

**PATTERNS AND TRENDS IN
ENTREPRENEURSHIP/SME POLICY AND
PRACTICE IN TEN ECONOMIES**

**Volume 3 of the
Entrepreneurship Policy for the Future Series**

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PREFACE

Patterns and Trends in Entrepreneurship/SME Policy and Practice in Ten Economies is Volume 3 of the *Entrepreneurship Policy for the Future* series describing, analysing and discussing the development of entrepreneurship policy perspectives and measures in a group of ten economies – six members of the European Union (EU) and four members of the Asia-Pacific Economic Cooperation (APEC). The objective of the project was to explore actions of a number of diverse economies to address the issue of entrepreneurship development, with a particular emphasis on efforts to increase the level of entrepreneurial activity. The major research conclusions about entrepreneurship policy development, along with ‘best practice’ descriptions of key entrepreneurship development areas, are presented in two additional volumes. *Beyond the Rhetoric: Defining Entrepreneurship Policy and Its Best Practice Components* (Stevenson and Lundström, forthcoming 2001) presents a comprehensive entrepreneurship development framework and describes a number of best practice approaches and examples in the entrepreneurship policy/programs area. *Entrepreneurship Policy for the Future* (Lundström and Stevenson, 2001) summarizes what is currently known about this process, both from the small business/entrepreneurship and economic literature and from the experiences of these ten economies. From ‘lessons learned’ in the research cases, it presents some guidance to governments seeking to integrate entrepreneurship elements into their existing economic development and SME policy approaches.

The purpose of Volume 3 is, in summary form, to highlight the journey taken by diverse governments as they move from traditional SME policy to policies that will stimulate a broad entrepreneurial base. Some governments are further along this road than others and not all are taking the same route. Some have fully embraced entrepreneurship as a critical component of the new economy; others are only beginning to recognise the dynamic nature of the SME sector and to realize the importance of increasing the supply of new firms, and thus new entrepreneurs; some are focusing on entrepreneurship as a vehicle for job creation; and others are more focused on high technology and innovation as the drivers of wealth creation, placing varying degrees of emphasis on the role of ‘the entrepreneur’ in this process.

In this volume, we present a profile of each participating economy, including a brief description of 1) its SME sector, 2) its industrial/SME/entrepreneurship policy agenda, 3) its major programs and services oriented to the development of entrepreneurs and new, young firms, and report observations about the extent to which it has adopted an entrepreneurship policy approach. It is not the purpose of Volume 3 to present all the findings and conclusions of the study. This is done in Volumes 1 and 2. Its purpose is to describe the situation in each of the ten cases and highlight some of the good practices and key issues in entrepreneurship policy development.

In Chapter One we briefly introduce the study, discuss the factors and elements giving rise to the entrepreneurial economy, and point to the major relevant areas of policy to consider on the road to a more systematic and integrated entrepreneurship policy. In Chapter Two we draw some

conclusions about the state of each economy's entrepreneurship policy approach, present our typology of entrepreneurship policies and summarize the major patterns and trends in the development of SME/entrepreneurship policy measures and initiatives. The following ten chapters present individual economy profiles. These descriptions are substantially edited versions of the 'data' collected for the study. In spite of a number of data limitations, in Chapter Thirteen we attempt to make some comparisons between the economies along a number of dimensions related to their SME sectors.

We decided to publish individual economy reports in this separate volume in response to requests from some of the participating economies who convinced us there was merit in providing individual economy overviews as part of the project. We believe that interesting lessons can be learned from each case experience, irrespective of similarities and differences in their economic and social contexts. We trust that readers will find value in the descriptions presented in this book and be encouraged to explore the additional and more detailed comparative findings and conclusions presented in Volumes 1 and 2.

As an additional comment, we would like to mention that a study of this kind is subject to several limitations. Most notable is the dynamism of this field at the present time. It is very difficult to stay current with developments in individual economies because changes are constantly taking place. Reports of Task Forces and Commissions, research, consultation and evaluation reports and government policy statements are regularly being released, not to mention changes in government and policy directions as the result of elections during the course of this project. We apologize for any omissions or outdated information. Prior to publishing, officials and experts from each economy were given the opportunity to review draft reports and to provide us with feedback. All of their suggested changes and revisions were incorporated. So we have made every effort to provide an accurate picture of the situation, as of June 2001. It is also important to remember that these economy reports are a 'weaving together' of a picture based on statistical information, interviews with officials and experts, official government documents and reports, independent research studies and a myriad of web-based sources of information in each economy (i.e., academia, business associations, private sector foundations and stakeholders, non-government organizations, etc.). We hope that it is a relatively balanced and fair representation of the situation, although we cannot pretend that it is a complete picture of all activity that is taking place in any one economy. We have attempted to cover the policy positions and measures of the central governments and to provide a general overview of other public and private sector activity related to entrepreneurship development. Profiling region-specific entrepreneurship-oriented policies and local initiatives was not possible within the parameters of the study.

Finally, the reader will note some inconsistencies in the use of British versus American spelling for certain words, such as center/centre, program/programme, and rationalise/ rationalize. In most instances, we use the American version, but that is not the case in many of our case countries. We are aware of these inconsistencies in the text, but particularly when referring to reports and named programs and initiatives, we maintain the spelling used by that government.

