This project was initiated and carried out by the Swedish Foundation for Small Business Research and supported by the Swedish Ministry of Industry, Employment and Communications, NUTEK, and Örebro University in Sweden.
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ACKNOWLEDGEMENTS

The authors greatly acknowledge the contribution of a number of individuals and organizations to the completion of this research project. The concept for the study evolved from meetings of the International Reference Council established by the Swedish Foundation for Small Business Research as a think-tank on small business and entrepreneurship policy issues. The insights and observations of members of that Reference Council were extremely valuable and most appreciated. Collecting data and material on each of the ten economies selected for the study required the co-operation of government officials, researchers, and business association representatives. We are particularly grateful to Kai Yang who organized the visit to Taiwan, to Ken O’Neill who organized the visit to the Republic of Ireland and Northern Ireland, to Sander Wennekers who organized the visit to the Netherlands, and to the officials and experts who contributed their time to answer our questions and share their knowledge and information. We would also like to acknowledge the contribution of members of the NUTEK team who acted as an internal Steering Committee for the project, prepared the source document for the Sweden country report and assisted in the preparation of the Ireland country report; special thanks to Monica Ström, Anna Hallgren, Hans Ahrens, Henrik Levin, Sten Axelsson, and Anders Weström. Thanks to Frederik Meuller who assisted with data collection and statistical analysis for the US, UK, Spain and Canada reports and to Sacha Stevenson who compiled both web-based and library research material as part of the review of the literature. The countless hours they spent on government websites and in libraries did not go unnoticed!

Next we acknowledge the contribution of several people who reviewed the draft reports for their region and provided useful and insightful comment, specifically Colin Dunn, Susan Rushworth, Ross Upson and Vince Zilinskas (Australia); Marc-André Chiasson, Nancy Graham, Paul LeBlanc, Rein Peterson, Don Rumball, Neil Wolff (Canada); Kimmo Hyrsky, Annukka Lehtonen, and Vesa Routamaa (Finland); Colm O’Gorman (Republic of Ireland); Sander Baljé, Heleen Stigter, Robin VanIJPeren, Wim Verhoeven, Pieter Waasdorp and Sander Wennekers (the Netherlands); Inigo Isusi and Jorge Orozco (Spain); Hakan Boter, Sune Halvarsson, Maria Spetç and Monica Ström (Sweden); Chuen Chang and Steven Wu (Taiwan); Brian Dunsby and Claire Elliot (the United Kingdom); and Zoltan Acs, William ‘Denny’ Dennis Jr. and George Solomon (United States). And finally, our gratitude to Irmeli Rosén, IR skrivbyrå, who worked diligently and professionally through the hot Swedish months of June and July to prepare the final desktop version of the manuscript.

This project would not have been possible without the support of Leif Sanner, Dean of the Department of Economics, Statistics and Administration of Örebro University, the Board of Directors of the Swedish Foundation for Small Business Research chaired by Karin Hallerby, and Gunvor Engström of the Swedish Ministry of Industry, Employment and Communications.
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 benchmarking\(^1\) 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.

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 Questionning, 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. 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

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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; Kirchhoff, 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.

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 Thuirk (2001b) suggest that the most salient characteristic driving the shift in industry structure as economies move from the ‘managed’ to the ‘entrepreneurial’ economy 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 rates, 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). 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),

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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.

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 than 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>
<thead>
<tr>
<th>Table 1: Total Entrepreneurial Activity in Selected Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Country</strong></td>
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</tbody>
</table>

20
### 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.

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<table>
<thead>
<tr>
<th>Country</th>
<th>Population (US$)</th>
<th>(less than 42 months old)</th>
<th>Index (TEA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>$33,999</td>
<td>9.8</td>
<td>4.7</td>
</tr>
<tr>
<td>Australia</td>
<td>$22,200</td>
<td>8.1</td>
<td>3.3</td>
</tr>
<tr>
<td>Canada</td>
<td>$23,300</td>
<td>6.2</td>
<td>2.2</td>
</tr>
<tr>
<td>Netherlands</td>
<td>$23,100</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>$21,800</td>
<td>3.1</td>
<td>2.2</td>
</tr>
<tr>
<td>Finland</td>
<td>$21,000</td>
<td>1.9</td>
<td>2.5</td>
</tr>
<tr>
<td>Sweden</td>
<td>$20,700</td>
<td>1.9</td>
<td>2.2</td>
</tr>
<tr>
<td>Ireland</td>
<td>$20,300</td>
<td>1.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Spain</td>
<td>$17,300</td>
<td>3.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Taiwan</td>
<td>$16,100</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Factors</th>
<th>Relationship to entrepreneurial activity levels</th>
<th>Policy Implication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population growth</td>
<td>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).</td>
<td>More open immigration policy. In low population growth regions, increase the labour force participation rates.</td>
</tr>
<tr>
<td>Growth in per capita GDP</td>
<td>Higher standard of living leads to increased prosperity and opportunity. Higher incomes increase disposable income. (Reynolds et al., 1999).</td>
<td>Efforts to raise productivity, innovation and employment levels; increase entrepreneurship.</td>
</tr>
<tr>
<td>Growth in the immigration rate</td>
<td>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).</td>
<td>Immigration policy. Promote entrepreneurship among immigrant groups; translate business information and material into several languages; ethnic support services; immigrant entrepreneurial networks.</td>
</tr>
<tr>
<td>Tolerance for income dispersion</td>
<td>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).</td>
<td>Taxation policy. Reduce tax wedge. Reduce capital gains tax.</td>
</tr>
<tr>
<td>Social and cultural norms that value and support entrepreneurship</td>
<td>Societies that value self-sufficiency individualism and self-reliance are more predisposed to entrepreneurship (Reynolds et al., Verheul et al., 2001).</td>
<td>Create widespread awareness of the benefits of entrepreneurship to the economy and to society.</td>
</tr>
<tr>
<td>Positive attitudes towards entrepreneurship</td>
<td>Positive attitudes towards entrepreneurship will lead to positive intent to start a business. (Various).</td>
<td>Actively promote entrepreneurship in the media and through conferences and community events.</td>
</tr>
<tr>
<td>Exposure to entrepreneur role-models</td>
<td>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 &amp; Rushworth, 2000).</td>
<td>Introduce awards programs for successful entrepreneurs and entrepreneurial behaviours; promote entrepreneurs in the media.</td>
</tr>
<tr>
<td>Factors</td>
<td>Relationship to entrepreneurial activity levels</td>
<td>Policy Implication</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Density of business owners and SMEs</td>
<td>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).</td>
<td>Promote local role-models; facilitate networks; encourage apprenticeships in small firms; support the development of more small businesses.</td>
</tr>
<tr>
<td>Exposure to entrepreneurship through education</td>
<td>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 &amp; Libecap, 2000; OECD, forthcoming 2001).</td>
<td>Introduce entrepreneurship at all levels of the education system, across disciplines. Provide lots of opportunities to learn entrepreneurial skills and gain experience.</td>
</tr>
<tr>
<td>Ease of business entry</td>
<td>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).</td>
<td>Reduce start-up procedures and compliance costs; simplify licensing and permit requirements; one-stop shops; revise Incorporation Laws.</td>
</tr>
<tr>
<td>Positive, supportive climate and infrastructure for entrepreneurship at the regional level</td>
<td>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).</td>
<td>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.</td>
</tr>
<tr>
<td>Government support for entrepreneurship at the margins</td>
<td>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).</td>
<td>Include entrepreneurship development as part of regional development policy. Target entrepreneurship policy measures at groups of the population under-represented as business owners.</td>
</tr>
<tr>
<td>Women’s participation in business ownership</td>
<td>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).</td>
<td>Encourage women to become entrepreneurs; role models, loan programs, enterprise centers, mentoring, networks, exposure and training.</td>
</tr>
<tr>
<td>Factors</td>
<td>Relationship to entrepreneurial activity levels</td>
<td>Policy Implication</td>
</tr>
<tr>
<td>---------------------------------------------</td>
<td>---------------------------------------------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Access to capital needed to start and grow new firms</td>
<td>The inability to access financing is a barrier to the new firm creation process. (Reynolds et al., 2000.).</td>
<td>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.</td>
</tr>
<tr>
<td>Flexible labour markets and moderate non-wage labour costs</td>
<td>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).</td>
<td>Revision of labour laws and employeee contracting requirements; reduction of non-wage labour costs.</td>
</tr>
<tr>
<td>Well-functioning, decentralized market economy</td>
<td>Open markets offer potential for new business entries. (Davidsson &amp; Henrekson, 2000; Fitzsimons et al., 2001).</td>
<td>Deregulation of industry sectors; privatisation of government enterprises; review of Competition Policy.</td>
</tr>
<tr>
<td>Public sector procurement</td>
<td>As a major buyer of products and services, government is a possible lucrative market for new firms. (Davidsson &amp; Henrekson, 2000).</td>
<td>Procurement policies that make it possible for new and small firms to compete for government contracts.</td>
</tr>
<tr>
<td>Entrepreneurship advocates</td>
<td>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).</td>
<td>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.</td>
</tr>
<tr>
<td>Size of the public service</td>
<td>An oversized public service distorts competition and inhibits the creation of new firms. (Arenius &amp; Autio, 2001).</td>
<td>Privatize government-owned enterprise; reduce unfair competition between the public and private sectors.</td>
</tr>
<tr>
<td>Factors</td>
<td>Relationship to entrepreneurial activity levels</td>
<td>Policy Implication</td>
</tr>
<tr>
<td>-------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Ease of business exit</td>
<td>Stringent bankruptcy laws discourage risk-taking; failed entrepreneurs may be prohibited from starting another business. (Micronomics, 1998; OECD, forthcoming 2001).</td>
<td>Review of Bankruptcy rules and laws (insolvency procedures, discharge periods, restrictions on firms); reduce restrictions on bankrupt entrepreneurs to restart after failure.</td>
</tr>
<tr>
<td>Social security</td>
<td>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).</td>
<td>Reduce the risk-reward ratio associated with paid versus self-employment; provide incentives for under- and unemployed individuals to start businesses.</td>
</tr>
<tr>
<td>Inequities in the tax treatment of self-employment income versus paid employment income</td>
<td>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 &amp; Henrekson, 2000; Benchmarking the Netherlands 2000).</td>
<td>Tax reform; tax relief for new starters; reduce corporate tax rates on first tier of business profits; offer start-up tax allowances and exemptions.</td>
</tr>
<tr>
<td>Inequities in the tax treatment of the income of unincorporated versus limited liability companies</td>
<td>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 &amp; Autio, 2001).</td>
<td>Tax reform. Revisions to the taxation of sole proprietorships.</td>
</tr>
<tr>
<td>Favourable capital gains tax</td>
<td>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 &amp; Henrekson, 2000; Ministry of Economic Affairs, 2000; NFIB, 2000).</td>
<td>Reduction of Capital Gains Tax and inheritance and estate taxes.</td>
</tr>
</tbody>
</table>

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?
- 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?
REFERENCES


CHAPTER TWO

PATTERNS AND TRENDS IN ENTREPRENEURSHIP POLICY, MEASURES AND INITIATIVES

Chapter Two presents a general picture of what governments are actually doing to stimulate and encourage entrepreneurship, based on more detailed case descriptions in Chapters 3-12. It highlights policy directions and recent trends in a number of areas of entrepreneurship support. These include: 1) reducing barriers to entry, 2) promoting an entrepreneurship culture, 3) entrepreneurship education, 4) start-up business support measures, 5) access to seed and start-up financing, and 6) identification of target groups. It discusses policymaking structures and the performance indicators being developed to measure the impact of E-policies and measures. It also presents our typology of entrepreneurship policies and a set of guidelines outlining the critical areas of questioning.

The Evolution From SME Policy To Entrepreneurship Policy

In exploring the path different governments are taking from SME policy to entrepreneurship policy, we made three observations. Some governments have focused on SME policy for a longer period of time than others, policy development has progressed through a series of waves, and the move to entrepreneurship policy is very recent.

SME Policy

The first governments to implement measures in support of the SME sector were the US, Taiwan, Canada and the Netherlands. The US passed the Small Business Act in 1953 and set up the Small Business Administration (SBA) to address imperfections in financial markets that erected barriers to SME growth. The Taiwanese government formulated its initial SME policy to address the financing needs of SMEs in 1954. It set up a SME Guidance Office in 1966. The Dutch government published its first White Paper on SMEs in 1954. This document recommended several measures in support of the SME sector. From then until 1982, the White Paper was updated three times. The Canadian government passed the Small Business Loans Act in 1961 to provide loan guarantees to small business owners who could not meet the collateral security requirements of banks. Canadian and Taiwanese governments both established special small business banks in the mid-1970s. It was not until 1982 that Canada established an
Entrepreneurship and Small Business Office.

It was in 1971 that Australia released the Wiltshire Report on small business and the UK released the Bolton Task Force Report on Small Business. In response, Australia created a National Small Business Bureau in Canberra in 1973. Throughout the 1970s and 80s Australian states set up Small Business Development Corporations to provide advisory and counselling services to small businesses. By the late 1970s, the UK had established a Small Firms Service within the Department of Industry and set up the network of Local Enterprise Agencies. By the end of the 1970s, the Swedish government had created a number of organizations to foster regional development. There has been a SME Unit at the ministry level since the beginning of the 80s, but proactive efforts to stimulate new enterprise creation did not begin until the early 1990s.

The 1982 Telesis Report called specific attention to the SME sector in Ireland. The government responded with a range of programs to improve the competitiveness of indigenous firms, including a Small Industry Programme. Although the Finnish government has been sensitive to the needs of the SME sector since the 1970s, its first SME Policy Programme was introduced in 1993. This was in response to recommendations outlined by the Advisory Committee for Small and Medium-Sized Enterprise, a committee set up by the Minister of Trade and Industry to provide advice on ways to develop the SME sector. The Spanish National Policy on SMEs came into being in 1996, after the Institute for Industrial SMEs was transformed into the more broadly mandated Directorate-General for Small and Medium-Sized Enterprises (DG-PYME).

Along the SME policy journey, governments have cumulatively moved from addressing SME financing needs to improving access to advisory, counselling, and management development services to implementing measures to enhance SME productivity to reducing administrative redtape and regulatory compliance costs. Reducing administrative and regulatory burdens on small firms started in the US in 1980 with the passing of the Regulatory Flexibility Act. The UK government set up a Deregulation Unit in 1985 and established a Deregulation Task Force in 1994. The Swedish government set up a deregulation group in the 1980s, the Norm Group, to begin working on administrative burden. Canada passed the Regulatory Efficiency Act in 1995 to cut redtape, build flexibility into SME compliance with government regulations and improve the management of the regulatory system for SMEs. In Australia, a Small Business Deregulation Task Force was set up in 1996. The regulatory review process in the Netherlands, Spain, Finland, Sweden and Ireland also began in the 1990s.

The rationale for public intervention at the SME sector level has been to address market failures due to the disadvantages small firms face in the marketplace, to level the playing field in terms of administrative burden and regulatory compliance and to strengthen their performance and competitiveness (e.g. enhance R&D, management and workforce competency, technology development and internationalisation, etc.). The basic features of SME policy across countries are very similar.

