data of 62.3% of entrepreneurs belonging to the starter's panel were eventually taken into consideration. The data series of the remaining 37.7% of the original members of the starters' panel were not included. Some of those entrepreneurs decided not to participate anymore. Some of those businesses had ceased to operate and others could not be traced anymore. Only data of the surviving firms were included in our sample research; while interpreting results it is important to be aware of a possible survival bias. In table 1 the evolution of the starters' panel over the period 2008-2011 is given.

**Table 1** Composition of data set over period 2008 - 2011

Year	# of entrepreneurs interviewed	Percentage (2008 as base year) %
2008	1.010	100,00
2009	721	71,40
2010	672	66,50
2011	629	62,30

*Source: EIM data sets (2012) processed by THUAS/FINE (2015)*

The panel data of those 629 entrepreneurs for the 2008 -2011 have been merged into a single dataset for our analysis.

## Characteristics of entrepreneurs studied

In The Netherlands the number of self-employed has increased significantly in the past decades. Like in other EU countries policies facilitate and even stimulate people to register and start as solo self-employed i.e. to work for one's own account without employing people. Implicitly it is assumed that a considerable proportion of the self-employed will graduate eventually and that this will result in more job growth. By the end of 2014 the Netherlands had 1.4 million registered companies (CBS, 2014) of which 1.1 million fell in to the category:" registered as sole proprietorship/ self-employed". A closer look into those statistics reveals that 300.000 can be classified as sole proprietorship with at least

one employee (such as bakeries, groceries, barbershops). About 800.000 could be classified as self-employed without employees. The latter group has experienced fast growth over the past years from 250.000 in 2012 to over 800,000 in 2014 (CBS, 2014).

Data from the Chamber of Commerce show as well that 12% of all registered entrepreneurs (self-employed, micro and small entrepreneurs) combine self-employment / ownership of a business with formal (wage) employment in either public or the private sector (NUzakelijk, 2011).

Furthermore, the number of self-employed with a second source of income (in addition to that from self-employment) has risen from 171.000 in 2002 to 259.000 in 2012. 56.3% of those consider the revenue from self-employment of the additional source of income, in other words: wage employment is their main source of income.

Hence, it is thus not surprising to see that in the panel the self-employed are well represented. In our analysis where possible we used the expanded classification of the MSME sector on graduation as it allows visualising and understanding the processes of transition between the segments. Most of the enterprises, either set up by the self-employed (with personnel) or by the entrepreneurs employing co-workers are categorised as micro-enterprises as shown in table 3.

At the start of the panel, 92.4% of the entrepreneurs fell into the category solo self-employed (both with and without personnel) and 7.6% had one or more employee or staff member on the pay-roll (self-employed with personnel, micro and small enterprises). See table 2.

Table 2 Composition of the panel

Description	Observations		Percentage	
	2008	2011	2008	2011
Solo Self-employed	581	559	92,4%	88,8%
Self-employed with employee	17	30	2,7%	4,8%
Micro enterprises (2 to 5 employed including entrepreneur)	14	21	2,2%	3,3%
Small enterprises (> 5)	17	19	2,7%	3,0%

Source: EIM data sets (2012) processed by THUAS/FINE (2015)

In the period the panel interviews were held a total of 22 graduated from one segment to a higher level.

The distribution of the firms across industry sectors is shown in table 3. The high percentage of entrepreneurs in the construction industry is attributable to the fact that in the period studied many building companies started to offer service contracts to special-

ized workers, many of whom opted to work independently as self-employed. The high percentage in the category business services relates to professionals opting to operate a self-employed/ freelancer.

Table 3 Distribution across industry sector

Industry	n	%
Business services	246	39.11
Retail	76	12.08
Construction industry	74	11.76
Industry	40	6.36
Wholesale	33	5.25
Hospitality industry	20	3.18
Agriculture	19	3.02
Transport / Communications	13	2.07
Car repair and maintenance	12	1.91
Financial services	4	0.64
Other	92	14.63

Source: EIM data sets (2012) processed by THUAS/FINE (2015)

The age of entrepreneurs interviewed ranges from 19 to 72 years, with the average age being 42.69. Furthermore of 541 entrepreneurs interviewed the gender is known showing that 60.1 % are male, and 39.9% female.