PART ONE

CHAPTER ONE

BACKGROUND, INTRODUCTION AND CONTEXT FOR THE RISE OF ENTREPRENEURSHIP

BACKGROUND AND INTRODUCTION

Entrepreneurship policy is an emerging area of economic policy development that is currently not well developed. Many countries are seeking to increase their entrepreneurial vitality in recognition of growing evidence that a high level of entrepreneurial activity, measured in terms of high business start-up and exit rates, contributes to economic growth and development. But how to strategically design and implement effective entrepreneurship policy measures is an inexact science at best. A considerable amount of research is currently being done to locate the importance of entrepreneurship in economic development and growth (Acs, Carlsson and Carlsson, 1999; Audretsch and Thurik, 2001a, 2001b, Kirchhoff, 1994; Reynolds et al., 1999, 2000; Wennekers and Thurik, 1999) and to prescribe what needs to be done to increase the level of entrepreneurial activity in a country (OECD, 1995; European Commission, 1998; Verheul et al., 2001; OECD, forthcoming 2001). These works present all the compelling economic and social arguments why governments should be emphasising business start-up rates and ease of firm entry and exit, and highlight the policy areas that need to be addressed. However, very little has been done to examine what governments are actually doing to move to an entrepreneurship policy perspective and how they are doing it. In the mid 1990s organizations such as the OECD, the European Commission and APEC began serious efforts to examine economy approaches to developing entrepreneurship (OECD, 1995; European Commission, 1998, 2000). However, reviews and examinations of this country activity often lumped SME-oriented and specific entrepreneurship-oriented policies and measures together. It remains unclear how entrepreneurship and SME agendas relate to each other. Is entrepreneurship development an extension of SME policy and, if so, how is it integrated? Is entrepreneurship policy a more distinct policy domain? Is there a need for innovations in the implementation of entrepreneurship development policy measures? Are new institutional arrangements required? These are only some of the compelling questions in the field. Although entrepreneurship-oriented objectives are beginning to appear in economic policy statements in many countries, little readily available material exists on best practice approaches to achieving them. This study attempts to fill some of these gaps in the existing knowledge base.

Objectives of the Study

The objectives of this study were to bring together existing knowledge in a number of entrepreneurship development areas based on the approaches of ten economies, to highlight issues and best practices and to outline the processes different countries undertake in determining their own position with respect to Entrepreneurship policy. Our study is also an attempt to initiate policy benchmarking¹ in the entrepreneurship area.

The data collection and information gathering phase of the project included a number of elements:

- Interviews with government officials about their entrepreneurship policies and practices;
- An examination of government economic policy documents, SME/entrepreneurship program materials, and any policy or program evaluation results;
- A review of small business and entrepreneurship-oriented web-sites in each selected country;
- A compilation of the available statistics on the SME sector in each country including business start-up, survival and exit rates, the composition of the SME sector by size of firm, distribution of employment, and SME growth rates over time in terms of both the number of firms and job creation;
- A review of the most recent relevant literature on the role of small business and entrepreneurship in economic development, measures of entrepreneurial vitality, and SME/entrepreneurship issues (e.g., barriers to start-up and growth).

Criteria for Selection of Economies

Although we decided to limit our investigation to the experiences of developed economies, we wanted to include countries with different economic and social structures, some European and non-European cases, some small countries and some large ones, some known to currently have either high or low levels of entrepreneurial activity (based on findings from Reynolds et al., 1999b), and some with official entrepreneurship policies already in place. We also wanted to select countries that would demonstrate diversity in their reasons for identifying entrepreneurship as an economic development tool. In the 1980s and early 1990s, a major motive for focusing on entrepreneurship was to address high unemployment problems. If people became self-employed, they would create jobs. However, unemployment problems are much less severe in many countries than they were 7-10 years ago. There may be more diverse reasons for a government's decision to focus on the promotion of entrepreneurship in the year 2000. And finally, an essential criteria was a high level of certainty that some best practice entrepreneurship elements would be found in each of the chosen cases. The final selection included Australia, Canada, Finland, the Republic of Ireland, the Netherlands, Spain, Sweden, Taiwan, ROC, the United Kingdom and the United States.

¹ 'Policy Benchmarking in the Developing Countries and the Economies in Transition: Principles and Practices', UNIDO, January 1998, p. 1.

Approach to the Study

Interviews were conducted with officials and experts in each economy during the April 2000 – March 2001 period. A number of questions were formulated prior to organizing these country visits. These were used as a guideline when conducting interviews with the various officials. Interviews were of an informal nature; the major objective being to collect information on a wide variety of issues. The interview guide is presented in Annex 1. For purposes of analysis, we also reviewed a variety of economic and SME data for each economy. These were obtained from secondary data sources such as the CIA World Fact Book, the European Observatory, the OECD Labour Force Survey and SME Outlook 2000 Reports, the European Commission, and the small business statistics from each country. General country and economic data included population, population growth, GDP, GDP per capita, average annual growth rate in GDP for the 1995-99 period, age distribution of population, labour force participation rate (male and female), unemployment rate, level of employment in the public versus private sector, growth in number of SMEs and SME employment, the SME share of employment, the self-employment rate, the self-employment share of women and the distribution of firms and employment by employment-size category. These data for each case are presented in the Appendix.

This research could be labelled as ‘discovery research’. We were attempting to explore an area of policy development that, until recently, has not received much attention. We do not pretend to provide a complete description of what is happening in each economy because of the difficulty in doing so. A lot of entrepreneurship-oriented activity takes place, a bit at a time, at the local and regional levels and it would be almost impossible to collect, summarize, and present a picture of this in its entirety. Our approach has been to provide an overview of the national scene, discuss the national policy agenda, describe the major program measures and institutions, and outline the evolution from SME policy to entrepreneurship policy.² To analyse the case material we prepared individual reports on each country and then mapped their entrepreneurship policy components. This led to the development of a collective framework of policy measures (Lundström and Stevenson, 2001). From there, we mapped individual approaches to each of the areas identified in the collective framework and prepared collective maps to identify the elements of each one. We further analysed these maps to look for key insights about process. In the end, we have developed a Definition of Entrepreneurship Policy and several analytical tools – Parameters of Entrepreneurship Policy, Collective Framework of Entrepreneurship Policy Measures, Policy Measure Roadmaps, Entrepreneurship Policy Typology, Guideline to the Critical Areas of Entrepreneurship Policy Questioning, Checklist of Signs that Entrepreneurship is Important and Taken Seriously, and Best Practices in Entrepreneurship Policy Measures. Some of these tools are presented in Volume 3 and the others in Volumes 1 and 2. These tools can be used by governments to facilitate their journey to a more strategic and integrated approach to entrepreneurship policy.

² We describe the differences between SME policy and entrepreneurship policy in Stevenson and Lundström, 2001.