The Path to Entrepreneurship Policy

At the base of entrepreneurship policies are efforts to increase the supply of entrepreneurs in the
economy and thus the number of new firm entries. The first countries in this study to explore entrepreneurship policies were Canada, the Netherlands and the UK. The Canadian government was the first to adopt a National Policy on Entrepreneurship. The Minister of State for Small Business, at the time, set up a National Task Force on Small Business and Entrepreneurship to provide advice on the formulation of an entrepreneurship policy in 1988. The National Policy on Entrepreneurship was launched in 1989 and was funded for a five-year period. Its goals were to promote entrepreneurship as an option for all Canadians, to encourage new business formation and to remove obstacles to growth. The Entrepreneurship Awareness Program was disbanded after a federal change in government in 1993. The first wave of entrepreneurship policy and program interest in the Netherlands started in 1987 with the release of the White Paper, Create More Room for Entrepreneurs. Following this, the Ministry of Economic Affairs set up a SME Division and started implementing recommendations to encourage people to start businesses, to stimulate the growth of existing SMEs, to reduce the impacts of competition on existing SMEs and to prevent unfair competition to new entries. White Papers in 1995 (Jobs Through Enterprise) and 1999 (The Entrepreneurial Society) underscored the importance of new business entries for structural employment growth and economic growth and renewal. The Dutch government’s response led to policies to reduce start-up barriers, to reform Bankruptcy Laws, to improve the quality of entrepreneurship through education and to improve financing for technostarters and new growth firms. The UK government, under the leadership of Margaret Thatcher, launched an Enterprise Initiative in 1987. Over the next six years, this included an Enterprise Allowance Scheme, a Business Start-up Scheme, and several other Enterprise Initiatives to increase employment through new enterprise formation. The efforts of these governments were designed to encourage more people to consider entrepreneurship as an option and to start new firms. In the case of Canada and the UK, the federal governments abandoned the general entrepreneurship focus in favour of a SME growth policy in the mid 1990s. They were influenced in their decisions by research findings that only about 4% of SMEs grew rapidly and that, in this process, they contributed disproportionately to job creation (Birch 1987; Storey, 1994). In the name of being more efficient in their policy efforts, the UK initiated the Business Links Programme to provide tailored consultancy to growth-oriented SMEs and Canada embarked on a number of initiatives to promote the growth-orientation of existing SMEs, particularly in the technology-oriented sectors. Australia was the next country to focus on ‘enterprise’ with the release of the 1995 Karpin Report, Enterprising Nation. This comprehensive report made recommendations regarding enterprise education in the schools, small business management and leadership training and the promotion of an enterprise culture.

The remainder of the countries in this study began focusing on enterprise creation and entrepreneurship development objectives a bit later. Spain adopted measures to foster entrepreneurship and favour the creation of new small businesses in 1998. Measures included: an entrepreneurship awards program, a promotion plan for the self-employed, measures to foster an entrepreneurial spirit in compulsory secondary education and vocational training, the establishment of a mutual guarantee system, incentives to increase the amount of seed capital and start-up capital investments and the setting up of one-stop shops to reduce the formalities associated with starting a business. Finland’s two-year Entrepreneurship Project was approved by all major ministries and launched under the auspices of the Ministry of Trade and Industry in 2000. Its overall objectives are to promote entrepreneurship and the growth and competitiveness
of enterprises. This project includes measures to reduce barriers to business entry, promote entrepreneurship as a career option, integrate entrepreneurship education in the school system, provide start-up financing and advisory support, reform the taxation and social security systems, and otherwise assist entrepreneurs through the various life-cycle stages of the entrepreneurial process. In 2000 the Swedish government included ‘good entrepreneurship’ as one of the four pillars of its new industrial policy.

Taiwan has had a long history of SME sector support including measures to reward entrepreneurial behaviour, promote entrepreneurship among young people, provide small business financing (i.e., loan guarantee program; venture capital funds) and advice and counselling services. In 1996, it launched a National Business Incubator program to provide space for new and young firms on university campuses and in Science and Technology Parks. The US does not have an entrepreneurship policy per se, but the SBA has as an objective to increase the number of new businesses, particularly among minority groups. Major efforts are currently underway by the National Commission on Entrepreneurship (NCOE)¹ to lobby for an entrepreneurship policy focused on innovative, growth firms. This is a private sector led initiative, one of the only such entrepreneurship advocacy organizations evident in any of our ten cases. NCOE is lobbying for more promotion of innovative entrepreneurship, more seed and venture capital for start-ups, more favourable tax treatment of employee stock options and better intellectual property protection.

The most advanced in entrepreneurship policy at present are the Netherlands, Finland and the UK. The UKs Think Small First (2000) is a comprehensive, national policy approach that embraces entrepreneurship culture, the development of nascent entrepreneurs, facilitation of the start-up process and improvement of the performance and productivity of existing SMEs. Promotional campaigns, entrepreneurship education, mentoring programs, start-up financing and reduction of barriers to entry are all included in the policy framework. These three governments have set quantifiable objectives for increasing the number of new firms or the business start-up rate.

Several governments have embarked on an ‘innovation, competitiveness’ agenda to encourage the development of R&D, technology development and innovative, growth-oriented firms. The Dutch government is targeting technostarters, the Irish government is encouraging the commercialization of publicly funded and university R&D initiatives (Enterprise Ireland, 2001) and Australia is backing innovative, technology-oriented enterprises (Ministry for Industry, Science and Resources, 2001). Each of these governments, to varying degrees, has linked the innovation agenda to entrepreneurship.

A Change in Policy Mix

The policy mix governments have at their disposal to develop the SME sector consists of: 1) ensuring an efficient functioning of markets and institutions through the adjustment of legislation and regulations, 2) the provision of information and advice, 3) the provision of debt and equity financing, and 4) the provision of tax incentives. In one form or another, all governments have a national network to provide advisory and counselling services to new and

¹ www.ncoe.org.
existing SMEs. These are complemented by business information websites, one-stop shops and other private and public-sector contact points. As a government moves towards entrepreneurship policy, the mix broadens to encompass: 5) the elimination of barriers to entry, 6) promotion of entrepreneurship, 7) entrepreneurship education, and 8) the creation of new structures, products and services to meet the needs of new starters and under-represented target groups. In other words, this move towards entrepreneurship policy is associated with policy objectives to promote an entrepreneurial culture, reduce barriers to business entry and exit, integrate entrepreneurship education in schools, increase access to start-up and seed financing, improve access to start-up support, and increase business start-up rates. These are often applied to specific target groups.

In forty percent of our cases, entrepreneurship or enterprise was specifically mentioned as an industrial policy priority (Finland, the Netherlands, Sweden and the United Kingdom). In all ten cases, entrepreneurship was referenced either as part of their SME policy or separate entrepreneurship policy statements. It should be noted that it is often difficult to piece together a government’s entrepreneurship policy position because statements about this could be dispersed in descriptions of the more traditional SME policy or presented as enterprise or innovation policy. Often, the lines between SME policy and E-Policy are blurred, as we have already mentioned, but that is the state of affairs at present. Formal entrepreneurship policies are somewhat rare, as noted above. In Table 1 we summarize the main points of each government’s policy under the headings of SME policy, innovation/enterprise policy and entrepreneurship policy. We use these three policy headings to match, more or less, those being used by individual governments. For example, the US and Taiwan produce SME policies, while Ireland has policies for small business and enterprise and innovation. Governments in the Netherlands and Finland have adopted the ‘entrepreneurship policy’ lexicon and only occasionally make references to SME policy. One will note a considerable degree of overlap in policy measures across ‘headings’; hence, Table 1 may cause some confusion for the reader. More detail is provided in individual case reports.
### Table 1: Summary of main points of country E-Policy

<table>
<thead>
<tr>
<th>Case</th>
<th>Small business/SME policy</th>
<th>Innovation/enterprise policy</th>
<th>Entrepreneurship policy</th>
<th>Noted target groups</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Australia</strong></td>
<td>Reduce administrative burden; enterprise education; improve business management skills; incubators.</td>
<td>Stimulate R&amp;D and innovation; seed and venture capital; develop information technology and high-growth sectors.</td>
<td><em>Incorporated in SME and innovation policy statements – SME-extension approach. See next section.</em></td>
<td>University researchers, young entrepreneurs, aboriginals, the unemployed.</td>
</tr>
<tr>
<td><strong>Canada</strong></td>
<td>Access to financing, angel investment, information; SME exports; management skills; micro-enterprise support.</td>
<td>Reduce innovation gap (promote innovation culture, revitalise knowledge infrastructure, commercialize research results, attract foreign investment); productivity growth; increase R&amp;D expenditure; revise intellectual property and patents law; review Competition Act.</td>
<td><em>Incorporated in SME and innovation policy statements; also found in regional agency policies – SME-extension approach. See next section.</em></td>
<td>Young entrepreneurs, women, Aboriginals, the unemployed.</td>
</tr>
<tr>
<td><strong>Finland</strong></td>
<td><em>(The government no longer refers to SME policies – only Entrepreneurship Policies.)</em></td>
<td>R&amp;D support; venture capital; network of Knowledge Centers.</td>
<td>Stimulate favourable attitudes to entrepreneurship; reduce barriers to entry; integrate entrepreneurship education in schools, improve access to entrepreneurial skills and start-up financing; assist new entrepreneurs and existing firms through the growth process; fiscal and taxation policies; one-stop shops.</td>
<td>Women, immigrants, the unemployed.</td>
</tr>
<tr>
<td><strong>Ireland</strong></td>
<td>Stimulate the development of micro-enterprises at the local level with a focus on manufacturing and ITS; promote enterprise culture; improve access to small business financing; SME productivity performance in manufacturing and ITS.</td>
<td>Reduce barriers to business entry (regulations, competition policy); increase commercialization of R&amp;D (Campus programs: incubators, venture capital, Enterprise Platform, R&amp;D funds); foster high-growth potential start-ups; FDI.</td>
<td><em>Incorporated as part of small business and enterprise/innovation policies – ‘niche’ entrepreneurship approach. See next section.</em></td>
<td>Academics, graduates, technology entrepreneurs, Irish overseas, university alumni (immigration policy).</td>
</tr>
<tr>
<td>Case</td>
<td>Small business/SME policy</td>
<td>Innovation/enterprise policy</td>
<td>Entrepreneurship policy</td>
<td>Noted target groups</td>
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<tr>
<td>Netherlands</td>
<td>Reduce administrative burden; promote competition; loan guarantee scheme. <em>(The Dutch government has adopted a ‘holistic’ entrepreneurship policy approach so major policy statements and measures are under the lexicon of Entrepreneurship Policy.)</em></td>
<td>Regional Innovation Centres</td>
<td>Promote entrepreneurship culture; reduce barriers to entry (competition and bankruptcy rules); imbed entrepreneurship education in schools; start-up financing and venture capital; new exporters; increase the number of technostarters and high-growth firms; taxation policy (capital gains, treatment of self-employment income); one-stop shops; networks for fast growth firms.</td>
<td>Technostarters, new graduates, ethnic minorities, youth.</td>
</tr>
<tr>
<td>Spain</td>
<td>Foster employment and enterprise creation; entrepreneur awards; reduce barriers to entry (revise Incorporation Laws, simplify start-up procedures), minimise regulatory/administrative burden; improve start-up and SME financing (mutual guarantee and start-up loan funds); improve access to information, advice and counselling (one-stop shops); foster entrepreneurship in secondary and vocational schools; lower capital gains and estate tax; reduce tax burden on sole proprietors.</td>
<td>Improve R&amp;D performance; growth through innovation. <em>(Incorporated within National SME Policy Programme. Major focus on new firm creation process and self-employment.)</em></td>
<td>Women, youth, the unemployed.</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>Create more favourable attitudes to entrepreneurship; reduce administrative burden; improve access to start-up financing and seed capital; promote youth entrepreneurship; promote efficient competition; create opportunities in the service sector.</td>
<td>Increased R&amp;D investment; innovation centers; venture capital; high-growth potential firms. <em>(Coached within SME policy as an extension – see next section.)</em></td>
<td>Youth, women, immigrants, the unemployed.</td>
<td></td>
</tr>
<tr>
<td>Case</td>
<td>Small business/SME policy</td>
<td>Innovation/enterprise policy</td>
<td>Entrepreneurship policy</td>
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<tr>
<td>Taiwan</td>
<td>Reduce administrative burden; SME financing; SME guidance services; incubators; promotion of entrepreneurship; entrepreneurial training and SME skills; SME networks and mutual co-operation; examine barriers to start-up; increase entry rates.</td>
<td>FDI, manufacturing overseas, R&amp;D investments.</td>
<td>(Incorporated within SME policy – SME-extension approach. See next section.)</td>
<td>Youth, Taiwanese overseas.</td>
</tr>
<tr>
<td>UK</td>
<td>Reduce administrative burden – ‘think small first’: SME information and advice; SME financing.</td>
<td>Increase R&amp;D investment; stimulate regional venture capital.</td>
<td>Increase the number and quality of entrepreneurs; reduce entry and exit barriers; start-up advice, information and counselling; enterprise education; promote an entrepreneurial culture; reduce the stigma of failure (Bankruptcy rules); incubators; access to venture capital and angel investments.</td>
<td>Ethnic minorities, youth, the unemployed, graduates, immigrant entrepreneur program.</td>
</tr>
<tr>
<td>US</td>
<td>Reduce administrative and regulatory burden; increase availability of loans to new firms; advice and counselling services (one-stops); SME information (BICs); access to government procurement; regional venture capital funds; increase number of new businesses, particularly from among minority groups.</td>
<td>R&amp;D investment (SBIR); promote technology and innovation.</td>
<td>(Government efforts to encourage entrepreneurship are delivered under SME policy initiatives of the SBA. Predominant ‘niche’ entrepreneurship and SME-extension approach. See next section. Private sector lobbying for more focus on ‘innovative entrepreneurship’ focused on growth firms in growth sectors, with a regional emphasis.)</td>
<td>Women, ethnic minorities and Native Americans.</td>
</tr>
</tbody>
</table>
Entrepreneurship Policy Typologies

One of the challenges of this research has been to make sense of a government’s approach to SME/entrepreneurship policy according to a set of factors or criteria. Our conclusion is that this would be very difficult to do. The bottom line is that governments in each of these economies have introduced elements of SME policy and elements of entrepreneurship policy. This is irrespective of social, economic, political or cultural context. Their reasons for pursuing these policy areas are varied, but fall within a narrow band of objectives – to stimulate employment creation, regional development, innovation, wealth creation and economic growth. This depends on the view held by individual governments about where growth comes from, what factors lead to growth, and the country’s economic structure and circumstance.

Individual governments display considerable diversity in how, and to what extent, entrepreneurship policy elements are being applied and implemented. Some governments are ‘adding-on’ entrepreneurship ‘bits’ within existing SME programs and services, only starting to think about ‘start-up’ and broader entrepreneurship policy issues. Others have adopted a ‘niche’ entrepreneurship policy oriented towards particular segments of the population. And others have an over-arching entrepreneurship policy that embraces all of the elements already mentioned. What we have discovered is a set of different entrepreneurship policy orientations. We have organized these into a set of Entrepreneurship Policy Typologies (Figure 1). Briefly these typologies are:

- **SME Policy ‘Extension’** – in this case a focus on starting and new firms or the broader stimulation of entrepreneurship is ‘added-on’ to existing SME programs and services, where it tends to be somewhat marginalized and weakly resourced. The broader areas of regulatory barriers to entry, entrepreneurship education and promotion of an entrepreneurship culture are not normally strategically addressed.

- **‘Niche’ Entrepreneurship Policy** – in this case the government formulates targeted entrepreneurship efforts around specified groups of the population. There are two types of ‘niche’ policies.
  - Type one: the selected target groups represent segments of the population that are under-represented as business owners. They might include women, youth, ethnic minorities, the unemployed, or Aboriginals, as examples. The objective is to address specific barriers these groups have to business start-up in an attempt to solve unemployment or labour market integration problems or to advance social inclusion objectives. We saw this approach most vividly in the US-based SBA, but it is evident in several other countries as well.
  - Type two: the target is people with the highest potential for starting high-growth potential firms – scientific researchers, inventors, university graduates, and people with technology experience. This is a ‘techno-entrepreneurship policy’, the objective of which is to generate high-growth potential businesses based on R&D, technology or knowledge inputs. Ireland is currently the most aggressive with this policy orientation, followed by Taiwan, the Netherlands and Australia. The focus is R&D.
support, venture capital support, university-based incubators and incentives for graduates and researchers to build technology-based firms.

**New Firm Creation Policy** – this policy approach focuses on facilitating the business creation process. This could include a review of Incorporation and business creation processes and procedures, a reduction in the time and costs associated with the business registration process, facilitation of the start-up process through the creation of one-stop shops and streamlined delivery of information and advisory services, etc. Spain provides a good example of this approach. In this case, efforts are also devoted to encouraging start-ups among specific target groups, for example, young people, women, and the unemployed.

**Holistic Entrepreneurship Policy** – a cohesive entrepreneurship policy approach encompassing all of the policy objectives and measures outlined in the first part of our presentation and integrating other E-policy types. We saw this most vividly in the Netherlands, Finland and the UK.