### Variables measured

A total of eleven (11) determinant (variables) –subdivided in three categories : fixed, human based and decision related - were measured in the primary survey conducted in 2008. The dependent variables, graduation and job growth rate, were measured over the period 2008 – 2011. See table 4 for the description of the variables used in the analyses and the possible answers.

Table 4 Variables expected to be related to graduation and job growth

Determinants	Key questions	Possible answer
<b>Fixed determinants/ variables</b>		
Age	Age was measured as an ordinal scale.	Dummy for age group categories: (1) 16 - 34, (2) 35 - 49, (3) 50+.
Gender	What is the gender of the entrepreneur?	(1) Male, (2) Female.
<b>Hunan/Capability based determinants/ variables</b>		
Education	What is the educational level of the entrepreneur?	Original categories: based on Dutch Educational system
Entrepreneurial background	Was the entrepreneur, prior to starting the firm, familiar with entrepreneurship, for example via parents or partner?	(1) Yes, (2) No.
Experience as an entrepreneur	Has the entrepreneur tried to start an firm prior to the current one?	(1) Yes, (2) No.
Industry experience	Did the entrepreneur work in the same industry as his enterprise prior to start?	(1) Yes, (2) No.
(Prior) employment	Was the entrepreneur employed prior to starting the firm?	(1) Yes, (2) No.
<b>Decision based determinants/ variables</b>		
Business partner	Does the entrepreneur lead the firm on his own or with a business partner?	(1) On his own, (2) With a business partner.
Hybridity (side-line activities)	Does the entrepreneur execute other activities, next to the firm?	(1) Yes, (2) No.
Start-up capital (amount)	How much start-up capital was brought into the firm?	Original categories: (1) No start-up capital, (2) < €2.500, (3) €2.500-€5.000, (4) €5.000-€10.000, (5) €10.000-€25.000, (6) €25.000-€50.000, (7) €50.000-€75.000, (8) €75.000-€100.000, (9) > €100.000.
Time investment at start	How many hours were spent on the firm at the start of the enterprise?	Time investment was measured as an ordinal scale with 7 time categories of 10 hours each. Dummy for time investment categories: (1) 0-19 hours per week, (2) 20-39 hours per week, (3) 40 or more hours per week.

Source: Structured by authors - THUAS/FINE (2015)

In order to correlate the job growth with the determinants mentioned in the literature we performed a number of statistical hypothesis tests. For each determinant the null hypothesis was determined. Pearson's chi-squared test was performed to determine the likelihood that the observed difference between the independent and dependent variables occurred by chance. The correlations between the dependent variables have also been checked since a high correlation among independent variables may disturb assessment of the relationship between the dependent and independent variables. The correlations are shown in the table 5:

**Table 5** P-values from chi-square analysis among independent variables

	Variables	1	2	3	4	5	6	7	8	9
1	Age	x								
2	Business partner	0,332	x							
3	Entrepreneurial background	0,369	0,000	x						
4	Experience as an entrepreneur	0,004	0,001	0,000	x					
5	Gender	0,003	0,937	0,139	0,015	x				
6	Side-line activities	0,164	0,384	0,491	0,725	0,000	x			
7	Start-up capital (amount)	0,189	0,000	0,020	0,002	0,000	0,003	x		
8	Time investment at start	0,412	0,001	0,350	0,284	0,000	0,000	0,000	x	
9	Education	0,019	0,077	0,145	0,738	0,675	0,357	0,046	0,034	x

Source Authors – processed data (2015)

## Limitations

Since only the surviving firms were analysed in the survey, the survivor bias is a significant risk. There are no data available about the start-ups that did not survive nor about those unwilling to participate in the panel. It is, for example, possible that firms that decided not to participate in the panel were very successful. But they could also have gone bankrupt. In previous research, based on older data sets of the same panel, an 'exit-survey' was performed; however, this was only done with a minority of all the exits. (Stam, Gibcus, Telussa, & Garnsey, *Employment Growth of New Firms*, 2007, p. 11) In order to mitigate the risk of survivor bias, data on the firms that were not included in the sample, were checked for differences in the initial conditions.