Limitations to the Study

Apart from the problems of presenting a complete picture of what is being done in a country because of the diversity of national, regional and local activity and the constantly changing landscape, work of this nature is also impeded by diverse social and economic contexts and data limitations. There are more than a few problems in trying to compare the SME sector across countries. Countries are using different employment thresholds to define what size businesses are considered SMEs (see Chapter 13); they use different employment-size breakdowns to monitor developments in sub-sets of the SME population of enterprises (e.g., some define a micro-enterprise as one with fewer than 10 employees, others with fewer than five); some include the agricultural sector in their statistics, others do not; some include own-account self-employed people and employer-businesses in their data, others only report on employer-firms; some have SME statistical databases that enable them to track the SME sector and individual firms over time (e.g., Canada, the US), while others do not; some have integrated databases that combine self-employment labour force survey data (people) with data on incorporated businesses (firms), a situation that can result in overcounting or undercounting of the actual number of SMEs. On the issue of self-employment counts, the number reported depends on whether the data is based on tax returns (number of people reporting self-employment income in any taxation year) or based on labour force surveys (number of people who report they have worked a number of hours in self-employment activity over a certain time period). For example, the US Small Business Administration reports that there were 23.3 million Americans who filed business tax returns in 1996, 10.5 million people who reported self-employment as their primary occupation and 6.0 million firms registered as employer-firms. This begs the question, how many small businesses are there in the US and based on what? This is characteristic of the problem in most countries.

When examining the business entry and exit rates across economies, similar problems arise. Some governments are using new VAT registrations as a proxy for new business entries which, in many cases, eliminates the smallest of new firms from being counted; others are using new company registrations, which could eliminate a significant number of sole proprietorships from the count; others are able to track entries and exits of people into self-employment, which results in a higher rate than for new VAT entries, new company registrations, or new employer-firms. Some countries have better statistics on business exit than others. Counting the number of business bankruptcies is not a good indicator of the exit rate because the majority of firm exits are voluntary closures. Research indicates that less than 12% of business exits are bankruptcies (depending on the country and the timeframe). Countries with the capacity to track their SME sector longitudinally can present a more accurate picture of the business exit rate (e.g., Canada, the US, Sweden and the Netherlands). A similar problem exists in reporting on survival rates across economies, although the European Observatory is able to make approximations of survival rates from EU country data. And finally, there are, of course, many problems in trying to compare employment trends in firms by size and sector over time. Data quality varies, time series are not consistent, firms are grouped differently within sector classification codes, etcetera. However, given these problems of definition and data comprehensiveness, quality, consistency and timeliness, we have made an attempt in Chapter 13 to compare the ten economies in this study on a number of the above dimensions.

It is also difficult to make comparisons because of the different social and economic contexts in each country. A set of more qualitative factors, historical, cultural, political, ideological, attitudinal and structural, may influence a country's level of entrepreneurial activity, to name a few of the major ones. The number of levels of government, the delineation of constitutional, jurisdictional responsibilities between levels of government, and the relative roles of the public and private sector differ among countries. This can impact on how entrepreneurship measures are developed and implemented. Finally, although we were primarily interested in the features of entrepreneurship policy, we recognize that a number of other areas of economic and social policy impact on this, for example, tax policy, science and technology policy, labour market policy, regulatory policy and regional development policy. Of course, countries may differ considerably in these policy orientations. Apart from noting the linkages individual governments are making between these other areas and the development and implementation of entrepreneurship policy measures, we do not make any detailed comparisons of their specific features across countries.

In addition, governments are not using the same lexicons to describe their focus in this ambiguous field of SME/enterprise/entrepreneurship development. In the United States, the Small Business Administration (SBA) refers to the whole sector as the 'small business sector' (including all firms with fewer than 500 employees) while the Small and Medium Enterprise Administration (SMEA) in Taiwan refers to the whole sector as the 'SME sector', rarely using the term 'small business' by itself; even Taiwan entrepreneurs are referred to as 'SMEs'. Spain and Sweden use 'SME sector' and Ireland and the UK more commonly refer to the 'enterprise sector'. The Australian government most often refers to the 'small business sector', although the government is beginning to make explicit references to entrepreneurship. In terms of policy references, Taiwan, Sweden and Spain refer to their SME policies; in the United States, Australia and Canada it is generally small business or SME policy; in the UK and Ireland it is 'enterprise policy', and most recently, Finland and the Netherlands refer to 'entrepreneurship policy', now only rarely making references to 'SME policy'. However, there is considerable overlap in the meanings attached to these terms and a general lack of precision regarding the differences between them.

Use of the entrepreneurship label appears to be 'in and out of vogue'. The word 'entrepreneur' is somewhat rarely used in policy statements in countries such as Australia, Canada, Taiwan, Ireland, and the UK and routinely used in the United States, Finland and the Netherlands. In some cases, the lack of use of the term is because of negative connotations associated with the image of the entrepreneur (e.g., Australia). In other cases, it is just a matter of practice, perhaps because traditional small business/SME policy focused on the sector and the firms within it, rather than on the individual founders and owners.

The use of language, to some extent, reflects cultural attitudes towards entrepreneurship (either positive or negative) that find their way into distinct policy areas. Where this is most evident is in the area of education. Increasingly, it is recognized that if countries want to become more 'entrepreneurial' (an adjective that most countries do seem to be comfortable with), students should be exposed to entrepreneurship in the school system. However, educators and policymakers debate whether it is enterprise education or entrepreneurship education, often preferring to adopt the 'enterprise education' label and making a distinction between the two. This has important implications for how curriculum is developed, what concepts are introduced, where in the curriculum it is introduced, how teachers are trained, and how impact will be

measured. Perspectives on the use of these terms may also affect policy targets – can governments really move beyond the rhetoric of ‘building a more entrepreneurial economy’ to policy actions oriented to increase the overall supply of ‘entrepreneurs’ in the economy if they are reluctant to use the word? A discussion of some of these definitional issues is pursued further in *Beyond the Rhetoric: Defining Entrepreneurship Policy and its Best Practice Components* (Stevenson and Lundström, 2001).

CONTEXT FOR THE RISING INTEREST IN ENTREPRENEURSHIP

A government’s approach to economic policy will depend on the assumptions it makes about what drives economic growth processes. The dominant approach to development in the latter part of the 20th century was based on the assumption that a small number of large, established firms were the major source of economic growth and the belief that this would produce a ‘trickle-down’ effect on the economy, creating economic opportunity for small and medium-sized firms. Therefore governments focused on efforts to ensure that ‘national firm champions’ were as efficient and productive as possible (Reynolds et al., 1999a). These efforts took the form of special legislation, tax incentives, training and educational programs and protective regulation to reduce costs or competition for established organizations. This model overlooked the role of new firms as a major source of innovation and job creation and ignored the role of the entrepreneur in the economic development process. In fact, Reynolds et al., suggest that proposals to improve the global competitiveness of large, established firms (e.g., subsidizing large firms, reducing internal market openness, and investing in refinements to established production technologies) actually discourage the emergence of new firms and therefore innovation, economic renewal and overall country competitiveness. Audretsch and Thurik (2001b) concur.