A description of each typology is presented in Table 2. Of course, countries do not fall neatly within these categories, as one might expect. For example, governments that ‘add-on’ an entrepreneurship focus to their existing SME support programs and services will often offer special programs and services to identified target groups, that is a ‘niche’ entrepreneurship policy element. In cases like Taiwan and the US, where the SME policy label is used to cover a wide range of activity, we also see evidence of lots of entrepreneurship promotion and some elements of ‘techno-entrepreneurship policy’ (e.g., incubators, venture capital, and R&D support). In addition, we observe that a ‘techno-entrepreneurship’ policy does not necessarily encompass all entrepreneurship policy components. For example, Ireland does not, at this point, make provision for incorporating entrepreneurship education in university programs, although mentoring and consultancy is offered to the founding entrepreneurs. And so on.

A government’s policy focus reflects its priorities. For example, a New Firm Creation Policy is very appropriate for Spain, given that there are still structural and regulatory barriers to the business creation process. These have to be addressed before launching aggressive efforts to promote a stronger entrepreneurship culture. One notes that their unemployment and self-employment rates are among the highest in this study, that they have a high percentage of businesses with no employees and a relatively high percentage of SME employment in firms with under 10 employees (47%). (See the Appendix). The Spanish government is trying to strengthen the existing base of micro-firms by helping them formalize their businesses so they can access the resources to grow. As well, their government policy is attempting to facilitate hiring by addressing labour market and employment law restrictions. In the case of Ireland, given the government’s primary objective of wealth creation and value-added production and its technology-capacity, its techno-entrepreneurship policy makes sense.

The Netherlands has firmly grounded its E-policy orientation in research, analysis and acceptance of the underlying principles behind an ‘entrepreneurial economy’. They started from a weak entrepreneurial base and decided on the ‘holistic’ approach. This necessitated the mobilization of an interministerial, intergovernmental approach. In the US and Canada, there are relatively fewer barriers to business entry, so target group strategies make sense, although in both cases, not enough attention is being paid to the longer term benefits of implementing K-12 entrepreneurship education programs. In addition, GEM executive reports in both countries
recommend more promotion of entrepreneurship, more focus on growing firms, and more attention to disparities in regional entrepreneurial activity levels. We did make the observation that countries with longer histories in SME development are more likely to fall in the SME-extension category. In other words, they are more prone to incrementalism. Countries newer to the SME policy domain could move more quickly to the ‘entrepreneurial economy’ approach.
Figure 1: Entrepreneurship Policy Typology

**Characteristics**: Employment creation through business creation: micro-enterprises; Incorporation laws, simplified start-up procedures, one-stop shops, micro-loans, loan guarantees, start-up information, advice and counselling, entrepreneurship training, business premises/incubators.

**New Firm Creation Policy**

**SME Policy ‘Extension’**

**Holistic Entrepreneurship Policy**

**‘Niche’ E - Policy**

**Characteristics**

**Job creation through new firms**: Micro-and local enterprise; Start-up information, micro-loans, advisory services, etc. Tends to be marginally resourced, ‘add-on’ to existing SME structures/objectives.

**Characteristics**

**Social inclusion**: Labour market integration, employment creation: Targets under-represented groups; role models, enterprise centers, loan programs, etc.

**Characteristics**

**Wealth creation and innovation**: Targets high-growth potential entrepreneurs – new grads, technologists; R&D, seed-cap, Vencap, incubators, networks.

**Characteristics**

**Economic growth**: Entrepreneurship culture; promotion of entrepreneurship; ease of entry and exit; entrepreneurship education; one-stop shops; seed financing some targeting; has commitment of several ministries.

SME and entrepreneurship policy measures are designed and implemented through different structures. Each central/national government has an office, division or unit responsible for the small business/entrepreneurship agenda (Table 3). These differ in name, size, ministry location, mandate, scope of responsibility and influence. Most responsible ministries solicit input from the small business sector and have put SME Advisory Councils in place to advise the Minister on SME needs and issues. The Australian Minister for Small Business has established a Small Business Ministerial Council comprised of all state Ministers for Small Business, which meets to discuss small business issues across Commonwealth and State lines. Ministry officials in Spain and Finland meet regularly with their regional authorities to discuss and debate strategies to enhance entrepreneurial activity. Officials from the SBA Office of Advocacy in the US meet frequently with other departments and states to advance the small business agenda. Governments in Spain, the Netherlands, Sweden and Finland have regional agreements in place to provide incentives for regional or state governments to pursue various E-policy objectives.

**Table 3: Responsibility Centers – 10 cases**

<table>
<thead>
<tr>
<th>Economy</th>
<th>Department Responsible</th>
<th>Division or Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>Department of Employment, Workplace Relations and Small Business; (AusIndustry, Department of Education, Training and Youth Affairs)</td>
<td>Office of Small Business</td>
</tr>
<tr>
<td>Canada</td>
<td>Industry Canada; (Human Resources Development Canada, Foreign Affairs and International Trade, Regional Agencies)</td>
<td>Small Business Policy Branch (SBPB)</td>
</tr>
<tr>
<td>Finland</td>
<td>Ministry of Trade and Industry in co-operation with nine ministries and the regional authorities</td>
<td>Enterprise Policy Division, Director of the Entrepreneurship Project</td>
</tr>
<tr>
<td>Ireland</td>
<td>Department of Enterprise, Trade and Employment (Enterprise Ireland, Forfas)</td>
<td>Small Business and Local Enterprises Unit</td>
</tr>
<tr>
<td>The Netherlands</td>
<td>Ministry of Economic Affairs in co-operation with several ministries and regional authorities</td>
<td>Innovative Entrepreneurship and Start-ups Cluster; Capital Markets and Enterprise Law Cluster</td>
</tr>
<tr>
<td>Spain</td>
<td>Ministry of the Economy in co-operation with four other main ministries</td>
<td>Directorate-General for Small and Medium Enterprises (DG-PYME). (One of the 4 product lines is New Company Creation.)</td>
</tr>
<tr>
<td>Sweden</td>
<td>Ministry of Industry, Employment and Communications (NUTEK, VINNOVA, and ITPS)</td>
<td>Business Development Directorate</td>
</tr>
</tbody>
</table>
We noted three prevailing structural approaches, each with its strengths, problems and challenges.

Governments in Taiwan and the US, for example, have legislated SME policies and designated SME authorities, the Small and Medium Enterprise Administration (SMEA) and the Small Business Administration (SBA). These are *umbrella agencies with special authorities* to develop, co-ordinate and deliver SME policy objectives. The UK’s new Small Business Service (SBS) is fashioned in a similar way, as a super agency with the authority to influence the policy development of other government departments in as far as this affects the small business sector. In these three cases, the designated authority performs a small business advocacy role within government as well as managing and directing its own program of activity. The major SME policy elements can be found within the documents of these agencies, but other departments may also have their own policy objectives affecting SMEs. SMEA, SBS and SBA officials must maintain strong links with these other departments/divisions. The big challenge with this approach is effectively influencing the activity of other departments and ensuring they consider the impact of their policy initiatives and actions on the SME sector. As well, because the responsible department or agency has its own programs to manage, the management of these may consume the majority of its time. Over time, this could result in a more vertical than horizontal focus. We saw this to some extent in both the US and Taiwan. In the UK it is still too early to tell.

The second approach is the *horizontal, multi-ministerial* one adopted in the Netherlands, Finland and Spain. In this case, multi-ministries and levels of government partner in the delivery of a common vision for increasing the level of entrepreneurship and business creation activity in the country. The Dutch Ministry of Economic Affairs *co-ordinates* the policy implementation of the Entrepreneurship Policy, but there is a great deal of consensus and co-operation in its design and delivery across departments and governments. In Finland, the Entrepreneurship Project is lead by the Ministry of Trade and Industry, but managed jointly by nine ministries and the Association of Finnish Local and Regional Authorities through a co-ordination committee. The co-ordination committee is chaired by the Project Leader of the Entrepreneurship Project situated in the Enterprise Policy Division of the MTI. In Spain, inter-ministerial co-operation and co-ordination is promoted through working groups on financing, administrative support, the labour market and fiscal and taxation affairs, all working to reduce barriers to new firm creation and SME development. In addition, the Spanish Minister of the Economy meets on a regular basis in sectorial conferences with Autonomous Regions. These structures recognise and respect the policy interdependency of the entrepreneurship/SME agenda, although program and service...
delivery is very much devolved to the regional/local level. The policy agenda tends to be transparent, coherent and integrated and generally presented in one document that combines the objectives and measures being pursued by each co-operating ministry. The big challenges in this approach are effectively managing the many networks across ministries and levels of government and monitoring the actual activity and progress of many government departments ranging from the Treasury to Education to Labour and Social Affairs to Regional Development, etc.

The third approach is what we call the ‘vertical’ or ‘silo’ approach. In this structure, the responsibility for different parts of the small business/entrepreneurship file is split among several departments, each responsible for its own sector, region or objective, with minimal incentive to collaborate in an integrated fashion. Australia, Canada, and to some extent, Sweden, would fall into this category. In countries with this approach, we found it much more difficult to identify all the elements of its SME or entrepreneurship policy approach. Policy objectives are fragmented along departmental lines and buried in the documents of several government departments (e.g., labour/employment, trade/foreign affairs, industry/economic affairs, regional development, science and technology, sector divisions). Each department focuses on its own agenda, making it difficult to present coherent and integrated policy. Any entrepreneurship development activity tends to take place at the local, regional level with minimal national frameworks to guide its implementation. The umbrella and horizontal approaches aim to overcome the disadvantages of this traditional ‘silo’ approach.

It would seem that there is still a lot of experimentation taking place in search of the optimal or ideal structure. There are frequent attempts at restructuring, rationalizing and streamlining, but structures are difficult to change and governments often end up with ‘more of the same’. Because a cohesive E-Policy is impacted by a number of government policy areas – regulatory, labour market, taxation, regional development, technology, social inclusion, financing, education, trade and investment, sector, economic and even immigration policy, a horizontal approach makes sense, but in reality, this is difficult without strong central and mandated leadership. The OECD and NFIB both advocate for centralized SME divisions or agencies, which respect the policy interdependence of the file. Fitzsimons et al. (2001) stress the importance of having a unit in government that ‘champions’ the entrepreneurship agenda across departments. We do note that the more integrated entrepreneurship policy becomes in a government’s agenda, the more horizontal its approach.

Regardless of structure, there are a series of challenges to overcome:

- managing the horizontality of the policy issues across many government departments,
- co-ordinating activity of different levels of government from federal to local,
- maintaining links between policymakers and entrepreneurs,
- maintaining links between research and policy and between policy development and local, program delivery,
- maintaining linkages with the network of non-government organisations and private sector actors.

Sharing a common vision for entrepreneurship development and ensuring that all

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policymakers and support providers have the knowledge and skills they need to serve the small business client is a big challenge. Another challenge is continuity of effort. With federal government terms of as few as three years and frequent changes of government, it is difficult to maintain a steady policy course.

Summary of Collective Entrepreneurship Policy Measures and Initiatives

The next section summarises the major categories of action being pursued to realize aspects of an E-policy agenda. These categories fall within the collective framework of entrepreneurship policy measures outlined in Lundström and Stevenson (2001):

1) the regulatory environment for start-ups, 2) promotion of entrepreneurship, 3) entrepreneurship education, 4) small business support infrastructure, 5) target group strategies, and 6) access to financing and seed capital. The summary discussion of each of these areas follows the same order in which they appear in each of the case reports in Chapters 3-12. This section is followed by a discussion of the E-policy making process, including a presentation of research and evaluation issues and an overview of the performance indicators being developed to measure the impact of entrepreneurship policy and measures.

1. Regulatory Environment for Start-ups

In all of these cases, the central government is engaged in a process of examining the impact of administrative, legislative and regulatory burden on both existing small firms and new business entries. The primary reason for this attention is to reduce the disproportionate burden of regulatory and administrative requirements on small versus large firms. All economies have Deregulation or Better Regulation Task Forces of one type or another in place. Most are using Business Impact Assessment Tests or checklists to monitor and measure the impact of proposed new legislation and regulations on small businesses. A major problem in this area is the measurement of both direct and indirect costs of a new regulation or piece of legislation. The US and the Netherlands have both developed sophisticated tools for dealing with this. Another major problem is enforcing the requirement for all government departments to comply with the impact assessment testing process. The most advanced lessons learned in this respect can be learned from the SBA Office of Advocacy in the United States.

Many countries have implemented initiatives to simplify government reporting requirements (using electronic communication tools, adopting Single Business Numbers, rationalizing the reporting requirements of separate government departments) and in some cases, have established one-stop regulation shops (e.g., Spain, the Netherlands, Finland). Others have set up government regulation websites that take interested parties through the regulatory maze and provide advisory support (e.g., the UKs Small Business Start-up Service, www.open.gov.uk/gdirect).

When a government embraces the entrepreneurship agenda, it becomes more focused on the

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3 In Lundström and Stevenson (2001), we have constructed ‘maps’ of the various components of each of these policy measure areas.


5 MISTRAL model developed by EIM Business & Policy Research, Zoetermeer.

administrative and regulatory barriers to new firm creation. Cross-country studies show a negative correlation between extensive regulatory barriers and firm entry, measured in terms of the number of procedures required, the time it takes to comply and the costs involved (Djankov et al., 2000). Stricter regulation of entry is not associated with higher profitability of firms or higher quality products. Nicoletti et al. (1999) found in their study of OECD countries that the stringency of regulations affecting entrepreneurship negatively correlates with growth in multifactor productivity. The extent of formalities to establish a business is relatively low in the United States, the United Kingdom, Australia, Canada, Ireland and Sweden, as examples. However, requirements to incorporate a company vary significantly across countries. In Taiwan, seven directors are required. In Canada a single person can incorporate a company and own all the shares. In Sweden, an incorporation requires 100,000 SEK of initial share capital; in the Netherlands, NLG 40,000 is required. These are prohibitive amounts for most new entrepreneurs. Thus the only option is to start a sole proprietorship or partnership. But unincorporated companies are often ineligible for government financing programs or to compete for government procurement contracts and thus are disadvantaged in the marketplace.

There are several other areas of government policy that impact on new business entry besides the registration or incorporation process. These include licensing and permits, taxation, social security and labour regulations, competition policy, bankruptcy rules, and even zoning laws. Certain countries, such as the UK, the Netherlands, Finland and Spain, are aggressively seeking to reduce the barriers to business entry caused by bureaucratic, lengthy and costly procedures, tax systems that discriminate against the self-employed person, and social security systems and labour market policies that inhibit people from making the transition from paid employment to self-employment. In other words, they are attempting to reduce or eliminate the ‘quiet disincentives’ which subtly discourage potential entrepreneurs from taking the first step into business.

The UK, the Netherlands, and Ireland have introduced special tax provisions for new start-ups to reduce pressure on their cash flow during the first critical period of operation. Several governments are making adjustments to their capital gains tax. To encourage entrepreneurs and outside investors to invest in entrepreneurial firms, the UK recently reduced the Capital Gains Tax on unquoted businesses to 10%. Ireland has cut its Capital Gains Tax to 20% and in Australia, 75% of capital gains are now exempt from taxation. The Spanish government has reduced taxation of the mortis causa transfer of a business by 95% in an effort to increase the intergenerational survival of family enterprises.

2. Promotion of Entrepreneurship

What is needed to truly create widespread awareness of entrepreneurship in society and to increase its legitimacy, is mass media coverage. This legitimacy factor is a particularly important one in economies where the image of entrepreneurship is not a favourable one (e.g., Australia, the UK) or where entrepreneurship is not sufficiently embedded in the culture (e.g., the Netherlands, Finland and Sweden). Finnish experts made the point that community acceptance/ adoption of entrepreneurship requires a certain level of ‘readiness’. Newspaper features, stories about the role of entrepreneurship in the economy and profiles of entrepreneurial activity serve to stimulate discussion, raise awareness, and demystify the process.
Ubiquitous media coverage of entrepreneurship in the US, which is without doubt the best practice economy in this regard, is a case in point. Even in the ‘most entrepreneurial nation in the world’, promotion persists as an important component of building the culture. There are numerous entrepreneurship magazines, television programs, newspaper supplements and features, and high profile and well-publicized entrepreneurial events that take the entrepreneurship message into millions of households on a weekly basis. While impact measurements of this are difficult, it undoubtedly contributes to reinforcing the culture. Taiwan and Canada also use a variety of entrepreneurship promotion tools – television programs, newspaper, print profiles of entrepreneurs, and well-publicized public entrepreneurship events. Some countries proclaim a Small Business Week (e.g., US, Canada) and Sweden celebrates an Entrepreneurship Week. Most build events around their awards programs, but the mix of options is much greater than those being deployed at present.