Another limitation for this research is the classic selectivity problem. Since our population contains only individuals who started a new enterprise, we have a non-random sub-sample of the population as a whole. The observed distribution is thus also a non-random one

which may lead to bias in the estimated effects of the determinants. Consequently, at the very least, the conclusions drawn from analyses of samples of new ventures should be treated with caution and viewed as tentative (Sorensen & Chang, 2006).

Additionally, we performed a univariate test which is prone to problems of misleading inference when elements are correlated among themselves (Parker, 2009, p. 106).

To interpret the low number of employers, the typical Dutch context must be taken into account. Grimm systematically reviewed employment creation by entrepreneurs in firms. He states that findings from certain countries cannot always be generalized and applied to other regions (Grimm & Paffhausen, 2014). Business ownership rates vary considerably between countries and the share of business owners who are solo self-employed also differ considerably, though this rate increased for most countries available in OECD statistics (de Kok, Ichou, & Verheul, 2010). In The Netherlands a strong trend of “solo entrepreneurship” is visible (Schutjens & Wever, 1999, p. 137) which can explain partly the low numbers of entrepreneurs with employees.

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## ***MAJOR FINDINGS***



## Hardly any graduation

The graduation rates from one segment to another ranges from 2.24% (from solo self-employed to self-employed with employees )to 1.17% (from self-employed to micro enterprise level) – see table 6.

Table 6 Graduation rates

Description	Numbers		Change over period	
	2008	2011	2008	2011
Self-employed	598	589	95.1%	93.6%
Solo	581	559	92.4%	88.9%
ZMP	17	30	2.7%	4.8%
Micro Enterprise (2 to 4)	14	21	2.2%	3.3%
Small Enterprise >5	17	19	2.7%	3.0%
Total	629	629	100%	100%
From solo self-employed to self-employed with employees		13		2.2%
From Self to micro enterprise level		7		1.2%
From Self-employed to Enterprise level (micro and small)		9		1.5%

Source: Authors – processed graduation data (2015)

In the 2000 -group, this percentage was 1.7%. In literature similar trends are visible, most companies do not move between categories.

We observe thus that hardly any graduation took place in the four year period we studied. Our graduation rate of those moving from micro to small enterprises of less than 1% confirms the findings of Liedholm and Mead of 1%-1.5% (Liedholm & Mead, GEMINI Action Research Program I : Final Report The Dynamic Role of Micro and Small Enterprises in the Development Process, 1995, pp. 38,40).

## Almost no job growth

A further in-depth analysis of the possible growth (also that within a segment) was carried out (table 7). Between 2008 and 2011 of all enterprises 87,6%—551 in total—had a stable number of employees, starting at 0 employees; of them 52 enterprises (8,3%) increased the number of employees. This can either mean that the solo self –employed transitioned to self – employed with personnel or even became owners of micro enterprises. Twenty-six (4,1%) enterprises employed less staff in 2011, as compared to 2008.

Table 7 Job growth rate

	N	%
Growth	52	8,30
Stable	551	87,60
Declined	26	4,10
Total	629	100,00

In the second panel studied between 2000 and 2003 similar observations were made, whereby small differences can be explained by a difference in the macroeconomic situation. Out of 240 enterprises 85% remained stable, 13.8% hired more staff and 1.3% employed less staff.

Liedholm and Mead concluded that most jobs created by MSMEs are created by people starting their own business (Liedholm & Mead, GEMINI Action Research Program I : Final Report The Dynamic Role of Micro and Small Enterprises in the Development Process, 1995, p. 28). Our research shows that in the period of economic decline, out of the entrepreneurs that were tracked, only 8.3% created more jobs over the course of four years. In more stable economic periods this is slightly higher. In 2009, Shane stated that: *“Policy makers need to recognize that only a select few entrepreneurs will create the business that will create jobs”*. Our research data confirms this. Out of all starting enterprises we have studied over a period of four year, only 11.1% actually have employees and only 5.7% made a transition from solo self-employed to micro or small entrepreneur level with one or more workers. This also confirms the conclusions previously drawn by Davis et al. who stated that most self-employed never become employers and thus do not create new jobs for others. Nevertheless globally we see fiscal facilities, economic policies and programmes in support of the MSME sector based on the assumption that indeed all businesses will grow and create subsequently more jobs. Public authorities and policy makers should take this preliminary funding into account and further assess the effectiveness of such policies and programmes