A country’s approach will also depend on its views about the role of government in economic growth. Should the State be actively involved in the market place? Should it own and control enterprises? Should it assume a laissez-faire approach and let market forces prevail? What should be maintained in terms of balance between endogenous versus exogenous growth, between social and economic goals, between foreign/domestic and large/small firms, between growing firms and new firms? Should government privatize state-owned enterprises? Should special sectors, entrepreneurial groups or regions of the country be targeted with special efforts? The bottomline is that the whole area is not very precise!

We observed that a number of different economic growth strategies are employed by our case countries. Ireland’s phenomenal growth has been driven by its success in attracting inward direct foreign investment from American and European multinationals and by its strong export performance. Finland has a large public sector with state-owned enterprises and a few large successful private sector firms. NOKIA along with its immediate suppliers has been responsible for over a third of growth in Finland’s GDP.³ While the development of a strong small business sector has been a central element of Taiwan’s economic growth, export growth is also an important factor. The point is that differences in economic growth cannot be simply explained by

³ Reynolds et al., 1999a, p. 55.

a country's level of entrepreneurial activity because of the confounding effects of other economic policies and structures.

A government's approach could change with its level of economic development. The evolution of industrial policy in our case studies suggests that at earlier stages of economic development, the focus was on building up the manufacturing sector. This started with import-substitution policies, moved to export development and possibly, direct foreign investment strategies, and then to a focus on technology development and R&D investment. At some point along the journey they recognised the need to strengthen their indigenous small business base, particularly at the local, regional level. This often led to regional development policies and SME support measures to stimulate employment and growth. And finally, they came to the point of recognising the importance of entrepreneurs in bridging the gap between technology and R&D efforts and the commercialization of innovation. That seems to be where most of the countries in this study are at the present time.

Historically, entrepreneurship was rarely a stated economic policy objective – at best, it was a by-product of the economic policy development process. Two bodies of research are changing government views on what drives economic growth – the body of research that has exposed the major role of new and young firms in job creation (Birch, 1979, 1987; Kirchoff, 1994) and the body of research that has exposed the role of business dynamics in economic renewal, innovation and growth (Acs, 1999; Acs and Audretsch, 1990; Audretsch and Thurik, 2001, 2001a; Wennekers and Thurik, 1999). These researchers point to the role of a high level of business start-up and exit activity (i.e., dynamics or 'turbulence') in pushing innovation in an economy. These two streams of research position the entrepreneur and the creation of new firms as central elements in economic growth, elements ignored in previous economic theories.

Why Entrepreneurship Policy Is Important

Government attention to the SME policy agenda was considerably heightened following the breakthrough research of Birch (1979) in which he discovered that over 80% of new jobs were being generated in small rather than large US firms and that, in fact, new, young firms were the engines of growth in the US economy. Research in other countries confirmed the job creating contribution of small firms. Attention to entrepreneurship policy is currently being heightened by research on the importance of new firms to economic renewal and dynamism and efforts to benchmark entrepreneurial activity levels across nations. These bodies of work point to, and reinforce, the critical contribution of new firms to job creation, innovation, productivity and economic growth in the economy. Evidence exists that new firms and a small number of rapidly growing young firms are responsible for a significant proportion of gross and net new jobs. Between 1997-98, 45% of gross new jobs in Australia were created by new firms (Australian Bureau of Statistics, 1999); between 1994-1998, start-up and high growth companies generated more than 80% of new jobs in the Netherlands (Baljé and Waasdorp, 2001). Each year, in every country, there is evidence of a great deal of turbulence in the SME sector – new firms are being formed and existing firms are expanding, contracting and disappearing. This affects the composition of the existing stock of firms as well as the labour pool. In the past, this volatility was seen as a negative feature; this process of creative destruction is now seen as a positive force

in long-term job creation and economic growth (Acs, Carlsson and Karlsson, 1999; Kirchoff, 1994).

Not only are new firms necessary to replace businesses and jobs, which are lost due to the disappearance and downsizing of existing businesses, but are critical to innovation activity. Baldwin (1999) found that new entrants exhibit a high level of innovation behaviour and argues that new firms contribute to innovation by constantly offering consumers new products and higher levels of service. He suggests that the experimentation associated with entry and exit is the key to a dynamic market-based economy. Audretsch and Thurik (2001a) argue that entrepreneurs, not firms, should be the starting point for theories of innovation. In addition, recent research points to the importance of new entrants to a nation's productivity growth. Baldwin (1995) revealed that between 20%-25% of productivity growth in a manufacturing industry came from entry and exit, concluding that entry and exit provide the turnover that is critical for driving productivity growth in the segment of the firm-size distribution that is dominated by a large number of small firms. In their investigation of whether the entry and exit of firms affects productivity, Bosma and Nieuwenhuijsen (2000) found that turbulence has a positive effect on total factor productivity (at the macro level). Finally, there is a growing body of literature on the links between entrepreneurship (defined in terms of new entries) and economic growth and development (Reynolds et al., 1999, 2000; Wennekers and Thurik, 1999). The task of relating a country's business birth rate to its economic growth rate is a complex one. There are likely to be a number of intervening variables or linkages between conditions and entrepreneurial propensity on the one hand, and between entrepreneurship and economic growth on the other hand. Wennekers and Thurik (1999) and Reynolds et al. (1999, 2000) are conducting important empirical work to explore and examine these relationships across a number of countries.

At this point, one thing is clear - low barriers to the entry and exit of businesses are necessary conditions for the creation of entrepreneurial vitality. If new firm entry is so important to the economy, this suggests that public policies should be more oriented towards removing barriers to business entry (and exit) and stimulating the supply of future entrepreneurs. Wennekers and Thurik (2001) and De (2001) both suggest a role for government in stimulating *cultural* or *social capital* and creating the appropriate institutional framework at the country level to address the supply side of entrepreneurship, i.e., focusing on the number of people who have the motivation, the financial means and the skills to launch a new business. From the findings of their international benchmarking study of entrepreneurial activity, Reynolds et al. (1999) recommend that governments should focus their effort on creating a culture that validates and promotes entrepreneurship throughout society and develops a capacity within the population to recognize and pursue opportunity. They should target policies and programs specifically at the entrepreneurial sector (rather than at aiming to improve the overall national business context), and to increase the overall education level of the population, specifically ensuring that entrepreneurship training is readily accessible to develop the skills and capabilities to start a business. To facilitate a steady stream of new businesses one has to start by influencing the supply of potential entrepreneurs.