In fact, this area of ‘promotion’ is one of the more underdeveloped strategic areas of entrepreneurship development. It is not well articulated in policy terms and the most subject to rhetoric. Practically every minister of industry or the economy talks about the importance of promoting an entrepreneurial culture, but concrete actions taken to do so are actually quite limited. The only central governments that have incorporated specific entrepreneurship promotion policies into their action plans are the UK Department of Trade and Industry, AusIndustry and the Finnish Ministry of Trade and Industry. The UK’s National Enterprise Campaign, Enterprise Insight, focuses on promoting entrepreneurship amongst youth and is partnered with private sector business associations. AusIndustry’s Promoting Young Entrepreneurs Programme, announced in May 2001, aims to encourage a new generation of entrepreneurs and to publicly recognise those individuals and organizations that have contributed to Australia’s entrepreneurial foundations. In Finland, the government’s policy is to foster more favourable attitudes towards entrepreneurship and a series of regional forums is used to present monthly Golden Key awards and diplomas to regional entrepreneurs, the winners of which are featured in a televised weekly series. The television series is a partnership between the Ministry of Trade and Industry and MTV3.

Entrepreneurship/small business awards are the most commonly employed entrepreneurship promotion tool. They exist in each of our cases. There is considerable support for the notion that credible role models inspire and motivate other people to become entrepreneurs; award winners are role models. We saw two recent innovations in awards programs. First of all, we noticed a growing number of award programs for niche groups, i.e., women, young entrepreneurs, Hispanic entrepreneurs, etcetera. This is important because a role model is most effective when it reflects the image of the group whose behaviour is to be influenced. Secondly, we saw an increasing number of awards for new business starts, emerging entrepreneurs, or micro-entrepreneurs. This recognises the importance of new business entries and is important because, in the past, awards were most often given to the most successful, proven companies/entrepreneurs. While this had its own merits, nascent entrepreneurs may be more inspired by the example of the fairly new entrepreneur. Taiwan and Finland are particularly effective at using award winners to further advance the promotion of entrepreneurship. Taiwan winners become members of the prestigious network of Honorary Volunteer Business Advisers and agree to speak in schools and mentor novice entrepreneurs.

Canada, the US and Taiwan have the most examples of entrepreneurship promotion activity,
as well as the greatest diversity of approaches. They are also economies with strong entrepreneurial cultures. Perhaps an entrepreneurship culture and its promotion are indeed related!

The government’s role in entrepreneurship promotion varies across countries. It plays a small role in promotion of entrepreneurship in the US and Canada, but these are both countries with a high degree of promotional activity, often initiated and supported by the private sector. The government is more involved in Finland, the UK and Taiwan. The Small and Medium Enterprise Administration (SMEA) in Taiwan has been very involved in entrepreneurship-oriented television and radio programs in partnership with the National Association of Small and Medium Enterprises (NASME) for the past five years. And, of course, the UK and Finnish governments are becoming more directly involved.

3. Entrepreneurship Education

Most economies realize that ad hoc efforts to expose youth to entrepreneurship will not be sufficient to build a strong entrepreneurial culture. Entrepreneurship/enterprise education must be integrated in the school curriculum at all levels from primary school through to university. This poses a tremendous challenge for many reasons, but one that is being met in Australia, the Netherlands, Finland and Canada where central ministries of economic affairs/industry have made efforts to work with the ministries of education to introduce enterprise/entrepreneurship content as a component across the curriculum.

On a national level, this work is the most advanced in Australia. Since 1996, the Department of Employment, Training and Youth Affairs (DETYA) has funded two phases of a National Enterprise Education in the Schools Programme, totalling over A$28 million. These funds have been used for the development of teacher resource materials for both elementary and secondary education levels, professional development for teachers, business-education partnerships, an enterprise education newsletter, school promotional materials, and an enterprise education website. Phase 2 ends in 2004. The new framework\(^7\) of Australia’s Ministerial Council on Employment, Education and Youth Affairs, comprised of Commonwealth and State Ministers responsible for education, aims to make enterprise education an explicit component of the curriculum framework of each State and Territory. The Finnish government has identified entrepreneurship education and the promotion of entrepreneurship as a career choice as priorities in its two-year Entrepreneurship Project (2000-02). The Finnish National Board of Education has added ‘entrepreneurship’ as a component of the national curricula for all phases of education. The Enterprise Policy Division of the Ministry of Trade and Industry holds sessions with the Organization of Teachers to promote the merits of teaching entrepreneurship and conducts monthly meetings with Ministry of Education officials to discuss possible new initiatives. The UK National Curriculum now includes ‘enterprise and entrepreneurial skills’ as one of the seven key learning components of school curriculum. As of May 2001, UK teachers can access information on how to promote enterprise and entrepreneurship skills across subject areas from the National Curriculum Service (www.nc.uk.net/learn.html). The Department of Trade and Industry worked with the Qualifications and Curriculum Authority of the Department

\(^7\) Framework for Vocational Education in Schools.
of Education and Employment (DfEE) to produce an Enterprise Guide for teachers that can be freely accessed at www.2.dti.gov.uk/enterpriseguide. The Small Business Service is currently preparing a discussion paper on entrepreneurship education as a basis for further strategic discussions with education officials. The Dutch government launched its National Entrepreneurship Education Program in the fall of 2000 with the objective of developing and introducing entrepreneurship content at all levels of the educational system from Primary through university. This program was developed under the auspices of a National Commission on Entrepreneurship Education represented by the ministries of economic affairs and education and each level of the educational system. The initial Subvention on Entrepreneurship was funded with NLG 10 million and several pilot projects are underway.

At the K-12 level, the Atlantic Region of Canada has had the longest experience in integrating entrepreneurship education in the school. In the early 1990s, the regional development agency, the Atlantic Canada Opportunities Agency (ACOA), included entrepreneurship education as a central component of its Entrepreneurship Development strategy. The goal of the Entrepreneurship Education Program was to expose every student in every classroom, in every grade level, in every school to entrepreneurship content. By 1999, 60% of all students had the potential to be exposed to entrepreneurship in the classroom. By 2000, over Cdn$43 million had been invested in research and evaluation, curriculum, resource materials, teacher’s guides, teacher in-service, entrepreneurship education symposia and conferences, business-education partnerships, student venture programs and support activities.

These governments have decided to push the entrepreneurship education agenda forward for several reasons. Among their goals are to address high youth unemployment rates, to prepare the next generation for the probability of having self-employment as part of their career biography, to influence longer-term increases in business entry and survival rates, and to build the base of an emerging ‘entrepreneurial economy’. Many lessons have been learned by these four countries. Entrepreneurship education includes both elements of enterprising behaviours and entrepreneurship skills, involves all grade levels and employs a cross-disciplinary approach (i.e., taught through many subject areas). Successful implementation of a comprehensive entrepreneurship education program requires:

- Inclusion of enterprise/entrepreneurship as a component in national curriculum guidelines;
- The development of curriculum, teaching resources and new teaching models that emphasise student-centered learning and ‘hands-on’ project-oriented activities;
- Professional development of teachers;
- Building of resource centers and networks for the exchange of best practice;
- Business-education partnerships;
- Entrepreneurial orientation of schools and administrations;
- Building of community support;
- Opportunities for students to experiment with venture projects and activities;
- Student venture programs and student business loans;
- Significant budget allocations; and

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8 These as well as a number of critical success factors and barriers to implementation are presented in Stevenson and Lundström, *Beyond the Rhetoric: Defining Entrepreneurship Policy and its Best Practice Components*, 2001 forthcoming.
Commitment from both the ministries of industry or economic affairs and education.

The approach taken in the other countries in this study are less systematic and strategic. In the US, for example, we saw evidence of a number of innovative curriculum initiatives, but much work remains to be done to incorporate entrepreneurship throughout the system. The Kauffman Foundation has recently joined with the US Department of Education to foster the link between entrepreneurship and the national school-to-career movement, but progress is slow. In 1997, the Swedish Foundation for Small Business Research partnered with NUTEK to produce an entrepreneurship teaching resource for use in grammar schools and the National Agency for Education now includes enterprise-oriented skills in national curriculum guidelines, but NUTEKs ‘National Action Programme to Promote Entrepreneurship amongst Young People’ proposal is still under discussion. Very little is currently being done in the Taiwan school system.

At the post-secondary level, emergent thinking is that entrepreneurship should be introduced across all vocational/technical college programs and all university faculties/disciplines. Business schools are no longer seen as the primary domain of entrepreneurship education. Given the fact that the majority of entrepreneurs do not have a post-secondary education and that of those who do, most do not have Business Administration degrees, there is a logical argument for moving entrepreneurship education into other levels of the education system and into other areas of learning. The Finnish Minister of Education has introduced a unit on entrepreneurship into all vocational studies, Spain includes a mandatory module on entrepreneurship in all vocational training programs, and the UK DfEE National Inquiry into Higher Education in 1997 recommended that all Higher Education Institutions should encourage entrepreneurship.

There appear to be many barriers to the universal introduction of entrepreneurship units in vocational college programs. Notable among these are an already over-crowded curriculum, a lack of resource and support materials and the lack of instructor knowledge and know-how in the teaching of entrepreneurship. The Atlantic Colleges Committee on Entrepreneurial Development (ACCED) in Atlantic Canada is attempting to overcome some of these challenges with its Entrepreneurializing the Learning Environment initiative that promotes an entrepreneurial approach to the teaching and learning of all program study areas (www.acced-ccade.com).

Numerous universities in several countries offer entrepreneurship and small business courses. The US has been doing this for the longest period of time and has the most examples of good practice, but other countries are catching up. Major issues at the moment include moving entrepreneurship out of the business schools into other areas of study (e.g., engineering, science, arts, music, media studies, etc.), adopting more ‘experiential’ learning approaches, building ‘venturing’ into graduation requirements for entrepreneurship students, and offering special entrepreneurship modules to public administration students and executive MBAs. In addition, there is a need for educational and professional development programs to meet the growing demand for competent regular and adjunct entrepreneurship professors and college instructors. The US-based Price-Babson Symposium for Entrepreneurship Educators and the Life-Long Learning Entrepreneurship Educators Program (LLEEP) are helping to meet this need.
4. Small Business Support Infrastructure

There are several new trends in the provision of small business support to nascent and new entrepreneurs, both in terms of institutional structures and products and services. Every country has a business support infrastructure consisting of economic development offices, small business development centers, enterprise centers and business service centers. Traditionally the objective of these offices and centers has been to provide counselling, advisory and business planning services to fledgling and existing small businesses to improve their chances for survival and growth. A significant amount of this activity was to assist SMEs in the process of gaining access to resources – financing, markets, technology, etc. With advances in information technology and a shift in government attention to the business entry agenda, we see some changes in the small business support landscape. Summarized below are some of the emerging innovations and approaches geared to reducing the barriers of new entrepreneurs and business starters to business information, know-how, networks, expertise and quality advice.

- **One-stop shops**: One of the most widespread developments is the move to ‘one-stop shops’. These are places where entrepreneurs can go either to conclude all their dealings with government in the registration of a new business (e.g., Spain’s business ‘guichets’), complete all their dealings with government regulators and business providers (e.g., the Netherlands’ Business Counters and Finland’s Employment and Economic Development Centers) or access all the SME-related information they need, regardless of whether they are trying to start or grow a business (e.g., Canada Business Service Centers, US’one-stop’ Business Information Centers; UK Business Links, Taiwan’s SME Guidance and Service Centers). The US is now in the next generation of one-stop shops. These are either specialized in terms of their focus, e.g., one-stop capital shops, or their client group, e.g., Tribal one-stops. Ireland, the UK and Australia are opening ‘first-stop shops’ that act as basic entry and referral points. Startcentrum, start-up centers operated by the Swedish Jobs and Society Trust, are one-stop shops for unemployed people who want to start a business. These one-stop shop models often provide a multiplicity of contact points – interactive websites, fax-back systems, 1-800 phone access, as well as walk-in service. They inevitably house representatives from a number of government departments and agencies and in some cases, business associations, chambers of commerce, and small business advisers.

- **Online portals**: With the advent of the Internet, governments are also developing a range of websites and portals to provide both information and services to new and existing entrepreneurs. The UK has the online Business Start-up Service, Ireland has a special portal for Internet entrepreneurs and several governments are actually offering online counselling and mentoring. SBA SCORE advisers complete over 80,000 online consultations annually (www.score.org). Online resources are an effective way to broaden the reach of government services to potential entrepreneurs by including self-paced and interactive entrepreneur assessment and business planning tools. They can be tailored to appeal to specific target groups, such as women, ethnic minorities and Aboriginal populations, and to specific stages of the entrepreneurial and business development processes. Many of these sites include portals to appeal to the youth market and encourage more young people and new graduates to explore the entrepreneurship option.
• **Mentoring**: Based on research indicating the entrepreneur’s preference for peer learning, governments of the UK, the US, Australia, the Netherlands, Finland, Ireland and Taiwan have launched mentoring programs to match experienced entrepreneurs and business leaders with novice entrepreneurs. Ireland’s Mentor Network, funded and operated by Enterprise Ireland, includes a special panel of start-up mentors to help in the earliest stages of starting a business. The UK’s Volunteer Business Mentoring Programme, developed by the National Federation of Enterprise Agencies and funded with £3 million from the Department of Trade and Industry, was inspired by the American SCORE program of retired executives. Volunteer mentors agree to spend 40 days a year providing support to start-up and micro-enterprises. In Taiwan, a network of almost 4,000 SME Honorary Directors volunteer their time to mentor small firms. Many of these volunteers are winners of SME awards. The UK has launched an online mentoring pilot initiative and a Mentor’s Forum. A lesson learned from the SCORE program is that even if volunteers are experienced professionals and entrepreneurs they should be put through a mentor orientation program. The training of mentors in the UK is provided by the Prince’s Trust ([www.princes-trust.org.uk](http://www.princes-trust.org.uk)). This is the most sophisticated example of such an initiative. Excellent support materials on mentoring, mentor training and running a mentor program are available on UK and Australia websites ([www.mentorsforum.co.uk](http://www.mentorsforum.co.uk); [www.smallbusiness.info.au](http://www.smallbusiness.info.au)). Early evaluations of the impact of mentoring programs in Australia, the UK, and Ireland have produced promising results.

• **Incubators**: While the incubator concept is not new (incubators have existed in the US for decades), one might say that incubators in the year 2000 are ‘third generation’ incubators. They are structured for knowledge-based start-ups, are often located on university campuses, are totally wired with high-speed access to the Internet and networked to a rich and deep circle of experts – researchers, technology experts, venture capitalists, experienced entrepreneurs and large corporations. Clients have access to information, counselling, technical assistance, financing, R&D facilities, potential partners and peer support. Central governments in Taiwan, Australia, Ireland and the UK have adopted national small business incubator strategies as an important component of their start-up policies. The major stated objectives of these incubator policies are to reduce failure rates, create new jobs, enhance small business and promote entrepreneurship (Australia), to nurture entrepreneurs and speed industrial upgrade (Taiwan), to diversify the economy, create jobs, foster rapidly growing firms and build wealth (the US) and to stimulate high-potential start-ups (Ireland). Taiwan’s National Incubator Strategy was approved by the government and funded under the SME Development Fund in 1996. Since then 52 incubators have been established, mostly on university campuses. Individual incubators range in size with capacity to incubate from five to 35 enterprises per year; educational institutions involved in the Incubator Center Program include media and arts, teacher education, humanities and technology. By June 2000, the Australian government had invested over A$30 million (leveraged by another A$30 million of external support) in the funding of over 75 incubators located on university campuses and in business and technology centers in both small and large communities throughout the country. Enterprise Ireland incorporated an incubator program as a major component of its

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10 ‘Small Businesses to Have Access to Business Mentors,’ Press Release ([www.nfea.com](http://www.nfea.com)).
recently announced Regional Growth Strategy\textsuperscript{11} to meet the demand for attractively priced, well laid out space with flexible leases and broad-band access. Funding of up to IRE2 million is being offered to any university or technical institute campus that wants to develop a campus incubator;\textsuperscript{46} new Community Enterprise Centers are being built to house incubators in rural areas. The newest entrant to the field is the UK. The Small Business Service intends to develop the incubator concept into a comprehensive start-up policy and to ensure that starting businesses have access to this type of facility if they want it. A £75 million incubator loan fund will be used to encourage business start-up and growth in managed workspaces with flexible leases in all regions. Both the UK and Ireland are also encouraging Internet incubators.\textsuperscript{12} Special incubators are now emerging to build critical mass in certain high-growth sectors or to support target groups; for example, Ireland’s Digital Media Production incubator in Dublin and the incubators for young entrepreneurs in Sweden and Taiwan. Lessons learned from formal evaluations of incubator experience have been amassed in Taiwan,\textsuperscript{13} Australia\textsuperscript{14} and the US,\textsuperscript{15} including the key success factors for incubator programs. This information is available on government websites and serves to promote best practice in the field.