For policy implications, governments need to know who actually makes it to become an entrepreneur employing workers and thus passing the one-employee threshold (Désiage, Duhautois, & Redor, 2011) like they also need to take into account that the micro entrepreneurs receiving (financial) support under privately or publicly supported programmes most certainly will not graduate to the next levels.

### The relevance of determinants on job creation

In the study relations between job growth and a number of determinants were investigated. Pearson’s chi-square tests and Cramer’s V test were performed. Table 8 shows the results of this analysis.

Table 8 Analysis of determinants on job growth

Categories	Determinants	N	Chi-square	df	p-value	Cramer's V
Fixed determinants	Gender	539	9,548	2	0,01	0,133
	Age	628	16,908	4	0,00	0,116
Human capital determinants	Education	626	4,330	6	0,63	0,059
	Entrepreneurial background	627	6,671	2	0,04	0,103
	(Prior) Unemployment	629	0,887	2	0,64	0,038
	Experience as an entrepreneur	629	5,380	2	0,07	0,092
	Industry experience	492	2,836	2	0,24	0,076
	Time investment at start	621	1,891	4	0,76	0,039
Decision-based determinants	Hybridity (side-line activities)	629	9,797	2	0,01	0,125
	Start-up capital <sup>2</sup>	594	113,951	4	0,00	0,310
	Business partner	629	18,746	2	0,00	0,173

The associations between the independent variables have also been checked as a relationship between independent variables may disturb assessment of the relationship between the dependent and independent variables. In summary we found:

- Entrepreneurs falling in the older age categories tend to have more previous business experience and the majority is male;
- Entrepreneurs who start with a business partner more often have an entrepreneurial background and previous experience as an entrepreneur. Those also tend to start with more capital and invest more time at the start;
- Entrepreneurs with an entrepreneurial background start with more capital;
- Women tend to have more side-line activities, start with less capital, and invest less time at the start;
- Entrepreneurs with more side-line activities generally tend to start with less capital and invest less time at the start.

On the outcome of the analysis of determinants on job growth both fixed determinants show a correlation with job growth. As to gender we observed that 78.8% of the enterprises that created jobs, had a male owner. Also, 5.1% of the female owners experienced growth compared to 12.6% of male owners; but enterprises owned by males also experienced more decline. Age was also found to be significant: it appears that 17.3% of the entrepreneurs in the age range of 16 to 34 experienced growth, compared to the 7.5% belonging to age range of 35 to 54 and 3.4% who were older than 55.

<sup>2</sup> 2 cells (22.2%) have expected count less than 5. The minimum expected count is 2,40

No correlations were found regarding capability-based determinants such as education, prior unemployment and industry experience. Entrepreneurial experience bordered on the threshold of significance allowing for some inferences—as if it were significant—but only with due discretion. Only for entrepreneurial background we found a correlation with employment growth. Starters with an entrepreneurial background often show more tendency to grow (10.5%) than those without (6.4%).

Correlations were found regarding decision-based determinants such as hybridity (having side-line activities) and having a business partner. The time the entrepreneur invested in the company at the start was not related to job growth. Because of the small groups we were unable to perform the chi-squared analysis on the start-up capital.

In conclusion, table 8 shows that significant relations were found on gender, age, secondary activities, having a business partner, and having an entrepreneurial background. But the outcomes of the Cramer's V test shows it is not a very strong relationship.





.....

***GLOBAL RESEARCH  
NEEDED TO RECONFIRM***



Over the past decade the self-employed have become an integral part of the economy in the Netherlands like in many other EU countries. Policies are partly geared towards stimulating self-employed to move on and grow. However the graduation rate of those moving from solo- self-employment to micro enterprise level (following the classification model of Farbman and Lessik and modified by Molenaar) is also low. Hence the research findings indicate the need for re-assessment of prevailing policies and support programmes leading to the formulation of segment focused approaches.