Dimensions of an ‘Entrepreneurial Economy’

Audretsch and Thurik (2001b) suggest that the most salient characteristic driving the shift in industry structure as economies move from the ‘managed’ to the ‘entrepreneurial’ economy⁴ is an increase in the relative role of entrepreneurial firms. Audretsch and Thurik (2001a) discuss the problems in trying to operationalise the concept of entrepreneurship in a cross-national context, which they argue is essential if we are to document the shift in the relative importance of entrepreneurship over time. They use proxy measures such as: 1) the relative share of economic activity accounted for by small firms, measured in terms of the value-of-shipments of large versus small firms, 2) the level of self-employment, 3) business ownership rates⁵, and 4) the entry or start-up rate of new firms. Audretsch and Thurik selected these measures in an attempt to test the hypothesis that higher rates of entrepreneurship lead to subsequent economic growth rates and that higher levels of entrepreneurship are linked to lower levels of unemployment. They concluded that changes in the relative role of entrepreneurship affects growth rates within countries and that, on average, a shift towards smallness is associated with a higher growth acceleration. Additionally, their research concludes that shifting economic activity away from large enterprises towards smaller firms results in lower unemployment over time. This appears to be true for increases in the level of self-employment when time spans of 8-12 years are used. Acs, Audretsch, and Evans (1994) also find a positive relationship between an increasing share of the service sector in an economy and rising business ownership.

Given that one of the central goals of public policy is the generation of growth, especially the creation of employment, Audretsch and Thurik (2001a) conclude that different, less traditional macroeconomic instruments should be employed to achieve this, that is, policies that promote entrepreneurship. *‘Entrepreneurship generates growth because it serves as a vehicle for innovation and change, and therefore as a conduit for knowledge spillovers. Thus, in a regime of increased globalisation, where the comparative advantage of OECD countries is shifting towards knowledge-based activity, not only does entrepreneurship play a more important role, but the impact of that entrepreneurship is to generate growth’* (Audretsch and Thurik, 2001a, p. 32).

Audretsch and Thurik (2001a) introduce the concept of ‘optimal industry structure’, a concept suggesting that an economy can have too few or too many business owners. This supports earlier work of Acs, Audretsch and Evans (1994) and the on-going research of the Dutch-based EIM, which is examining the relationship between a country’s level of GDP per capita (i.e., level of economic development) and its level of business ownership (measured by the number of incorporated and unincorporated business owners per 1,000 inhabitants).⁶ Based on the number of country and time period observations they have analysed to date, these groups of researchers have found a U-shaped curve relationship. The lower a country’s GDP per capita, the higher its level of business ownership, or self-employment. According to Carree et al. (1999),

⁴ For a detailed discussion of the ‘managed’ versus ‘entrepreneurial’ economy see Audretsch and Thurik, ‘What’s New about the New Economy? Sources of Growth in the Managed and Entrepreneurial Economies,’ *Industrial and Corporate Change*, 10 (1), 2001, pp. 267-315.

⁵ The business ownership rate is calculated as the number of owners of unincorporated and incorporated businesses as a percentage of the total labour force, excluding agriculture.

⁶ Wennekers, Sander and Roy Thurik, ‘Institutions, Entrepreneurship and Economic Performance,’ in Anders Lundström and Lois Stevenson, *Entrepreneurship Policy for the Future*, Swedish Foundation for Small Business Research, Stockholm, 2001.

the minimum level is calculated to be a business ownership rate of 8.8% of the labour force at a per capita GDP of US\$19,000 (purchase power parity in 1990 prices). At this point, the business ownership rate starts to rise again, this time with GDP per capita. EIM hypothesizes that there may be an optimal, equilibrium level of business ownership, given a country's level of economic development, and suggests there are implications for deviations from this equilibrium. Deviations, above or below the equilibrium point, could either mean underdeveloped opportunities or loss of economies of scale efficiencies. If the level of entrepreneurship is too high given an economy's optimal level, then adding more entrepreneurship would reduce economic growth. If the level is too low, then increasing the number of entrepreneurial firms would enhance economic performance. While more research needs to be done on this idea, Wennekers and Thurik (1999) suggest that an important policy implication is that low barriers to entry and exit of businesses is a necessary condition for the equilibrium seeking mechanisms that are vital for sound economic development.

Reynolds et al. (2000) uses additional measures of the level of entrepreneurial activity. As a proxy for entrepreneurial activity, they employ two measures to compile the Total Entrepreneurial Index (TEA) – the nascent entrepreneur prevalence rate (people in the adult population who are currently taking steps to start a business) and the new firm prevalence rate (the number of new firms less than 42 months old). While their methods are not perfect, this allows them to index countries according to the nascent prevalence rate and the new firm prevalence rate. They expand their model to include measures for R&D, early stage venture capital, angel investment, the overall education level in an economy, prevailing attitudes of the population towards entrepreneurship and the perception of opportunity in the country. They hypothesise that increases in 'entrepreneurial framework conditions' will affect 'entrepreneurial capacities' of the population (skills and motivation) and this, coupled with conducive 'general framework conditions' (e.g., more open competition, flexible labour markets, financial markets), will lead to a higher incidence of business dynamics in the economy (i.e., firm births and deaths) and higher levels of economic growth, measured in terms of GDP and employment.

Eight of the countries in this case study were part of GEM 2000, all except for the Netherlands and Taiwan. There is a great deal of variance in the TEA index, ranging from 12.7 in the US to 1.3 in Ireland. This means that one in eight persons in the US is either in the process of starting a business or has done so within the last 42 months. Total Entrepreneurial Activity decreases with decreases in GDP per capita, Spain being the major exception (Table 1). It is interesting to note that Ireland ranked 21 out of 21 countries in the 2000 Global Entrepreneurship Monitor's TEA Index. Only 1 in 100 adults in Ireland was engaged in a start-up effort compared to 1 in 10 Americans. In trying to explain this low level of entrepreneurial activity, researchers at the University College of Dublin suggested that, in light of Ireland's fairly recent economic boom, there might be a lag time on indigenous entrepreneurship. They also suggested that there are many barriers to entry in the services sector acting to impede start-up activity. This indicates that perhaps the Irish government should in fact focus more on the broader aspects of entrepreneurship development (Fitzsimons et al., 2001).