- **Target group enterprise centers**: Another institutional innovation is the rise of specialized enterprise centers to serve identified target groups. Women’s Enterprise Centers exist in the United States (by far the leader in this area), Western Canada, Northern Ireland and Scotland; ethnic minority enterprise centers exist in the United States; Aboriginal enterprise centers exist in Canada, the US and Australia; and youth enterprise centers exist in Canada, the UK, Ireland, the Netherlands, Sweden and Australia. The objective of these enterprise centers is to increase the number of start-up businesses from within the target group by more effectively meeting their specific needs. These centers provide counselling, training, advice, access to networks, help with evaluating business ideas and often provide financing. They are sometimes funded by the government and sometimes in partnership with the private sector.

- **Professional development for business advisers**: A growing area of government policy attention is the quality of business support services. With the increasing demand for more individualized solutions to a broader range of entrepreneurs’ needs, the requirement for quality service has come to the fore. This is particularly critical in the case of business advisers and counsellors who are employed by government or quasi-government organizations. The UK government is definitely the most advanced in addressing this issue, although professional development initiatives also exist in Australia, Canada, Ireland and the US. The UK Department of Trade and Industry has adopted Standards of Professional

\textsuperscript{11} *Driving Regional Growth in Enterprise*, Enterprise Ireland, Dublin, February 2001.


\textsuperscript{13} ‘Small-Medium Enterprise incubator Centers in Taiwan, Emerging Opportunities for Small-Medium Enterprises, Creating a New Era for Entrepreneurs,’ Small and Medium Enterprise Agency, Ministry of Economic Affairs, Taipei.


\textsuperscript{15} ‘Incubation Industry Information’, National Business Incubator Association (\url{www.nbia.org/infor/fact_sheet.html}).
Competence that must be met by all business advisers and officers delivering services on behalf of the Small Business Service (SBS). Advisers can take National Vocational Qualifications (NVQ) level training in Business Counselling and Information or training courses in small business support accredited and promoted by Durham University and the National Federation of Enterprise Agencies. Business support professionals and advisers can apply for accreditation by the Institute of Business Advisers (www.iba.org) if they meet all professional criteria. This system is well developed in the UK and over 2000 members have been admitted to the IBA. One of the new initiatives of the SBS is the planned launch of a national ‘virtual university for business support’. This in-house capacity will support the learning needs of all business support providers and offer continuous professional development at all levels of the SBS and Business Links. This is an innovative concept that may be of interest to other countries.

- **Orientation for all professional actors**: The need for professional development in small business support, however, goes far beyond the business advising community. The SBA Office of Advocacy in the US recommends that all regulators regardless of department should be oriented better about the small business sector. Experts in Finland and the Netherlands expressed the need for orientation and training of local economic development and municipal agents, especially about the nature of the entrepreneurial development process. Experts in Australia and Finland called for training and orientation of teachers, school board administrators and community leaders on aspects of entrepreneurship education. The National Commission on Entrepreneurship in Washington has held seminars with journalists in order to improve their understanding of the entrepreneurial story and Turku University in Finland offers an entrepreneurship module to its Executive MBA students, many of whom are public servants. In order to create a more supportive environment for entrepreneurship, all of these actors – regulators, educators, economic development agents, public servants, journalists, and community leaders need to be better informed about entrepreneurship and the foundations of an ‘entrepreneurial economy’. This is an area where more strategic efforts are needed.

- **Networks**: Certain governments, such as those in the Netherlands and Taiwan, have specifically made ‘the building of SME and entrepreneur networks’ a policy issue. In Taiwan, promoting ‘mutual co-operation’ is one of the Ten SME Guidance Systems for which funding and support is provided by the SMEA. The Dutch Ministry of Economic Affairs has adopted a policy to encourage networks among growth-oriented entrepreneurs. This decision was based on research indicating that fast-growth firms in the Netherlands take 50% longer than US firms to break through the ‘growth-ceiling’ and that American fast-growth firms are more likely than similar Dutch firms to be members of a network (63% versus 27%). One of the reasons for this difference was deemed to be the search costs involved for Dutch firms to get peer networks off the ground. The Dutch government responded with support for networks for fast-growth and ‘ambitious’ companies (Growth Plus and Maak kennis met). Another example of such an initiative is the Innovators Alliance supported by the Ontario provincial government in Canada (www.innovators.org). Governments in the Netherlands and other countries also support the development of networks among a variety of target groups, for example, youth (Australia,

16 ‘Get to know’.
Canada), ethnic entrepreneurs (the US, the Netherlands, Finland, the UK), and women (the US, Canada). There are other dimensions to the building of networks for entrepreneurship development, beyond those for entrepreneurs. These include networks for small business/entrepreneurship researchers, business support providers and advisers, government officials and policymakers and the horizontal networks that promote interaction among all these groups. This issue is discussed more extensively in Stevenson and Lundström (2001) and Lundström and Stevenson (2001). For the moment, it does not appear that policies for entrepreneurial networks are well developed. The rationale for government’s role in the facilitation of these networks was aptly summarized by a Taiwan official as such, ‘networks are important for entrepreneurs so they can exchange information and learn from each other quickly. Someone has to help facilitate this for them. It’s government’s role to fund non-profit organizations so they have the resources to do this’.

5. Identification of Target Groups

Based on evidence that entrepreneurs are a heterogeneous group with different backgrounds, experience, motivations, behaviours and needs, and that certain demographic segments of society are under-represented in business ownership, governments in the US, Canada, Australia, and to some extent, Sweden, Finland, the Netherlands, the UK, Spain, Ireland and Taiwan have targeted special groups for focused attention. The most prevalent target group was young entrepreneurs, followed by women, ethnic minorities, immigrants, Aboriginals, the unemployed, new graduates, veterans, people with disabilities and fast-growth technology entrepreneurs. Countries differ on which target groups have priority, the degree of support and the rationale for their interventions. These determinations will depend on the demographic make-up of a country’s population, labour force and business owners and what gaps need to be addressed. For example, Australia, Canada, and the US have indigenous Aboriginal and Native Indian populations. Almost 30% of the US population is comprised of immigrants and ethnic minorities, the fastest growing segment of their labour force. During the 1980s, over 70% of the new entrants into the Canadian labour force were women. People under 30 are subject to higher than average unemployment rates in most countries. Each of these segments of the population is an example of a group that is under-represented in the business ownership statistics. The question is why is this the case. Is it due to a lack of awareness and information, a lack of confidence and know-how, a lack of access to resources? Or do these groups face other societal and economic barriers? Are special efforts required to improve their access to information, skills and resources or to reduce other societal barriers to their entrepreneurial activity? Some countries have more research on the challenges and needs of target groups than others, but such knowledge has provided insight about how to accelerate their business ownership participation rates.

In countries where the government has adopted target group policies, they have done so for the primary reason of dealing with labour market problems – higher levels of unemployment or inadequate labour market integration. In some cases, target group policies are more directed at creating future economic growth. In any event, business ownership provides an option for self-sufficiency, economic empowerment and employment and in the process, creates jobs and wealth and contributes to social and economic well being. Thus, we found extensive examples of targeted entrepreneurship development programs and initiatives in most of our case studies. The
range of services offered include counselling and mentoring, micro-loans and seed capital funds, awards program (to create role-models), peer networks, promotion of entrepreneurship as an option, and tailored information (e.g., in the language of the minority group). Often, these services are provided through special enterprise centers described above.

The US and Canada are the most advanced in terms of providing ‘full-service’ targeting of several under-represented entrepreneurial groups. One sees evidence of enterprise centers for women, Native Indians and ethnic minority groups. These are complemented with special micro-loan funds, procurement ‘set-aside’ programs, entrepreneurship award programs, and networking and mentoring programs. There are several training and financing initiatives in Spain geared towards encouraging unemployed women and youth to become self-employed and Sweden and Finland are exploring effective strategies for supporting immigrant entrepreneurs.

In particular instances, governments have set up special development agencies, programs or funds to assist target groups. Cases in point are Industry Canada’s Aboriginal Business Corporation, the US Department of Commerce Minority Business Development Agency, Australia’s three-year A$11 million Indigenous Small Business Fund, Canada’s Cdn $21 million Aboriginal Business Development Institute and $10 million Aboriginal Youth Business Initiative, and the SBA’s US$8 million Women’s Business Center Network.

To assist in the identification of needs of specific target groups and possible solutions, governments often set up advisory councils or commissions. We saw evidence of this in the UK, the Netherlands, the US, Canada and Taiwan. To address the needs of ethnic minority entrepreneurs, the UK Small Business Service formed an Ethnic Minority Business Forum in 1999 and the Dutch government set up a Cabinet Committee on Ethnic Entrepreneurship. To examine the barriers to youth entrepreneurship, the Canadian Prime Minister launched a Caucus Task Force on Youth Entrepreneurship in 1999.17 To design and implement programs to assist young entrepreneurs in Taiwan, the Executive Yuan established the Youth Facilitation Commission.

The UK, Ireland and the Netherlands are particularly progressive in the pro-active targeting of technostarters, people who have high potential for starting high-growth enterprises. These people tend to be better educated and can be found among recent post-secondary graduates or in university or publicly funded research labs. The policy to establish incubators on university campuses and to provide campus seed funds for commercialization of R&D efforts is consistent with this target group approach. We saw this in the case of Ireland’s new regional growth strategy and in the Netherlands Twinning Project (www.twinning.com).

As countries target youth, a variety of additional initiatives are evident – government sponsored business plan competitions, youth business incubators, CampusCapital Funds, Mini-enterprise in schools, Young Enterprise, Junior Achievement. These are all examples of efforts designed to expose students from very young ages to knowledge about the entrepreneurial and business planning processes and to give them experience in developing and running their own businesses. Youth at all levels of the educational system are forming entrepreneur clubs, associations and networks so they can network with like-minded youth and pursue entrepreneurship-related activities and events. The private, corporate sector is very involved in the

17 ‘Canada’s Youth: Job Makers, A Report to the Prime Minister of Canada concerning youth entrepreneurship,’ November 1999.
promotion of youth entrepreneurship and the support of youth-oriented programs in several countries. Shell LiveWire is active in the Netherlands, Ireland, the UK, and Australia, the Prince’s Youth Business Trust in the UK, the Canadian Youth Business Foundation in Canada, the Kauffman Foundation Center for Entrepreneurial Leadership in the US, the Young Entrepreneurs Association in Ireland, to name a few. In Taiwan, the China Youth Career Development Association offers entrepreneurial training, a loan scheme and a young entrepreneurs award program. Junior Achievement and Young Enterprise are very active in most of the countries.

Both Taiwan and Ireland have programs to encourage citizens who have ‘gone abroad’ to return to start a high-potential or technology-oriented business. The Immigration departments in Canada, the UK and Ireland have immigrant entrepreneur programs, where in return for business investment in a start-up, selected immigrants are allowed to enter the country.

Finally, it is notable that central governments in seven of these cases have labour market programs to encourage unemployed people to become self-employed. These programs vary a bit but generally allow unemployed persons with viable business plans to receive unemployment benefits during the first few months of a business start-up. Counselling, mentoring or training is sometimes provided as part of the support package.

6. Access to Financing and Seed Capital

Access to financing is one of the oldest SME policy issues; it has a history of at least half a century (e.g., the US Small Business Act of 1953; Canada’s Small Business Loans Act of 1961). Central governments in each of our cases have policies related to improving access to SME financing, although they differ in the length of time they have focused on it, the multiplicity of policy measures, the extent of direct government financial assistance, the emphasis on loans versus equity, and the degree to which they attempt to reduce information asymmetry about types and sources of financing. Historically, the major rationale for government intervention was ‘market failure’. Conventional lenders preferred to do larger loans (lower transaction costs) and deal with established firms (lower risk). Small firms were disadvantaged in capital markets because they lacked the collateral security or knowledge to secure conventional financing, were perceived as higher risks and deemed less profitable. Therefore, small firms lacked access to the resources necessary to expand, modernize or grow. Their stunted growth prevented small firms from increasing employment and productivity and contributing fully to overall economic growth in the economy. Governments responded with policy measures to address these financing gaps. In today’s economy, capital markets are much more developed. Myths about the higher risk and lower profitability of small business lending are being debunked and traditional lenders are increasingly targeting the small business sector as a profitable growth market. However, financing gaps still exist in segments of the market, defined either in terms of stage of business development, target group, sector or geographic region.

A government’s approach to addressing the small business financing gap depends greatly on its assessment of the ‘availability’ versus ‘access’ problem, the state of private sector capital markets, its priorities for economic development and its assumptions about the interventionist role of government in the marketplace. (For example, we noted that some governments are very actively engaged in direct SME financing programs, while others play only a minimal direct role.
Australia was the strongest example of the latter case. Many Australian experts told us ‘grants and subsidies are out!’). Having said that, most central governments are actively involved in a multiplicity of measures to address SME financing needs (Table 4). These include the creation of small business banks and the development of government small business loan guarantee programs, micro-loan funds, growth loan funds, R&D seed capital programs, venture capital funds, angel investor networks and databases, investment tax credits, start-up grants for unemployed people, and financing information programs.

In terms of recent developments, the trend has been moving away from grants and subsidies to repayable loans and equity programs. There is a growing emphasis in all countries towards equity forms of financing. The trend is gradually shifting in most countries from formal venture capital to informal angel investment; the latest focus is on bridging the gap between informal private investors, or business ‘angels’, and entrepreneurs in need of equity. Another trend is to reduce the cost of small firm lending by simplifying loan approval processes, using online loan applications, using credit-scoring techniques, and prequalifying loan approvals. Many of these innovations have been initiated in the US.
Table 4: Diversity of Financing Measures

<table>
<thead>
<tr>
<th>Financing Instrument</th>
<th>AS</th>
<th>CA</th>
<th>FL</th>
<th>IR</th>
<th>NL</th>
<th>SP</th>
<th>SW</th>
<th>TW</th>
<th>UK</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government SME loan or mutual guarantee program</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government SME bank</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Micro-loan funds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special loans for growth firms</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate subsidies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D loans and grants</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government-stimulated venture capital programs/funds</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Tax relief for angels and private investors</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Angel networks/databases</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Start-up grants to unemployed people</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
<td>X</td>
<td></td>
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</tr>
</tbody>
</table>

Because we are interested in policy and measures to stimulate entrepreneurship, that is, increased levels of business start-up and early-stage growth activity, we paid particular attention in our case studies to start-up and seed financing trends. When governments shift their focus to start-up and entrepreneurship policy objectives, one of the first questions they have to ask is how much of the available SME financing is finding its way into start-up firms. Not very much data exists about this, so it is not well quantified. Indications are that less than 30% of commercial bank loans are small business loans and that only a small percentage of this goes to new firms. Reynolds et al. (2000) reported than only 9% of UK venture capital, 16% of Spanish venture capital and 15% of Dutch venture capital is invested in new, young firms. They also estimated that over 80% of informal angel investment is in support of new firms.

With respect to start-up and seed capital, policy measures serve two primary objectives: 1) to fill the start-up financing gap for people who do not meet the ‘track record’ and collateral security criterion of traditional financiers, and 2) to fill the seed capital and mezzanine financing gap for technology-oriented and high growth-potential firms. Loan guarantee programs aim to either reduce bank risk in small business lending or increase the level of understanding banks have about the small business market and client. Micro-loan funds are often targeted to specific groups, such as women, young people and ethnic minorities, or to economically disadvantaged regions. R&D grants and loans and venture capital funds are most often directed at early-stage high-potential firms that have difficulty attracting risk financing. To address the regional imbalance in the supply of venture capital, the US, the UK and Ireland have recently launched regional venture capital initiatives. In 2000, the US SBA funded three venture capital programs for investment in women-owned firms. In 2001, governments in both Ireland and Australia funded university-based seed funds to stimulate the commercialization of R&D outputs. The objective of these seed funds is to overcome the ‘innovation progression gap’. Investment tax credit schemes are another strategy in place to encourage higher levels of private sector equity investment in SMEs. These exist in several countries.

