



# BUSINESS INCUBATOR

report

ESTONIA

## INTRODUCTION

Estonia is a society experiencing a rapid decline in youth' share of the working population. Moreover, the general work-force is declining at an unsustainable rate of 1% per year due to several long-term trends in the population.

Despite this, the political resistance to immigration or refugees, who could relieve the tensions in the labour market, is on the rise. For the first time in the history of Estonia, an extremist political anti-immigration force has entered the national parliament in March 2015. This is ironic, since Estonia had accepted only 20 (sic!) refugees per year in 2014. The irrational reaction to the refugee problem in the southern EU must be seen in the context of mass immigration from Russia in the Soviet times, however.

The reasons for the shrinking of the general workforce are similar to other East European member states of the European Union: migration to countries with a higher living standard, aging population, increase in disabilities. The youth, however, is in a paradox situation: their number is decreasing, but often they are still unable to find full-time employment.

Part-time, temporary and low wage jobs dominate the labour market for the young people, who are about to start their working career.

## VOCATIONAL TRAINING IN ESTONIA

Vocational training is a diversified form of education. It offers a variety of learning options without fixated pre-conditions. Theoretically, anyone interested can join some of the courses offered, regardless of previous educational path.

The main function of vocational schools is to offer an alternative to the regular high-school, with focus on learning a profession.

The weak point of vocational training in Estonia is the absence of the so-called “dual system”, which encapsulates both theoretical training and a practical component in partner enterprises. Since the “dual system” does not exist, graduates from vocational schools enter the labour market with no - or little - previous work experience. This is an obstacle to finding work. Moreover, the image of vocational schools needs an improvement, as it is mainly seen as a second-best option beside high-school.

There are 3 types of schools: state, local government and private vocational schools.

### **ENTREPRENEURSHIP courses and curricula**

Students in vocational schools are offered courses on basic knowledge on the functioning of the economy and companies. These courses are not very popular among the students and do not necessarily prepare students for a life as entrepreneurs, however.

According to a recent position paper on education by the Estonian Association of Pupils' Representative Bodies, the quality of those courses is rather low and vocational training centers are mainly seen as institutions preparing manual workers for low wage jobs (<https://opilasliit.files.wordpress.com/2015/02/eoel-haridusplatvorm-04-04-2015.pdf>, accessed 20 June 2015). One option to increase the interest of students in business activities

is the promotion of student companies, according to this paper.

Junior Achievement Estonia describes the concept of student companies: “Student Company as all the good things may have many different names. You may call it student company, student enterprise, youth enterprise, junior company, junior enterprise - they all mean the same. In this program students learn how to take a business idea from concept to reality. They form their own real enterprise and discover first hand how a company functions. They elect a board of directors from amongst their peers, raise share capital, and market and finance a product or service of their own choice. At the end of the programme they present a report and accounts to their shareholders.”<sup>1</sup>

## START-UP CULTURE IN ESTONIA

There are a number of support networks for newly created companies, or so-called start-ups,. These include Business Angels, venture capitalists. These networks are mainly interested in technological and biotech companies, however. More traditional fields such as plumbing or hair-dressing saloons, are of little interest.

Companies in traditional fields of business can apply for start-up grants through Enterprise Estonia ([www.eas.ee](http://www.eas.ee)), which is the national agency for the distribution of EU grants. The grant is up to 15.000 EUR and at least 2 jobs should be created. After the third year, the turnover should reach 80.000 EUR, which can be problematic for a small services' company to achieve. If they do not fulfill this requirement, the grant will be cancelled, which will most likely result in a bankruptcy.

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<sup>1</sup> <http://www.ja.ee/index.php?page=150&>, accessed 21 June 2015.



## QUESTIONNAIRE

In order to distribute the current questionnaire, two vocational schools were singled out. They were chosen because of their larger size and the high number of courses on offer. Also, their location makes them more easily accessible.

### JÄRVAMAA CENTRE FOR VOCATIONAL TRAINING

Järvamaa Centre for Vocational Training (JCVT) is the largest of its kind in Estonia, with 1000 studying places on offer. It is located in a small town, Paide (8.500 inhabitants), next to the highway from capital Tallinn to the second-largest town, Tartu.

JCVT offers a wide variety of courses. It also boasts state-of-the-art facilities and equipment, purchased with the financial help from the European Union. Their main problem is the lack of students, however. As the schools director, Mr Rein Osolin, points out, JCVT is managed by the Ministry of Science and Education, whereas local high-schools are run by the local government. This creates an atmosphere of competition for the declining number of perspective students, and makes cooperation between institutions rather complicated. From his point of view, all schools should share the same “owner” to increase cooperation.

JCVT has a business-friendly approach and offers cleaning and catering services to outside customers.

### TARTU CENTRE FOR VOCATIONAL TRAINING

Tartu Centre for Vocational Training (TCVT) is located in Tartu, which is a university town in the South of Estonia. 2/3 of Estonian students study there. In Tartu, there are 4



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vocational schools in total, beside TCVT there are the Tartu Art School, Tartu Health Care College and Heino Eller Tartu Music School.

TCVT offers a number of services, such as catering, hair-dressing or accommodation. Those services are popular among the locals since they come at an affordable price. For the students, it offers a convenient way of practicing but also earning some extra income.

## **THE STUDY OF THE QUESTIONNAIRE**

This study aims to find out the status of vocational training schools in Estonia from the perspective of basic knowledge on the functioning of the economy, entrepreneurial skills and possible company creation.

For the purpose of the study, 111 questionnaires were handed out, of which 101 were returned.