Table 1: Total Entrepreneurial Activity in Selected Countries

Country	GDP per Capita*	Nascent Start-ups (% of adult	% of adults involved in new, young firms	Total Entrepreneurial
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	population)	(less than 42 months old)	Index (TEA)
United States	\$33,999	9.8	4.7
Australia	\$22,200	8.1	3.3
Canada	\$23,300	6.2	2.2
Netherlands	\$23,100	n.a.	n.a.
United Kingdom	\$21,800	3.1	2.2
Finland	\$21,000	1.9	2.5
Sweden	\$20,700	1.9	2.2
Ireland	\$20,300	1.0	0.3
Spain	\$17,300	3.2	1.4
Taiwan	\$16,100	n.a.	n.a.

* Source: *CIA World Fact Book*, 2000 (purchasing power parity).

BECOMING AN ‘ENTREPRENEURIAL ECONOMY’ – POLICY SHIFTS AND INFLUENCING FACTORS

In terms of policy shifts, Audretsch and Thurik (2001) note a policy shift from regulation, competition policy and public ownership of businesses to waves of deregulation, privatisation and a decreased emphasis on competition policy. The new policy approach focuses on enabling the creation and commercialisation of knowledge, e.g., encouraging R&D, venture capital and new firm start-ups. Other dimensions of the policy shift are an emerging devolution of enabling policies to the state, regional and local level and the indirect promotion of new technology-based firms in technology policies. In the context of this current study, we note more direct efforts to promote entrepreneurship in the technology policies of Ireland and Australia, as examples. Audretsch and Thurik refer to the inclusion of programs to promote entrepreneurship in a regional context as part of the ‘silent policy revolution’ currently underway. As components of strategic entrepreneurship policy, they cite efforts to reduce bottlenecks in the development and financing of new and early-stage firms, encouraging new firm start-ups from university and government research laboratories, creating new stock market listings for high-tech start-ups, funding small firm R&D, and promoting entrepreneurship in technology clusters. (And, in fact, we see evidence of this ‘techno-entrepreneurship policy’ as one of the typologies emerging from our own study of practice in ten economies).

Wennekers and Thurik (2001, p. 80) suggest there is room for at least two types of appropriate policy interventions. The first type is aimed at promoting the creation of technology-based firms in selected industries. The second type is policy aimed at providing newly created firms, regardless of sector classification, with the financial, organizational and technological resources needed to grow in both domestic and foreign markets. This latter policy type promotes variation among new businesses.

Finally, Verheul et al., (2001, pp. 57-59) outline five types of government policy intervention influencing entrepreneurial activity:

Type 1: Demand side of entrepreneurship. Government intervention directly impacts the type, number and accessibility of entrepreneurial opportunities. This includes income policy and policies to stimulate technological developments, or competition policy and establishment legislation.

Type 2: Supply side of entrepreneurship. Government intervention directly impacts the pool or the supply of potential entrepreneurs. This includes immigration policy, regional development policy, fiscal treatment of families with children, including family allowances or child benefits.

Type 3: Availability of resources, knowledge and resources for potential entrepreneurs. Government intervention aims to overcome financing and knowledge gaps by increasing the availability of financial and other informational resources. This includes policies to stimulate the venture capital market, provide direct financial support, provide relevant business information (advice and counselling), offer entrepreneurship education in the schools.

Type 4: Shaping entrepreneurial values in the culture. Government intervention helps shape positive attitudes towards entrepreneurship by introducing entrepreneurship elements in the educational system and paying attention to entrepreneurship in the media. This set of policies encompasses a broader role for government, including the education system, and overlaps with culture.

Type 5: Altering the risk-reward profile of entrepreneurship. Government intervention is directed at the decision-making process of individuals and their occupational choices. Relevant policies are taxation (influencing business earnings, social security arrangements), labour market legislation regarding hiring and firing (increasing the flexibility of the business and the attractiveness of starting or continuing a business), and bankruptcy policy. Type 5 policies are generic macro-economic policies that apply to everyone in the society.

In Lundström and Stevenson (2001) we defined entrepreneurship policy as:

Entrepreneurship policy:

- policy measures taken to stimulate entrepreneurship,
- that are aimed at the pre-start, the start-up and post-start-up phases of the entrepreneurial process,
- designed and delivered to address the areas of Motivation, Opportunity and Skills,
- with the primary objective of encouraging more people to start their own businesses.

Influencing the Level of Entrepreneurial Activity

A number of factors have been identified in the research literature as being associated with the level of entrepreneurial activity in a country or region. Some of these factors such as dominance of the public sector, the existence of strict labour laws, high non-wage labour costs and negative attitudes of the population towards entrepreneurship are believed to have an adverse effect on the level of entrepreneurial activity. Factors such as population growth, density of small businesses, and positive attitudes towards entrepreneurship are believed to have a positive effect on the level of this activity. It is observed that countries with large public sectors relative to the private sector and strict labour laws tend to have lower levels of business ownership; countries with a higher density of business owners per capita and high population growth tend to have higher levels of entrepreneurial activity. Some of the factors are easy to quantify – population growth, immigration rate, density of business owners per capita – and others are more difficult – attitudes of the population towards entrepreneurship.

History, culture, social, political, and economic dimensions influence a government's position vis-à-vis entrepreneurship. In the early 1990s the focus on SME development was often driven by economic adversity, high unemployment, downsizing of large corporations and government deficits. The situation has now stabilized, but there is growing recognition that dynamism, innovation and entrepreneurship are central elements in the transition from a 'managed' economy' to an 'entrepreneurial economy' (Audretsch and Thurik, 2001b). However, it is more difficult for some countries than others to make this transition, particularly 'managed economies' or welfare states (Reynolds, 2000). According to this research a high level of unionization and worker protection, large public sectors, rigid labour laws, high taxation, and high social security costs mitigate against entrepreneurial activity. Some of these act as 'quiet disincentives', which hinder people from seriously considering starting their own business (e.g., they will lose social benefits, pay higher taxes, etc.) while others limit opportunity (e.g., governments providing many services; high tax wedge leaving little room for personal services businesses, etc.). The more rigid labour market policies, complex employment legislation and administrative burden in European countries, compared to non-European countries, have had an adverse effect on Europe's new firm development. These pose actual barriers to business entry and exit by influencing a person's decision about whether to start and/or grow a business and the ease with which they are able to do either (Verheul et al., 2001). A summary of some of the

key factors, according to different researchers, influencing entrepreneurial activity levels is outlined in Table 2.