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18 Based on research in the US, Canada and Taiwan where the government requires banks to report annually on their small business lending practices.
19 CORD, the Commercialization of R&D; Campus Venture Capital (Enterprise Ireland).
20 Pre-Seed Fund for Universities and Public Sector Research Agencies (AusIndustry).
A growing body of research on the size of the informal investment market suggests that it is larger than the formal venture capital market. In addition, the majority of informal investment finds its way into start-ups, whereas the venture capital market is more likely to be accessed by more established firms. Governments in Canada, Finland, Ireland, the UK, the US and Taiwan are supporting the development of angel databases and other matching forums to improve the flow of information between individuals with money to invest and entrepreneurs who need it. Most notable among these is Industry Canada’s Canadian Community Investment Program, a 22-community pilot to experiment with approaches to building Investment Facilitation Services at the local, community level (see The Winning Formula for lessons learned, www.ccip.gc.ca).

Our conclusion is that while a large amount of government resources are being allocated to address SME financing gaps, not much is known about the extent to which they are solving the problem or the actual impact of these efforts.

The Entrepreneurship Policy – Making Process

We only found three cases of holistic E-policy in this study, the Netherlands, Finland and the UK. Why did these particular governments pursue entrepreneurship policy? In the late 1990s, the Netherlands and Finland had relatively low levels of business owners per 1000 inhabitants, low start-up rates and low self-employment rates. The Netherlands and Finland have relatively low shares of total employment in SMEs (see Appendix) and the UK has had no net growth in the number of enterprises since 1995. The number of self-employed persons in the UK has decreased by 10% since 1990. They all share a desire to be more competitive in the global economy and believe that increasing the level of entrepreneurial activity will lead to higher levels of innovation, productivity, and economic growth.

They all started with the development of a White Paper in which they amassed the findings of existing and commissioned research studies on the state of entrepreneurship in their respective countries, on the factors giving rise to an ‘entrepreneurial economy’, and on the role of an ‘entrepreneurial economy’ in future competitiveness and economic prosperity. They each had the benefit of documents produced by public policy research institutes or universities calling for a more entrepreneurial society, i.e., the Institute for Public Policy Research in the UK, EIM Business & Policy Research in the Netherlands, and the University of Vaasa in Finland. They were all influenced by the compelling economic arguments that a high level of turbulence (business entry and exit dynamics) drives innovation and economic growth. They used their White Papers to conduct a series of consultations, to identify relevant policy areas and then to build their E-policy agendas and work plans. They all put new structures in place to manage the implementation of their E-policies. They struck a number of Advisory Committees and Working Groups to examine particular aspects requiring more detailed examination (e.g., taxation issues,

21 30 and 38 per 1000 respectively, based on 1998 figures, EIM.
22 The percentage of total employment in SMEs for the latest year for which data was available was 37% in the Netherlands, 30% in Finland and about 45% in the UK. This compares to about 42% in the US, 55% in Australia and 78% in Taiwan.
financing issues, regulatory issues). They all have stated objectives for increasing the business entry rate. They have all embarked on a review of regulation affecting business entry, bankruptcy and insolvency and competition. They have all placed the integration of entrepreneurship in the education system as one of their priorities and engaged in a process of collaborating with their ministries of education to make this a reality. They have all developed a series of performance indicators to track the development of entrepreneurship trends, climate and culture. They have all made the link between the innovation agenda and entrepreneurship. They each have buy-in from a number of other government departments and have adopted more horizontal structures for managing implementation of their policies. In other words, there is government wide commitment to entrepreneurship.

Will this work? We have to wait and see. The implementation of their strategic plans only began in 2000. Their commitment to monitoring, evaluating and reporting progress in a number of key areas on a regular basis will shed light on the short-term impact of their activities. The Netherlands has already seen a rise in business entry rates, surpassing its initial objective to increase the number of new firms by 25%. But many of the measures will have longer-term outcomes, for example initiatives in the education system.

The State of Small Business and Entrepreneurship Research

Lessons learned from Finland, the Netherlands and the UK demonstrate the importance of research in E-policy making. The state of small business and entrepreneurship research in each of the countries in this study is variable. More knowledge exists in some countries than others. This knowledge is based on countrywide statistical data on SMEs including business entry, exit and survival rates, government research reports, and a body of academic research. The SMEA in Taiwan and the SBA in the US are directed by government mandate to produce an annual report or white paper on small business. An annual report on small business can also be found in Ireland, Australia, Finland, and the Netherlands. These reports document the government’s progress in implementing small business policy measures and often update SME sector trends.

Some country-specific research emphasises the macro-economic environment for small firms; some of it examines individual and collective small firm characteristics, behaviour and performance; some of it focuses on entrepreneurs and their behaviour; the rest of it examines the field of entrepreneurial culture and potential. The US would be the world leader in SME and entrepreneurship research. There is a multitude of academic researchers in the field as well as a number of private organizations that contribute to this base of knowledge (e.g., RISEbusiness, Kauffman Foundation, Cognetics, Inc., the National Commission on Entrepreneurship, NFIB Education Foundation, Wells Fargo Bank, the National Foundation for Women Business Owners). In several countries, but not all, entrepreneurship-oriented research institutes or networks exist. For example, the Institute for Small Business Affairs in the UK, the Swedish Foundation for Small Business Research in Sweden, the Chung-Hua Institution for Economic Research in Taiwan and EIM Business & Policy Research in the Netherlands. These serve as think tanks for public policy research on entrepreneurship and small business issues.

Having said that, we do not actually know very much about how public policy measures influence the level and quality of entrepreneurial activity. We are only beginning to see comprehensive evaluation frameworks for the implementation of entrepreneurship policies, most
notably in the Netherlands, Finland and the UK (see country reports in Chapters 5, 7 and 11). Nor do we know very much about the relationship between positive attitudes towards entrepreneurship, entrepreneurship education, the presence of opportunistic environments AND the propensity to start a business OR the interaction effects of motivation, skills and opportunity. We also do not know very much about the impact of a country’s culture and prevailing attitudes about employment on entrepreneurial activity levels. For instance, our study reveals that in spite of highly favourable public attitudes towards entrepreneurship in some countries, the level of entrepreneurial activity remains low. In the case of Sweden, Finland and the Netherlands, as examples, there may be a number of ‘quiet disincentives’ in the taxation and social security systems that inadvertently and subtly weigh against the entrepreneurship option as an occupational choice (discussed in Verheul et al., 2001). These are fertile grounds for further research.

Performance Indicators - Trends, Measures and Outcomes

The move to any new policy area demands new thinking about how progress will be measured. What performance indicators are needed? What types of evaluation should be undertaken? How will progress be measured? What are the appropriate benchmarks against which to monitor developments over time, or in relationship to other regions or nations? In this section we emphasize some of the emerging developments in this area of entrepreneurship policy, based on the insights gained from our ten cases.

A number of trends are worth highlighting. First of all, with the increasing emphasis on the ‘entrepreneurial economy’ we notice two things: 1) less interest in measures motivated from a neo-classical point of view, i.e., less concern with external effects or imperfections in the market, and 2) less interest in individual firms, i.e., measuring the impacts of ‘picking the winner’ strategies. Instead, a whole new category of performance indicators is emerging. These are referred to as measurements of ‘general entrepreneurship trends’ and ‘entrepreneurship climate/culture.’ From our case studies, it is evident that Finland, the Netherlands and the UK are particularly focused on articulating these measures. Indicators to measure increases in the entrepreneurial climate/culture include things like increases in the entrepreneurial potential of the population, improvements in social attitudes towards entrepreneurship, increases in the preconditions for becoming an entrepreneur and decreases in obstacles. In the Netherlands, the government has established a set of performance indicators that include:

- measure of ‘dynamism’ - the level of business start-ups, exits and growth firms,
- measure of social value attached to entrepreneurship - increases in the number of sole-traders,
- measures of reduced administrative burden - reduced time and cost to start a business and reduced barriers to hiring the ‘first’ employee,
- measures of the impact of entrepreneurship education inputs – the number of professors who teach entrepreneurship and the attitudes of students towards entrepreneurship, and
- measure of local/regional policies - business entry, exit and turbulence rates in each of 25 cities.

See Lundström and Stevenson, 2001, EndNotes.
In the UK, the SBS evaluation framework for the *Think Small First* policy includes performance indicators to measure changes in the entrepreneurial culture and environment for small businesses, changes in entrepreneurial motivation and behaviour, and changes in small business practices and performance. (Readers are directed to Section 3 of case reports for the Netherlands, the UK and Finland for more detail on their E-policy evaluation frameworks and performance measures).

We observed a trend to develop performance indicators for specific entrepreneurship policy/program areas like entrepreneurship education, entrepreneurship promotion, start-up financing, administrative obstacles to business entry, etc. We also see the use of new indices to measure entrepreneurial vitality in a region or country, such as:

- ‘business formations per capita’, a measure of the business start-up propensity in the population;
- ‘enterprises or business owners per capita’, a measure of the density of entrepreneurs in the population;
- the Total Entrepreneurial Index, a measure of the prevalence rate of entrepreneurial activity in a region/country; and
- business ‘turbulence’, a measurement of the business dynamics of entries and exits.

Static and dynamic measures like these enable international comparisons on a country-by-country basis, which in turn, leads to international benchmarking of entrepreneurship levels. These mirrors the existing capability and practice of countries to benchmark their SME sector against that of others, a pattern we also see in many of the cases in this study. At this point, the development and adoption of ‘entrepreneurial activity’ performance indicators and measures is in very early stages and certainly not widespread. Only a few of the economies have made progress in this area and then only recently. But the importance of entrepreneurship in a government’s policy mix is being raised as a result of the ability to identify and quantify such inputs, outputs and outcomes. Driving forces making these developments possible are current research linking entrepreneurial activity to economic growth, attempts to define the intervening variables, and development of methodologies and instruments to collect data and track trends over time. The research of Paul Reynolds and his 21-country GEM team to track nascent entrepreneurs, and of Finnish researchers at the University of Vaasa to track the movement of the population through all phases from positive attitude to pre-intent to start-up action (Vesalainen and Pihkala 1999 and 2000), are only two examples of work that is leading to the identification of key entrepreneurial activity measures. Another aid is the work of the European Union which has developed a list of general indicators based on EU-member practices under the BEST (Business Environment Simplification Task Force) Action Plan to Promote Entrepreneurship and Competitiveness.

**Best Practice Measures**

Finally, before moving to our concluding comments, we want to briefly draw attention to some of the innovative and ‘best practice’ approaches in each of the E-Policy areas that we found in this study. For this purpose, we have made up a special matrix that sorts measures by policy area (Table 5). Many of these best practices are fully described in Stevenson and Lundström (2001
forthcoming).
CONCLUSIONS

The economies in this study have diverse structures, diverse philosophical underpinnings, diverse ideologies and diverse economic/social goals. Some are led by conservative/republican governments, some by liberal governments, some by social democrats and some by labour. This means they fall along the continuum from right to left, from ‘entrepreneurial economy’ to ‘managed economy’, from individualistic to collective, etc. But regardless of this, they are all making their way along the road from small business to entrepreneurship policy. All are exploring what needs to be done to produce a more ‘entrepreneurial economy’. As governments realize the significant implications of business entry and exit ‘turbulence rates’ and the dynamism of the small business sector for innovation and growth, it will be hard for them to ignore the need for enhanced entrepreneurship support in all the areas outlined above. In this era of rapid technological change, globalization and virtual mobility of money, ideas and people across borders, governments must adopt new approaches to innovation and growth.

Businesses are in the constant process of starting, expanding, contracting and disappearing. With this activity, jobs are also being created and lost. We know that small businesses are creating jobs faster than they are losing them. We know that new, young firms are responsible for a significant share of gross and net new jobs. We need new businesses to replace the ones exiting for reasons of bankruptcy, retirement, marginality and lack of competitiveness and innovation and to help create new jobs to replace the old ones. It is therefore essential to increase the supply of new entrepreneurs. There is evidence in this study that governments are seeking to be more strategic in this task. Granted, there is still a lot we do not know about the entrepreneurial process, but benchmarking against the experiences and performance of other countries will serve to fill some gaps and perhaps stimulate efforts to renew the search for more innovative approaches (think-tanks, policy fora, research, etc).

The first step along the journey to E-policy is a process of questioning about the current situation. Governments must take stock of where they are in terms of being an ‘entrepreneurial economy’. Not all will be starting from the same base because of differences in their industrial structures, their current economic/industrial policies, the current role of new and small businesses in their economies, the state of their business support infrastructure, and their cultural and social values. Thus, the ‘E-policy gaps’ to be filled will differ. Some of these key areas for questioning are outlined in Table 6. To determine where the gap is, one might ask questions such as:

- Are the attitudes towards entrepreneurship in the population positive or negative?
- Are attitudes towards entrepreneurship favourable, but business entry rates low?
- Does it take a long time and a lot of money to register a business? To incorporate a limited liability company?
- Do fears hold people back from considering entrepreneurship? If so, what are those fears?
- Is the media favourably disposed to the ‘entrepreneurial’ story?
- Does the country have an abundance of credible entrepreneurs as role models?
- Is entrepreneurship seen as an attractive option among young people and students?
Do students have a low level of confidence in their ability to start a business?
Are there regional variations in enterprise density?
Is the business entry rate too low?
Is there a low percentage of growth firms?
Are there a large number of sole traders or solo entrepreneurs who cannot overcome the threshold to hire their first employee?
Is there under representation of business ownership among some segments of the population?
Are market, social, labour market, education and other system failures impeding the level of entrepreneurial activity and what are they?
Is it difficult for entrepreneurs to restart after a business failure? How can these difficulties be reduced?
Is there sufficient community support for entrepreneurs, particularly at the start-up stage?
Are there lots of places where people can learn and develop entrepreneurial skills?
Is it difficult for people to gain support for their business ideas, including technical assistance and financing?
Are innovative entrepreneurs able to secure financing for the developmental stages of their project ideas?
Is there a sufficient base of quality entrepreneurs in the economy to maximise opportunities vis-à-vis the commercializable potential of R&D outputs?
Are private sector venture capital markets oriented to meeting the needs of entrepreneurs?
Are there a lot of opportunities for people to start service-oriented businesses?