Policies based on the assumption that graduation will take place and will contribute to job growth need thus to be re-assessed and reviewed. Segment specific policies might probably be more effective.

Hybrid, intermittent and part time forms of entrepreneurship are emerging. No data sets yet exist on these segments of the MSME sector, their evolution and their relative contribution to the economy. It is consequently too early to come to any conclusions about the effect that these new forms have on graduation.

Our research reveals that we still have to adjust our views on entrepreneurs who bring about growth and job creation and who are best supported with focused policies and programmes. The data sets show that previous business experience, networks, life experience, working with a business partner and own capital (invested in the company) are significant drivers for growth and job creation. This is shown for traditional forms of enterprises e.g. those in which the entrepreneur is engaged on a full time basis and with a vision to run and develop the business for the rest of his/her life. We suspect that this also explains why possession of specific determinants such as youth, women or migrants, active in social networks or other forms of entrepreneurship (hybrid, intermittent, part time) did not emerge.

In general the research conducted so far ought to be expanded to come to final conclusions as to the determining factors for growth and job creation.

The findings from previous research on graduation were confirmed as almost no entrepreneurs moved from a the micro enterprise tier to that of small enterprises. We also found that graduation from self-employed to micro enterprise level hardly exists.

The pilot study in The Netherlands confirmed that earlier insights into non-graduation are still valid. This was confirmed in the MSME sector in a country with a well-established and developed economy and earlier studies were conducted in countries with weak and emerging economies. The pilot study shows that further research is needed as the implications of the outcomes might have severe effects on prevailing policies and programmes.



We recommend that new, multi-country (developed and non-developed) research over minimal four year periods, with a strong qualitative component in order to bring policies in line with reality to be conducted. In such global study, with the participation of national research teams, the focus should be on:

- Graduation rates from micro to small enterprises but also from small to medium and from self-employed to entrepreneur employing one or more workers;
- Importance of new forms of entrepreneurship (intermittent, part time, hybrid) for graduation and job creation;
- Effect of graduation on job creation ;
- Identification of determinants (that could be influenced by policies).

Such research is earnestly required to confirm something that was established by research a few decades ago and most certainly still is. If the objective of microfinance is to create micro and small enterprises it ought not to start with supporting people who engage in survival activities and self-employment. Policies to promote the missing middle with the explicit expectation that these will grow into larger enterprises, in all likelihood need to be reformulated. And not because we suddenly know: it was the missing memory that shows us that small is beautiful but it will remain so..... .



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## Appendix Overview of Empirical studies on employment growth of new enterprises in several studies

Categories	Determinants/factors associated with new firm growth	(Liedholm & Mead, 1995)	(Cooper, Gimeno-Gascon, & Woo, 1994)*	(Brüderl, Preisendorfer, & Ziegler, 1996)	(Schutjens & Wever, 1999)	(Bosma N., Praag, Thurik, & Wit, 2004)
		Result	Result	Result	Result	Result
Fixed determinants	Gender (male)	+	+	+		+
	Age				0	0
Human capital determinants	Education	+	+	0	0	0
	Entrepreneurial background		0			
	(Prior) Unemployment	+				
	Experience as an entrepreneur	+		0		0
	Industry Experience		+			+
Decision-based determinants	Time investment start	+				+
	Hybridity (sideline activities)	+				
	Start capital (amount)		+	+	0	
	Business partner		+	0	+	

<sup>\*)</sup> Results confirmed in Dahlqvist, Jonas, Per Davidsson, and Johan Wiklund.

“Initial conditions as predictors of new venture performance:

A replication and extension of the Cooper et al. study

(Dahlqvist, Davidsson, & Wiklund, 2000)

<sup>\*\*)</sup> Comprehensive meta-analysis of 94 studies that included estimates of the relationship between schooling and entrepreneurial performance.