Table 2: Influencing the level of entrepreneurial activity

Factors	Relationship to entrepreneurial activity levels	Policy Implication
Population growth	Growing population leads to increased demand for products and services increases the base for new business opportunities. (Reynolds et al., 1999; Verheul et al., 2001).	More open immigration policy. In low population growth regions, increase the labour force participation rates.
Growth in per capita GDP	Higher standard of living leads to increased prosperity and opportunity. Higher incomes increase disposable income. (Reynolds et al., 1999).	Efforts to raise productivity, innovation and employment levels; increase entrepreneurship.
Growth in the immigration rate	Immigrants have a high propensity to start businesses because of the 'displacement' factor. Entrepreneurship is an option for labour market integration and social mobility. (Verheul et al., 2001; Storey, 1994).	Immigration policy. Promote entrepreneurship among immigrant groups; translate business information and material into several languages; ethnic support services; immigrant entrepreneurial networks.
Tolerance for income dispersion	Higher income dispersion may provide the accumulated savings required for investment in new firms; high income individuals and households may create demand for goods and services that provide opportunities for new firms. (Reynolds et al., 2000; Verheul et al., 2001).	Taxation policy. Reduce tax wedge. Reduce capital gains tax.
Social and cultural norms that value and support entrepreneurship	Societies that value self-sufficiency individualism and self-reliance are more predisposed to entrepreneurship (Reynolds et al., Verheul et al., 2001).	Create widespread awareness of the benefits of entrepreneurship to the economy and to society.
Positive attitudes towards entrepreneurship	Positive attitudes towards entrepreneurship will lead to positive intent to start a business. (Various).	Actively promote entrepreneurship in the media and through conferences and community events.
Exposure to entrepreneur role-models	Exposure to role models has a demonstration effect on others; recognition of role models serves to increase social legitimacy of entrepreneurship. (Reynolds et al., 2000; Hindle & Rushworth, 2000).	Introduce awards programs for successful entrepreneurs and entrepreneurial behaviours; promote entrepreneurs in the media.

Factors	Relationship to entrepreneurial activity levels	Policy Implication
Density of business owners and SMEs	The more exposure to entrepreneurship, the higher the propensity to become an entrepreneur. This is impacted by growing up in an entrepreneurial family, working for an entrepreneur, knowing other entrepreneurs from personal and business networks. SME employment is an incubating environment. (Various).	Promote local role-models; facilitate networks; encourage apprenticeships in small firms; support the development of more small businesses.
Exposure to entrepreneurship through education	Higher levels of education correlate with higher levels of entrepreneurial activity; students of entrepreneurship courses have a higher propensity to start businesses; education can play a key role in fostering entrepreneurship. (Reynolds et al., 2000; Charney & Libecap, 2000; OECD, forthcoming 2001).	Introduce entrepreneurship at all levels of the education system, across disciplines. Provide lots of opportunities to learn entrepreneurial skills and gain experience.
Ease of business entry	Excessive regulation and high compliance costs in the registration of a new business can act as impediments to entrepreneurship. (OECD, forthcoming 2001; Ministry of Economic Affairs, 2000; Djankov et al., 2000).	Reduce start-up procedures and compliance costs; simplify licensing and permit requirements; one-stop shops; revise Incorporation Laws.
Positive, supportive climate and infrastructure for entrepreneurship at the regional level	Entrepreneurship activity levels are highest in regions that provide lots of support for new and growth-oriented entrepreneurs. Entrepreneurship is an important dimension of regional policies in the 'entrepreneurial economy'. (Birch et al., 1999; OECD, 1997; National Commission on Entrepreneurship, 2001).	Provide business support programs and services oriented to new entrepreneurs; incubators, web-portals, advisory services, one-stop shops, mentoring, networking, etc; identify and encourage regional growth companies.
Government support for entrepreneurship at the margins	Higher levels of entrepreneurial activity can be stimulated within economically disadvantaged and minority groups and economically disadvantaged regions through targeted government efforts. (Zacharakis et al., 2000).	Include entrepreneurship development as part of regional development policy. Target entrepreneurship policy measures at groups of the population under-represented as business owners.
Women's participation in business ownership	Countries with the highest levels of business ownership by women also have higher levels of entrepreneurial activity; increased participation of women as entrepreneurs will contribute to economic growth. (Reynolds et al., 2000; APEC, 1999; OECD, forthcoming 2001).	Encourage women to become entrepreneurs; role models, loan programs, enterprise centers, mentoring, networks, exposure and training.

Factors	Relationship to entrepreneurial activity levels	Policy Implication
Access to capital needed to start and grow new firms	The inability to access financing is a barrier to the new firm creation process. (Reynolds et al., 2000.).	Enhance the possibilities for new and growing firms to raise their own capital and external capital. Development of micro-loan funds, loan guarantee programs, venture capital funds and angel investment networks. Tax relief for investments in new and early-stage firms. Reduction of the asymmetry of information through education programs, financing databases and matchmaking services.
Flexible labour markets and moderate non-wage labour costs	Flexible labour laws facilitate the flow into and out of self-employment. Stringent labour laws make it difficult for new firms to hire employees; high non-wage labour costs prohibit resource-poor start-ups from hiring and stunt their growth. (Davidsson and Henrekson, 2000; Reynolds et al., 2000).	Revision of labour laws and employee contracting requirements; reduction of non-wage labour costs.
Well-functioning, decentralized market economy	Open markets offer potential for new business entries. (Davidsson & Henrekson, 2000; Fitzsimons et al., 2001).	Deregulation of industry sectors; privatisation of government enterprises; review of Competition Policy.
Public sector procurement	As a major buyer of products and services, government is a possible lucrative market for new firms. (Davidsson & Henrekson, 2000).	Procurement policies that make it possible for new and small firms to compete for government contracts.
Entrepreneurship advocates	Most government departments are not well versed in the needs of entrepreneurs and small firms. This acts as a barrier to good governance in the interests of the small business sector. Entrepreneurship policy development requires government 'champion'. (SBA Office of Advocacy; UK Small Business Service; US National Commission on Entrepreneurship; Fitzsimons et al., 2001).	Appoint advocate for entrepreneurship within government to develop better understanding of their needs within other government departments, regulators, etc. Establish a private-sector entrepreneurship advocacy organization.
Size of the public service	An oversized public service distorts competition and inhibits the creation of new firms. (Arenius & Autio, 2001).	Privatize government-owned enterprise; reduce unfair competition between the public and private sectors.