A government has to determine where the gaps to entrepreneurial activity exist within their context and then decide how to best address each of those gaps. Based on the collective knowledge gained from these ten case studies and the experiences of individual economies, we present below a guideline to some of the critical areas of questioning and possible actions.
Table 6: A guideline to the critical areas of E-policy questioning

<table>
<thead>
<tr>
<th>Policy Issue</th>
<th>Implication from case study experiences</th>
<th>Examples of policy measures and actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Culture – social attitudes towards entrepreneurship; legitimacy and social value attached to entrepreneurship</td>
<td>Countries with weak entrepreneurial cultures have lower levels of entrepreneurial activity. Countries where the entrepreneurship culture is more embedded in society are also the ones with the highest societal support and penetration of media promotion of entrepreneurship (US, Canada, Taiwan).</td>
<td>Proactively promoting the important role of entrepreneurship in the economy – use of media, high profile events, awards, etc. Partner with the media in promotion activities.</td>
</tr>
<tr>
<td>Ease of business entry</td>
<td>Countries with complex and costly business registration processes have lower levels of entrepreneurial activity. Countries with restrictive competition policies and higher levels of public ownership of enterprises have lower levels of entrepreneurial activity.</td>
<td>Reduce administrative and regulatory procedures associated with business entry; simplify registration processes; amend Incorporation Laws; privatize government enterprises; revise Competition Policy; examine Bankruptcy rules.</td>
</tr>
<tr>
<td>Level of entrepreneurial skills</td>
<td>Lack of know-how about how to start a business, find and evaluate a business idea, do business planning, execute a business plan, manage a new business are impediments to entrepreneurial activity. Students have a low level of confidence in their ability to be an entrepreneur. Entrepreneurs express preference for learning from their peers.</td>
<td>Integrate entrepreneurship education at all levels of the education system across all program areas and disciplines; implement mentoring programs; offer advice and counselling services to nascent entrepreneurs; build peer and horizontal networks.</td>
</tr>
<tr>
<td>Availability of financing</td>
<td>Lack of access to financing is an impediment to entrepreneurial activity.</td>
<td>Introduce micro-loan funds or loan guarantee programs; stimulate informal and venture capital investment; produce information on types and sources of financing; build financing databases.</td>
</tr>
<tr>
<td>Accessibility of business information</td>
<td>Lack of knowledge about business opportunities, markets, regulations, etc. inhibits entrepreneurial activity.</td>
<td>Set up one-stop shops, business service centers, business information websites; conduct information fairs and regional forums.</td>
</tr>
<tr>
<td>Policy Issue</td>
<td>Implication from case study experiences</td>
<td>Examples of policy measures and actions</td>
</tr>
<tr>
<td>-----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Equality of entrepreneurial opportunity for all segments of society</td>
<td>Many countries find that certain segments of the population are underrepresented in business ownership statistics. Tailored enterprise support programs produce higher growth rates among these groups.</td>
<td>Implement selected target group programs, depending on country situation. Enterprise centers, advice, counselling, financing, promotion, networks, mentoring, etc.</td>
</tr>
<tr>
<td>Availability of business premises and broad-band facilities</td>
<td>Lack of suitable business premises and services can inhibit entrepreneurship. Incubators can serve as a nucleus for regional development activity and generate a critical mass for growth in strategic sectors.</td>
<td>Establish a small business incubator program, complete with full service approach – coaching, mentoring, networking, technology and marketing expertise, venture funds, broad-band access.</td>
</tr>
<tr>
<td>Ability of new, young firms to grow</td>
<td>Some countries have a high percentage of ‘solo’ entrepreneurs; most firms start small and stay small. In some cases this is an individual choice of the entrepreneur; in others it is due to growth barriers or a lack of know-how.</td>
<td>Implement measures to help new, young firms pursue growth strategies. Examine barriers to ‘hiring’ the first employee; reduce non-wage labour costs; provide tax breaks so new firms can retain more income for reinvestment and growth; examine tax treatment of self-employment versus corporate income; reduce administrative and regulatory burden; simplify reporting requirements; facilitate networks and mutual co-operation.</td>
</tr>
<tr>
<td>Links between innovation agenda and entrepreneurship</td>
<td>Entrepreneurship and innovation are both critical elements of the ‘entrepreneurial economy’. Countries that make the link between these two policy areas are positioning themselves for higher levels of economic prosperity.</td>
<td>Support for campus incubators. Introduce entrepreneurship in engineering and technology programs. Support R&amp;D efforts of emerging entrepreneurs with innovative ideas. Target researchers and technologists for entrepreneurship support.</td>
</tr>
</tbody>
</table>

**Some Insights from Ten Cases**

- E-policy focuses on improving the culture and climate for entrepreneurial activity. It addresses areas related to increasing the number and quality of entrepreneurs, easing business entry conditions and creating the conditions to support the start-up and early-stage growth of new firms. Its objectives are broader-based than traditional SME policy, going beyond improving the access of individual firms to resources to increasing the future supply of knowledgeable entrepreneurs.

- **Context matters.** The starting point for E-policy differs depending on the social and economic context of an economy, e.g., history, culture, social values, industrial structure, the current state of entrepreneurial activity, economic and business support infrastructure. A government has to examine its own cultural and economic framework to determine the areas of E-policy in need of the most attention. If culture is an issue, then efforts may be
needed to create awareness and build the base for a stronger entrepreneurship culture. If access to opportunity and resources are a problem, then these may need to be addressed first. If a lack of entrepreneurial competence is a problem, then this might lead to education initiatives, etcetera. However, even in countries with a strong entrepreneurship culture, it is still important to continue entrepreneurship promotion efforts, to help people discover and develop their entrepreneurial potential, to sensitize regulators about entry barriers, and to maintain a favourable environment for new and growing firms (insight from the US and Taiwan).

- **Structure matters.** E-policy is policy interdependent and integrates a number of other policy areas, such as taxation, labour and employment, regional development, science and technology, social affairs, education and training, regulatory and public administration are all implicated. Countries with holistic E-policies in place adopt more horizontal approaches to the policy agenda. This demands the co-operative involvement of several ministries as well as engagement of other levels of government on a regional basis. A particular feature of the new policy structure is designation of a ministry, agency or division as the government’s central ‘entrepreneurship policy champion’. Adoption of a government-wide commitment to E-policy measures is an essential element. New institutional arrangements may be required at the local level, i.e., service providers. Educators and media representatives should be part of this new structure.

- **Integration of E-policy measures matters.** Regardless of the starting point for a government’s E-policy, integration of policy measures is important. For example, ‘societal-readiness’ is a critical factor in the successful of attempts to integrate entrepreneurship in the classroom, therefore, promotion and education go hand-in-hand (insight from Finland). Respect for entrepreneurship as a career is a necessary but insufficient condition to drive higher levels of entrepreneurial activity (insight from Australia). Removing obstacles to business entry will not be sufficient in stimulating higher levels of entrepreneurial activity IF entrepreneurship is not already sufficiently embedded in the culture (insight from the Netherlands). Small business support and assistance programs are a necessary but insufficient condition for fostering entrepreneurship (insight from Finland). Effective E-policy integrates measures.

- **Research matters.** Informed E-policy requires a solid statistical and research base. The central statistics office for the country should have the capacity to collect, analyse and report on start-up, exit, survival and growth trends within the business sector on a longitudinal basis. Research programs should be funded to collect information and conduct analysis on the entrepreneurial sector. This might include policy-relevant research on domestic entrepreneurship trends, the demographic make-up of new and emerging entrepreneurs, the barriers to business entry and growth, regional variations in enterprise density, the impact of individual E-policy measures, and international trend comparisons. The existence of a research-policy think-tank is an asset.

- **Ease of entry and exit matters:** There are a number of overt and ‘hidden’ barriers to the entry, growth and exit of firms in every country. It is essential to ask the question ‘what are the obstacles and barriers to the start-up and growth of new businesses’ and then to examine the impact of every government department’s activity in relationship to this question. Disincentives in the system should be eliminated.
• *The diffusion of entrepreneurship throughout the education system matters.* The base of an ‘entrepreneurial economy’ is knowledge. Knowledge of the entrepreneurial process is a key to future economic growth. To develop the next generation of entrepreneurs, the cross-disciplinary education process starts today.

• *The presence of ‘entrepreneurship champions’ matters.* One finds entrepreneurship champions in a number of domains – academia, government, economic development organizations, business associations, political circles and corporate environments. These champions play an important role in advancing the E-policy agenda. One of the problems is that there are not enough of them at present, particularly within government, and they are often not ‘clustered’ into a network.

• *Exposure matters.* The level of entrepreneurship in an economy is influenced by the density of its entrepreneurial base - SME employment share of total employment, business owners per capita, number of people who currently have, have had or plan to have a business, etc. Work experience in a small firm, exposure to role models, knowing a lot of business owners, seem to be strong influencing factors in a person’s decision to start a business. It is important to build ‘enterprise density’.

• *Performance indicators and measures matter.* What gets measured, gets attended to. A new set of performance indices and measures is being developed for the evaluation of E-policy. These should be explored and adopted for use by more governments.

• *The level of resourcing matters:* Within the context of this study, it was not possible to estimate the percentage of government expenditures allocated to entrepreneurship policy measures, but based on limited evidence one could say they are not well resourced. One US study revealed that state departments of economic development allocated less than 1% of the $2.6 billion state economic development budget for entrepreneurship activities in 1998. The situation improves considerably when a government adopts a holistic E-Policy, but if E-policy is a priority, the issue of resourcing each area needs to be examined.

In the process of our research, we found many references in ministerial speeches and government department press releases to the importance of building an entrepreneurship culture. This was true in most of our cases. At this point, there seems to be more rhetoric than integrated action, however, good examples of entrepreneurship policies and measures can be found in each country. The next ten chapters present detailed profiles of each of our case studies, outlining what they are doing, why they are doing it, and how they are going about it.
REFERENCES


PART TWO
CHAPTER THREE

THE CASE OF AUSTRALIA

INTRODUCTION

Australia is an island continent of 7.75 million square kilometres with a population of 19.2 million people. Its population grew by 1.02% in 2000. Much of the country is sparsely populated as 12.5 million of its population (70%) live in the Adelaide, Melbourne, Sydney Triangle. Its GDP was US$416.2 billion in 1999 and grew at an annual rate of 4.2% between 1995-99. Per capita GDP is US$22,200, the fourth highest of the ten countries in this study. Service sector output to GDP is 71.0%, followed by manufacturing output to GDP of 26.0% and agricultural output to GDP of 3%.

The labour force in 1999 reached 8.9 million, a labour force participation rate of 64%, 73% among men and 54% among women. Unemployment is low at 6.4% (2000) and the self-employment rate is estimated at 13.5%. About one-third of the self-employed are women. While women make up 43% of the labour force in Australia, they comprise only 32.7% of the small business owners. About 17% of men in the labour force are self-employed but only 10.8% of the women.

There are about 1 million enterprises in the country (in 1999, 1.4 million people owned 999,100 small businesses). The SME share of private sector enterprises is 99.7% and of private sector employment is 74% (firms with under 200 employees). The number of small firms increased by 3.7% from 1997-99.

Australia ranked 4th out of 21 countries on the Global Entrepreneurship Monitor Total Entrepreneurial Activity Index in 2000. About 10% of Australian adults were either involved in

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2 Ibid.
5 Ibid.
7 Ibid.
8 Hindle, Kevin and Susan Rushworth, Yellow Pages Global Entrepreneurship Monitor: Australia 2000, Swinburne University.
SECTION 1: DEVELOPMENT AND EVOLUTION OF SME POLICIES AND PROGRAMS

A: Australia’s Industrial Policy

There is a federal system of government with responsibility for small business shared between the national government based in Canberra, six state governments and two territorial governments. The federal government has responsibility for international trade and commerce and some aspects of domestic trade that impinge on small business such as, company regulation, trade practices legislation, bankruptcy, copyrights and patents, company registration, taxation and the regulation of industrial awards. State and territorial governments have responsibility for corporate affairs including tax returns, taxation on business transactions, payroll tax, licenses and permits and business name registration. Local governments control things like advertising practices, health regulations (e.g., food and drug), zoning and the use of premises regulation.

The Howard government came into power in March 1996 and immediately embarked on a new Plan for Australian Industry. The overall aim is to generate annual growth rates of 4% during the decade to 2010 by focusing on productivity, competitiveness and growth. The main objectives of the industrial policy are to: 1) support business R&D and commercialization, 2) attract investment to Australia, 3) increase trade (‘trading nation’ concept), 4) improve the attractiveness of Australia as a financial centre, and 5) maximize the opportunities and benefits of the global information age. Budget allocations were made for investments in innovation (A$1 billion over four years for the R&D Start Program), establishment of Invest Australia to attract strategic investment projects to Australia and expansion of the Export Market Development Grants Scheme by A$150 million a year from 2000-2002. Additional investments were allocated to increase the country’s attractiveness as a financial centre and to foster development of information industries. The total budget for the Investing for Growth policy was A$1.26 billion over four years to 2002. Sectoral support policies are in place for industries such as Textiles, Clothing and Footwear and Automotive.

The Howard government has reformed the outdated industrial relations system, implemented a program of privatization (National Rail, TELSTRA, and airports), cut red tape and reduced regulation for small business and made reforms to commercial industries and the financial sector. Also part of this strategy was a plan to overhaul the tax system to support the enhanced competitiveness of Australian business. In 2001, the Howard Government issued the Innovation Statement Backing Australia’s Ability. The Statement focused on three key

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areas: strengthening Australian research capacity, accelerating the commercial application of ideas and developing and retaining Australian skills (see www.innovation.gov.au).

The Government’s approach to fostering the growth and development of the Australian small business sector is to:

- deliver sound economic fundamentals with low inflation and interest rates, and sustainable economic growth;
- implement wide ranging reforms in areas including taxation, red tape reduction, fair trading, the labour market, workplace relations, and the financial sector; and
- implement targeted measures to support and benefit small business, such as mentoring and skills development, through the Small Business Enterprise Culture Program and the Business Entry Point initiative.

B: Small Business Policy Development

The government’s attention to small business as a policy area dates back three decades. According to Geoff Meredith10, there was little, if any, government intervention with small business prior to 1970. Government decision-makers assumed big business was the key to economic growth and the attitude of small business owners was ‘leave us alone’. No SME statistics were produced, few universities offered small business courses and there were no federal or state Ministers of Small Business. By 2000, all State and Federal Governments had Ministers of Small Business, SME statistics were produced regularly by the Australian Bureau of Statistics, several small business investigation studies had been commissioned, the government had established consultative mechanisms linked to small business (a Ministerial Council and a National Forum). Legislation had been put into place, which concerned tax reform, start-up assistance, franchising, reduction of red tape, financial support and training and workplace reform. Several colleges and universities had started offering small business and entrepreneurship courses.

Entrepreneurial behavior started in Australia with the advent of the Wiltshire Committee, which tabled its findings in 1971. As an outcome, the National Small Business Bureau was established in 1973. New South Wales, Victoria and South Australia set up Small Business units, agencies or development corporations to administer a Small Business Grants Scheme and to provide advice, training and consultancy services. The first national initiative was a National Enterprise Workshop that encouraged teams of university students to develop business plans. This project has been running for 20 years and has spread to every state. The first small business association, the Australian Association of Independent Business, was launched in 1977 and the same year, the federal Department of Trade and Industry established a Small Business Register.

In the early 1980s both Queensland and Western Australia set up Small Business Development Corporations. In 1984, the Small Business Development Corporation Act was

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passed with clear objectives and functions to develop policy objectives for government SME assistance programs, to evaluate government programs in light of these objectives, to make recommendations for improvement of such programs and to assist the government in matters relating to development of the SME sector.


The Small Enterprise Association of Australia and New Zealand (affiliate of the International Council for Small Business) was formed in 1987 and this fostered a network of academics, researchers, professionals, and entrepreneurs who were interested in small business research and networking.

Rationalization of small business support programs began in the 1990s and a number of policy and program reviews were undertaken with concomitant changes in structures and the provision of services. During the 1990s most of the Small Business Offices were integrated with the Departments of State Development (Victoria, Queensland) or the Department of Trade and Commerce (Western Australia). State governments started to repeal their Small Business Development Corporation Acts (Queensland, Victoria and South Australia). A network of Business Enterprise Centres (BECs) was opened in several other States. The federal government began producing its Annual Review of Small Business report.

In 1995 the report of a major government-sponsored research on Australia’s ability to compete in the global economy was released. This was a three-year, A$2 million study which incorporated the results of a number of individual pieces of national and international research. Enterprising Nation, commonly referred to as the Karpin report, included five volumes and addressed the many issues affecting the development of an enterprise culture and the development of stronger business management and leadership skills for a more globally competitive Australian economy. The report outlined 28 recommendations for strengthening Australia’s SMEs. This report resulted in several outcomes:

- The Australian Institute for Enterprise Facilitators (AIEF) was established to develop and offer professional development opportunities for small business advisers and counsellors, leading to accreditation for advisers.
- Most university business schools reevaluated their curriculum and introduced an international focus.
- TAFE developed and offered a number of management training programs for first line supervisory and other levels of SME managers; thousands of SME managers participated in this training.
- The Department of Education, Training and Youth Affairs funded the national Enterprise Education in the Schools Programme to integrate enterprise curriculum in the school system. The initial three-year project funding was about A$3.4 million.

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• A four-year, A$5.7 million Small Business Research Program was funded at the Australian Bureau of Statistics to undertake a Business Longitudinal Study of the business sector to track the performance and growth of over 5,000 enterprises, with a focus on small businesses.

• A four-year Small Business Professional Development Program was funded through the Office of Vocational Education and Training to address the issue of small business training by developing innovative approaches and learning models appropriate to the needs of small firms. Numerous materials were developed as part of the project in partnership with State and Territorial Training Authorities.12

• A three-year, A$38 million Business Networks demonstration project was launched to test approaches to the effective development of structured business networks among small firms (based on the successful Denmark project).

The report Small Business Agenda for the New Millennium formed part of the Government’s 1998 election platform. The aims of this three year action plan were to improve the business environment in which small businesses operate, ensure consultation with small firms on matters which affect them, reduce the burden of regulation, promote a fair trading environment for small firms through the effective resolution of trade practices issues, identify and overcome instances of market failure of particular relevance to small firms and enhance the competitiveness of small business (www.dewrsb.gov.au/smallBusiness/policy).