(Stam, Gibcus, Telussa, & Garnsey, Employment Growth of New Firms, 2008)	(Klapper & Parker, 2010)	(Kautonen, Down, & Minniti, 2014)	(Henley, 2005)	(Van der Sluis, Van Praag, & Vijverberg, 2008)**	(Sørensen, 2007)	(Stuart & Abetti, 1990)		
Result	Result	Result	Result	Result	Result	Result	Hypothesis	
0	+							+
+		+	+					+
0				+				+
0					0			0
								+
0						+		0
0						0		+
								+
								+
0								+
0								+



## About the Authors

**Albert Kraaij** (1967), (MA Management Science – Free University of Amsterdam) is a financial professional who turned to education and research later in life in search for new insights in entrepreneurship.

Originally from the small village of Putten. He left the village to study in Amsterdam where he still lives. After studying business economics at the Free University he was one of the last who had to serve in the military in the Netherlands. In retrospect this proved to be a wonderful opportunity. For eight months he was stationed as head of the military post for the UN in Egypt and Israel. After that his first job was financial controller at a flower exporter company in Aalsmeer. In addition, he was trained as an accountant. After this job, he had some financial management positions until at the age of forty when he changed to education.

Since January 2008, Albert Kraaij works at The Hague University of Applied Science as a lecturer in Business Administration. He teaches Management, Finance and Research. Two days a week he works as a researcher. He conducted research on measuring innovation in small and medium sized companies and he published on an instrument to increase the innovative capacity of entrepreneurs. Later on he published on job creation by entrepreneurs.

As a lecturer, he tries to bridge the gap between research and education. ....*research is only successful if students successfully participated* .....

**Klaas Molenaar** (1949), (MA Management Science - Rotterdam University) is a hybrid entrepreneur, consultant and academic crossing borders in search for new insights in entrepreneurship and financing. Professor on Financial Inclusion and New Entrepreneurship at The Hague University of Applied Sciences. In that capacity leading various research programs in the field of micro finance/ financial inclusion. Fully conversant with all aspects of micro and small enterprise finance (policy, financing, capacity building, services delivery and linking to BDS).

Among other functions, visiting researcher on Transnational Diaspora Entrepreneurship at DSV Stockholm University. Former President of European Microfinance Network (EMN) and member of the National Council for Microfinance of The Netherlands.

Specialist in Entrepreneurship Development and Training, Economic Livelihood, Financial Inclusion and MSME financing (especially micro finance and SME guarantee funds) and Migration, Entrepreneurship and Development.

An entrepreneur who doesn't mind rolling up his sleeves and delving into the question of why we Europeans so often think that we know how microfinance works and how it should develop from here... *"Research conducted by the Financial Inclusion and New Entrepreneurship research group is based on our belief that much can be learned from experiences in developing countries. Knowledge that can be used in our industrialised world, whether or not adapted to local circumstances. This way of thinking and working may give rise to a reversed transfer of knowledge, and this in turn forms the basis of a more detailed insight and knowledge that can be used to organise microfinance services and SME development in Europe in a more effective and efficient way."*

## Financial Inclusion and New Entrepreneurship Research Group

The research group aims to achieve the following:

- To systematize and disseminate knowledge on Financial Inclusion and New Entrepreneurship, both nationally and internationally.
- To undertake practice-based research with a close link to teaching.
- To contribute to the professionalization of lecturers and researchers of The Hague University of Applied Sciences by their actively participation in innovation in education and research.
- To contribute to policy debates on Financial Inclusion and New Entrepreneurship.

Leading is our conviction that European countries have much to learn from the evolution of microfinance in developing countries. The feeding back of lessons learned (reversed transfer of knowledge South -North) into education and research, can contribute towards more client-focused financial services for entrepreneurs, irrespective of their nationality or socio-economic status. Research activities undertaken are for example research programmes were completed by late 2015

- Informal savings and loan groups in the Netherlands
- New forms of financing in the Netherlands
- Hybrid entrepreneurship
- Incubators and entrepreneurship
- Graduation in MSMEs
- Self-controlled financing systems (in Europe)

Innovation in education is undertaken to support students to learn and understand more about value creation in the next economy and the related new forms of entrepreneurship and new type of IT based and self-controlled financing.

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