Factors	Relationship to entrepreneurial activity levels	Policy Implication
Fear and 'stigma' of failure	A person's perception of the costs of business failure can act as a disincentive to entrepreneurship. (Vesalainen & Pihkala, 2000; The Ministry of Economic Affairs, 2000; Small Business Service, 2000).	Develop 'rescue' culture. Revise Bankruptcy rules. Provide counselling and advisory services to troubled firms.
Ease of business exit	Stringent bankruptcy laws discourage risk-taking; failed entrepreneurs may be prohibited from starting another business. (Micronomics, 1998; OECD, forthcoming 2001).	Review of Bankruptcy rules and laws (insolvency procedures, discharge periods, restrictions on firms); reduce restrictions on bankrupt entrepreneurs to restart after failure.
Social security	High levels of social security can act as a disincentive to the decision to become an entrepreneur. (Benchmarking the Netherlands 2000; Verheul et al., 2001).	Reduce the risk-reward ratio associated with paid versus self-employment; provide incentives for under -and unemployed individuals to start businesses.
Inequities in the tax treatment of self-employment income versus paid employment income	Higher tax rates on self-employment income act as a disincentive in a person's decision to leave paid employment to start a business. (Davidsson & Henrekson, 2000; Benchmarking the Netherlands 2000).	Tax reform; tax relief for new starters; reduce corporate tax rates on first tier of business profits; offer start-up tax allowances and exemptions.
Inequities in the tax treatment of the income of unincorporated versus limited liability companies	Taxation of business income at the higher personal tax rate reduces valuable cash flow for reinvestment in the growth of the business. (Benchmarking the Netherlands 2000; NFIB, 2000; Arenius & Autio, 2001).	Tax reform. Revisions to the taxation of sole proprietorships.
Favourable capital gains tax	A high capital gains tax poses barriers to investors in high-growth firms and acts as a barrier to the continuance of family enterprises. (Davidsson & Henrekson, 2000; Ministry of Economic Affairs, 2000; NFIB, 2000).	Reduction of Capital Gains Tax and inheritance and estate taxes.

Limited research has been done to measure the impacts of the factors in Table 2 on a country's level of entrepreneurial activity. There are likely a set of complex interactions and interdependencies between several of these factors. We discuss this further in Lundström and Stevenson (2001). In the meantime, suffice it to say that there is an obvious need for further research in a number of areas if we are to more fully understand how to stimulate entrepreneurship development in culture-bound and divergent contextual environments.

Annex 1: Interview Guideline

A: Definitions and Data

- What is your definition of a small business? A SME?
- What is your definition of entrepreneurship or entrepreneur?
- Do you note a difference between SME development and entrepreneurship development?
- Do you keep statistics on the business start-up rate and self-employment rate, on an annual basis? What is the annual start-up rate, exit rate, % of declining firms and expanding firms; resulting job creation from this activity in the private sector; job creation from new start-ups, solo entrepreneurs, growth companies, etc.

B: Objectives, Policies, Programs and Structure

- How has the focus of SME policies in your country or region changed over the past 20 years and why?
- What is your economic policy development process? Is there a formal process in place? Informal process? Ad hoc process?
- What is the structure in your government for identifying SME-oriented policies and programs? Is there a separate ministry? Do several departments have responsibility? How is coordination managed?
- Do you have specific policies and programs in place to encourage people to become entrepreneurs (or self-employed)? What are the major policy measures? What are the major policy objectives? What are the major program elements? What is the primary structure for delivering these policies and programs?
- How do you measure the impact of your policies, programs and approaches? What are the performance indicators, which you feel, are most important? How do you collect performance data? What is your reporting mechanism?
- What in your opinion would be the ideal structure for developing and delivering the SME and Entrepreneurship Agenda in a country or region? What would the key success factors be, based on your experience and knowledge?

C: Entrepreneurship Focus

- How important is the creation of new businesses to your economy?
- How much government policy and program focus is on strengthening existing SMEs as opposed to encouraging people to become entrepreneurs and to start new businesses?
- What, according to you, are the major economic benefits and spin-offs to a high level of entrepreneurial activity in your economy (i.e., to a high business start-up rate)? What are the major drawbacks (if any)?
- Does your government have a White Paper that deals with ‘creating an entrepreneurial society’?
- What are (what should be) the major elements of a policy orientation towards the development of an entrepreneurial society?
- What specific support do you offer to help create new entrepreneurs? (Entrepreneurship training? Entrepreneurship education? Start-up financing? Advisory services? Incubators? Information?)
- Do you offer any targeted programs to encourage entrepreneurship among particular sub-parts of the population (ie women, youth, aboriginal, the unemployed, etc.)? What type? How? Why? With what impact?
- What kinds of entrepreneurship promotion activity take place in your country or region?
- Where do you feel your country or region is strongest in terms of addressing these policy or program areas?
- Where do you feel your region or country needs to place more emphasis in the future to stimulate more entrepreneurial activity?

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Patterns and Trends in Entrepreneurship/SME Policy and Practice in Ten Economies. L. Stevenson. A Lundström. This shift is from the managed economy to the entrepreneurial economy. While politicians and policymakers have made a plea for guidance in the era of entrepreneurship, scholars have been slow to respond. This paper attempts to make a first step identifying and articulating these differences. We do this by contrasting the most fundamental elements of the newly emerging entrepreneurial economy with those of the managed economy. We identify 14 trade-offs confronting these two polar worlds. The common thread throughout these trade-offs is the increased role of new and small enterprises in the entr Patterns and trends in entrepreneurship/SME policy and practice in ten economies: (Vol. 3). Entrepreneurship policy for the futures series. Växjö: Elanders Gotab. Google Scholar. Markin, E., Swab, R. G., & Marshall, D. R. (2017). Contribution on entrepreneurship in economic growth. *Interdisciplinary Journal of Contemporary Research in Business*, 4(3), 272–294. Google Scholar. Nijkamp, P. (2000). Entrepreneurship in a modern network economy. *Regional Studies*, 37(4), 395–405. <https://doi.org/10.1080/0034340032000074424>. CrossRef Google Scholar. Peters, S. (2003).