## **METHODOLOGY DESCRIPTION**

The survey was carried out in 2015. The questionnaires were handed out to students of JVTC and TVTC mainly. The survey combines quantitative data with qualitative data and leaves sufficient room for feedback for the respondents. The data was analyzed by Dr Eero Mikenberg, PhD in Social Sciences.

## **DATA**

Number of questionnaires distributed: 111

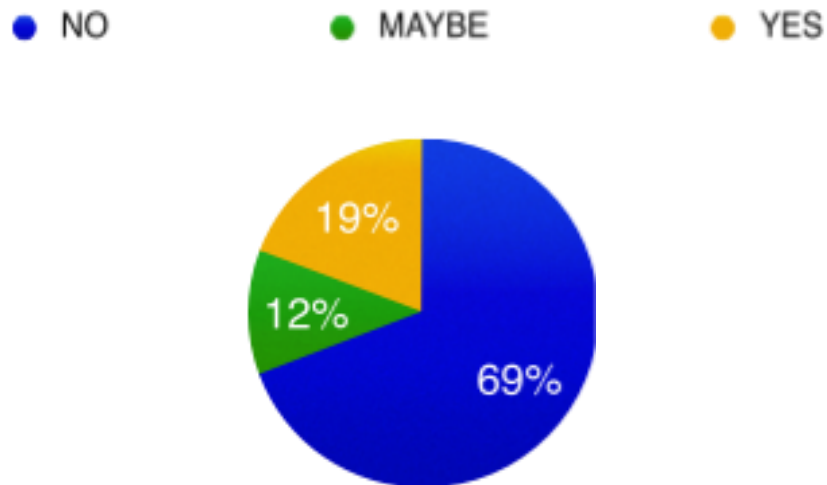


Number of questionnaires returned: 101

Rate of return: 90,1%

### First question

“Are you planning to be an entrepreneur when you finish school?”



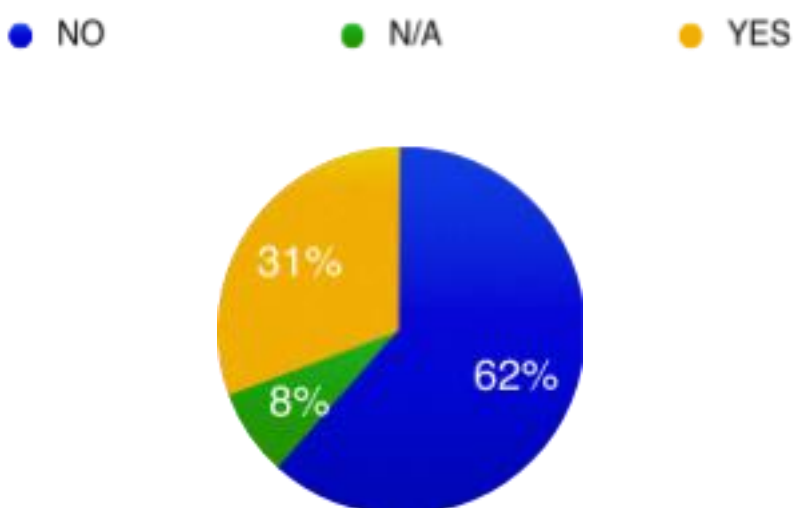
The overall rate of those who have been planning to set up their own business was relatively high. Those, who answered yes, were mainly studying in the field of services, such as hair-dressing, gardening, tourism, business administration or small business management. The share of manual professions such as welding, plumbing, electrical works among the positive answers was substantially lower.

The descriptive part of this question (“If you have answered yes, please describe, what are you planning to do as an entrepreneur.”) was filled in by those who answered yes. Most

respondents to this question (79%) had a more or less clear idea about their plans, whereas the rest (21% of positive respondents) omitted answering this question.

## Second question

“Does your school prepare a young person to be an entrepreneur?”



Those, who answered “yes”, were asked additional questions (“If yes, please describe in which way it supports the young person? What is the main knowledge, skills, competences which are being provided?”). Here the responses were rather diversified, but main knowledge indicated was “functioning of the economy”, main skills were “offering a service in high demand”, main competence “how to run a small company, declare taxes, organize book-keeping”).

Those, who answered “no”, were also asked an additional question (“If no, please describe what is missing in this preparation? What kind of preparation would help a young person to become a successful entrepreneur?”). Here most respondents missed mentoring,



encounters with successful business owners, a handbook or manual how to start and run a company, success stories about real-life enterprises.

### **Third question**

“How do you think why so few young people decide to start a business after graduation?”

Keywords in answer: risks (51), high costs related (47), lack of capital (36), too complicated (25), lack of supportive financial measures (25), afraid of trying it alone (21), too high responsibility (18), danger of bankruptcy (11).

### **Fourth question**

1. Please, finish the following sentences (3)

\* To decide to become an entrepreneur, I would need:

better knowledge of the functioning of a company (52), a mentor (43), affordable services/infrastructure to run the company (35)

\* In my mind, the biggest advantages of being the entrepreneur are:

financial freedom (73), being your own boss (38), interesting life (19)

If I decided to start a business, first I would ask for advice and support

mentor (44), school teacher (33), a business owner (27), tax office (10)

## CONCLUSIONS

Not everybody is pre-destined to become an entrepreneur. In fact, only a minority of those who try their luck as self-employed or employer, succeed. Therefore we cannot expect the majority of graduates from vocational schools to choose the path of business-ownership.

Nevertheless, we should give those who have the courage and grit a fair chance. Most of the existing obstacles to starting your own business can be removed by offering basic services using the shared-economy model. A small start-up can hardly afford to hire a secretary to take the order from customers, a book-keeper to take care of the accounting and an office with the necessary equipment, if it needs to bear the full cost alone.