The Office of Small Business

The Office of Small Business, located in the Department of Employment, Workplace Relations and Small Business (DEWRSB), is the focal point for the development and consideration of small business policy issues at the national government level. The Office's key objectives are to:13

• Provide advice and support to portfolio Ministers on small business issues;

• Build and maintain effective links with small businesses and their representative organizations;

• Act as a conduit for effective policy advice to Government on small business issues;

• Foster an understanding of the critical factors influencing the growth of small firms and the small business sector generally.

Over 30 people currently work in the Office of Small Business. Much of the work involves working with other agencies that have prime responsibility for a particular issue. These agencies include the Australian Taxation Office, the Australian Bureau of Statistics, the

12 For information on the Small Business Professional Development Programme, visit www.smallbusiness.info.au/aboutus.htm.
Department of Industry, Science and Resources, and the Department of Communications, Information Technology and the Arts.

**Small Business Ministerial Council and National Small Business Forum**

In 1999, the Minister for Employment, Workplace Relations and Small Business established a *Small Business Ministerial Council* (SBMC) which brings together Ministers from each Commonwealth State and Territory to deal with issues of common concern to small business. The Council’s objectives are to:

- Provide a forum for Ministers to discuss small business issues of mutual interest;
- Promote a national, consistent and coordinated approach to small business policy and development, and,
- Provide the means to achieve integration of action by governments on small business issues, where appropriate.\(^{14}\)

The SMBC has met twice, in October 1999 and November 2000. Issues considered by the Council have included taxation, electronic commerce, targeted government assistance programs, government procurement and purchasing, indigenous small businesses and skills shortages.

Also formed was the *National Small Business Forum*, a major consultative body representing industry and professional associations, which meets twice a year with the Federal Minister responsible for Small Business.

**C: Current SME Policies, Programs and Structures**

The Department of Employment, Workplace Relations and Small Business (DEWRSB) have much of the responsibility for small business policy and support. The Department of Industry, Science and Resources (DISR) is the focal point for delivering business assistance programs and the Innovation Agenda. The national Enterprise Education in the Schools Programme is the responsibility of the Department of Education, Training and Youth Affairs (DETYA).

The priorities of the Office of Small Business are tax reform, reduction of regulatory burden, enhancement of small business management skills, establishment of small business incubators, reform of Fair Trade legislation for the retail sector, the one-stop business information centre and promotion of Indigenous entrepreneurship. The majority of these programs and initiatives are recent, since 1998. The Office commissions and conducts policy-oriented research on issues such as micro-enterprise and home-based business, program evaluation studies and produces an Annual Review of Small Business which reports on developments in the SME sector and the government’s progress in implementing small business policy measures.

\(^{14}\) *Annual Review of Small Business, 1999*, p. 16.
AusIndustry, situated in DISR, delivers the government’s business assistance programs and services. These programs and services include the Business Information Service (BIS), the R&D Start Fund, the Innovation Investment Fund, the Renewable Energy Equity Fund and the R&D Tax Concession; there are about 25 programs. The SME focus is relatively new to AusIndustry and it has taken a fairly conventional approach to development of the SME community. Most of the focus is on increasing exports, innovation, R&D, productivity and investment markets. AusIndustry also focuses on the regulatory environment and the tariff system. The development of venture capital funds and R&D investments and provision of business information are key priorities.

In May 2001, the Minister for Industry, Science and Resources announced the 'Backing Australia’s Ability' innovation agenda. This included an A$2.9 billion fund for initiatives which will enhance Australia’s competitiveness in the global marketplace, its economic prosperity and social well being. Most of the funding was earmarked for the commercialisation of research and new technologies, including pre-seed funds to help commercialise public sector research, venture capital funds, university-based research and research infrastructure, centres of excellence, a Premium Tax Concession rate of 175% for additional R&D investments plus a tax rebate for small firms pursuing R&D. The A$35 million National Innovation Awareness Strategy, announced at the same time, has as its objective to build a national framework of public awareness and support for innovation, leading to an increase in the uptake of careers by young Australians in cutting edge science and technology fields and entrepreneurship. Almost A$4 million of this will be used to promote the importance of innovation to students and teachers throughout rural and regional Australia.

**D: Description of Existing Programs and Services in Support of Entrepreneurship**

**The Regulatory Environment for Start-Ups**

It is relatively easy to start a business in Australia from a procedural point of view, but according to Hindle and Rushworth (2000) entrepreneurs have three major concerns: 1) complexity caused by the sheer volume of regulations, 2) too many points of contact and different departments, and 3) inconsistencies between state and Commonwealth regulations. Hindle and Rushworth (2000) also suggest that barriers to entry are caused by a less than open competition policy.

**Reduction of Administrative Burden**

The government set up a Small Business Deregulation Task Force in 1996 to review the compliance and paper burden imposed by government regulation on small business. It

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15 The AusIndustry definition of a SME is a firm with less than $50M of turnover and less than 100 employees; the typical AusIndustry client has 30-50 employees.

presented its report *Time for Business* in November 1996. The goal was to reduce compliance and paper burden by 50%. The Minister for Small Business and Consumer Affairs announced the reform agenda in March 1997. This reform included initiatives to simplify tax compliance, to reduce complexities and delays in business approvals and registrations, to monitor the potential small business burden of proposed regulations and to accelerate Commonwealth, State and Territorial reform of rules and regulations. A Single Registration process was implemented for all dealings with the Tax Department, the Australian Bureau of Statistics and the Insurance and Superannuation Commission. The Office of Small Business coordinated a number of initiatives to reduce the paperwork and compliance burden on small business. Launched in February 1999, *TimeSaver* gives the opportunity to small businesses to let government agencies know exactly how long it takes to fill out agency forms. Government departments must gather these statistics and use them as benchmarks for making improvements.

Efforts to reduce the impact of new regulation and legislation on small firms are also a priority. The Office of Small Business has worked with other government departments to develop *More Time for Business*, a Regulation Impact Statement that assesses the impact of regulatory options on small business paperwork and compliance costs. Preparation of this statement is required of all government departments and agencies when proposing new legislation. The Office of Small Business has developed a set of nine *Regulation Performance Indicators* (RPIs) which can be applied by all Commonwealth bodies responsible for legislation. These can be used to monitor long term reductions in red tape (see end of chapter for the Regulatory Performance Indicators). The Office produces an annual report on the performance of each department against the RPIs.

*Competition Policy*

The Office of Small Business has undertaken recent work to promote fairer competition in the retail sector to enable micro and small firms to compete more effectively with large retail chains and franchise organizations. Voluntary codes of conduct have been developed within the retail sector and amendments have been made to the Trade Practices Act to enhance small business access to unconscionable conduct provisions under the Act. In 2000, the Office of Small Business released an information kit to assist new and existing retail tenants in understanding their rights and responsibilities under a retail lease. The Code of Conduct for the franchising sector, which took effect in July 1998, is managed by the Office of Small Business, which provides secretariat services to the Franchising Policy Council.

*Employment Legislation*

Another area which falls under the Department of Employment, Workplace Relations and Small Business relates to the Workplace Relations Act, the legislative framework which provides small businesses with opportunities to develop workplace relations arrangements

best suited to their individual circumstances. Details of changes to the Act are outlined in the 1999 Annual Review of Small Business.

**The New Tax System**

A Small Business Consultative Committee has been put into place to advise the government on taxation issues affecting small business. Major taxation reforms to business taxation came out of the Ralph report, *Review of Business Taxation*. These included streamlined-reporting arrangements under the Australian Tax Office ‘Pay As You Go’. The new Business Registration Number was put in place to act as a single identifier for all dealings with the government. In addition the company tax rate was cut from 36% to 34% for the 2000-2001 tax year, and to 30% after that, and 75% of capital gains are now exempt from taxation.

Legislative amendments have recently been made to improve access to the R&D Tax Concession and thus increase investments in R&D. Uncertainties regarding the eligibility of past R&D plant expenditure have been removed and a new 175% Premium for additional R&D expenditure has been announced. Small firms with annual turnover of less than A$5 million will be eligible for a new R&D tax rebate if they spend up to A$1 million per year on R&D. This is expected to provide access to R&D-related tax losses during the early stages of their growth for up to 1,300 small firms.

The **Pooled Development Funds Program** is designed to increase the supply of equity capital for investment in SMEs. The program has amassed A$400 million so far by encouraging people to pool their money for venture capital investments under a tax credit scheme. A new **Employee Share-Ownership Plan** allows employees to defer tax on shares for up to 10 years – this will be particularly beneficial to employees in IT companies, where employee shares are becoming the norm.

**Promotion of Entrepreneurship**

Two Government programs to promote entrepreneurship in Australia were announced in 2001, the *Promoting Young Entrepreneurs program* and the *National Innovation Awareness Strategy*. Promoting Young Entrepreneurs aims to encourage a new generation of entrepreneurs and to publicly recognise those individuals and organisations that have contributed to Australia’s entrepreneurial foundations. *Promoting Young Entrepreneurs* has four main elements:

- A Winners’ Dinner to celebrate the achievements of individuals and teams who have been successful in Australian and international entrepreneurship competitions;
- Case studies of successful young Australian entrepreneurs, to serve as inspirational role models for intending entrepreneurs and other young people;
- Support for participation by tertiary education institutions and their students in business plan competitions;
- A working alliance with the Young Entrepreneurs’ Organisation (YEO) to assist them in their support of entrepreneurship in Australia.

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The program also includes the sponsorship of two key entrepreneurship-related seminars in 2001. Further details are at www.isr.gov.au/industry/innovation.

The National Innovation Awareness Strategy was announced as part of the Government’s Innovation Statement *Backing Australia’s Ability* in January 2001. The Strategy is currently being developed but aims to raise understanding of the importance and commercial potential of science and technology, particularly amongst young people. The Strategy will have elements focusing on the development of entrepreneurial skills in Australian youth.

Other than these programs, small business and entrepreneurship in Australia is promoted through the announcement and provision of assistance programs in their many forms and Small Business Awards. In fact, several **small business awards** are sponsored by AusIndustry and other federal departments, constituting a major promotional effort. These awards include:

- The Australian Chamber of Commerce and Industry National Work and Family Awards
- The TELSTRA and Australian Government’s Small Business Awards (award categories for Innovation, Business with Fewer than 100 Employees, Business with Fewer than 5 Employees, Business with fewer than 20 Employees, Business with Fewer than 50 Employees, and an award for the top small business in each State and Territory).
- Quality Award
- Business Development Award
- TELSTRA Business Women of the Year Award
- Young Achievement Australia Award (given annually in every state to young achievers)
- Export Award

Another promotional tool is the organization and sponsorship of **small business and entrepreneurship related events, conferences, and seminars**. There is an annual conference of the Small Enterprise Association of Australia and New Zealand (SEAANZ), **Small Business-May**, (a New South Wales government initiative involving a set of month long expositions and activities), as well as other national and regional events such as the 1999 Joint National Small Business Advisers Conference.

The consensus of people interviewed during the country visit to Australia in June 2000 is that much more needs to be done. ‘There has been limited widespread promotion of entrepreneurship in the mass media. Some people have wanted to celebrate entrepreneurs on TV and in the media but not much has been done. There is a Sunday morning program on small business on Channel 9, from 8-9 am. They talk techniques of marketing, dealing with GST and sometimes they profile an interesting entrepreneur or small business owner. But that’s it’ (Bailey, 2000). The dot.com hype is beginning to stimulate more of an enterprise culture and more entrepreneur role models exist, but consensus is that this is not enough.
Hindle and Rushworth (2000) report that whereas Australia has lots of sports heroes, it has a lack of entrepreneur heroes. The view expressed by expert informants is that the media prefers to feature ‘bad news stories’ and to profile ‘unscrupulous’ business people. This creates a negative image in the minds of viewers and readers and hinders the development of a positive entrepreneurial climate.

Entrepreneurship Education

The term ‘enterprise education’ is prevalent in Australia; references to entrepreneurship education are rarely made in relationship to curriculum efforts in the K-12 school system, although it is used to describe activity at the university curriculum level. At the vocational educational level, the reference is to small business managers training. This section will discuss the efforts to incorporate enterprise education in the K-12 system and to increase the amount of entrepreneurship education at the post-secondary level.


‘Enterprise education’ at the school level is defined as ‘any educational activity which purposefully develops a student’s capacity and willingness to initiate and manage creative action to achieve outcomes of added value... These outcomes can be personal, social, economic and cultural’.19

The impetus for state education authorities to examine the status of enterprise education in schools was influenced by two federal initiatives and reports: The Shape of Things to Come – Small Business Employment and Skills (1994), a report of the Employment Skills Formation Task Force, and Enterprising Nation (1995), the report of the Industry Task Force on Leadership and Management Skills. The Shape of Things to Come advocated that enterprise education be incorporated into the programs of education and training institutions to develop students’ capacity for self-reliance and self-management, a sense of enterprise, and an understanding of the need for continuous improvement in the workplace. Enterprising Nation recommended that the formal education system be used to expose students at the primary, secondary, vocational, and tertiary levels of education to the value of enterprising and entrepreneurial behaviour and that units in entrepreneurship and small business formation and management be provided in vocational and professional courses.

The view of Industry Task Force members was that in order to survive, businesses had to be better managed, that ‘avoiding bankruptcy can begin at school, by focusing on developing business planning and management skills at school, we can do something about increasing the survival rate of small businesses... there is a need to provide the small business person of tomorrow with the ability to realise small business opportunities and develop an understanding of, and skills in, small business... Students must be provided with the assistance and skills they need to enable them to unlock their intellectual capital and recognise and respond to opportunities. Enterprise education offers a set of keys to that lock’.20

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20 Ibid, pp. 5 – 6.
In 1995, the Australian federal government commissioned a major report on Business Education in Australian Schools to survey and map the state of business education in each state and territory and to develop recommendations on how to foster and promote business and enterprise education in the schools. The report also included commentary on existing entrepreneurship and enterprise education models from Canadian and U.K. schools.\textsuperscript{21} The report concluded that while units of study in enterprise education \textit{did} exist in Australia, there was a need to develop further units and to adapt those in use to ensure further coverage. Only a minority of students participated in these business/entrepreneurship programs, primary schools rarely participated, programs were under funded, and teachers lacked professional development opportunities. There was a need to improve local, state and national co-ordination and networking and to increase resources to encourage teachers across the curriculum to develop enterprise programs.

The report was accepted by the Federal Department of Education, Training and Youth Affairs. State Ministers of Education agreed that Enterprise Education was a priority area for investment and development and in May 1995, the Australian government announced the national Enterprise Education in Schools Programme as part of a broader program to support vocational education and training. The Programme had two elements: the Vocational Education and Training (VET) in Schools Element (A$23.4 million over 4 years to 2000) and the Enterprise Education in Schools Element (A$3.4 million over 3 years to 1999 towards development of enterprise education in schools). The Enterprise Education in Schools (EES) Element of the School to Work Programme was designed to achieve three student-oriented objectives:

\begin{enumerate}
\item To develop a greater understanding of economics and how businesses and other enterprises operate;
\item To acquire competencies, including skills and attitudes, to be enterprising; and
\item To use enterprising experiences to learn any part of the curriculum.
\end{enumerate}

A range of initiatives were funded under the EES including the following:

- initiatives designed to raise awareness (an information kit containing a booklet, purpose-made video and CD ROM on enterprise education was distributed to all Australian schools in 1998);
- a range of demonstration and pilot projects designed to promote relationships between schools, businesses and the wider community (for example, national Enterprise Days and Enterprising Communities Awards);
- the development of information and resource materials for Australian schools, including a quarterly newsletter on enterprise education \textit{Ed-Ventures}, and \textit{Ed-Ventures Resource Books} for primary and for secondary schools; these were distributed to all Australian schools;

\textsuperscript{21}This and the succeeding information is taken from ‘Business Education in Australian Schools: The Growing Links Between Business and Schooling and Fostering Entrepreneurship’, ICSB Conference June 1996, Stockholm.
• the development of resources for teachers’ professional development highlighting good practice across the key learning areas;

• projects designed to develop enterprising attitudes and qualities among students through use of simulated business situations (for example, the Australian Business Week Schools Programme and the expansion of the Australian Network of Practice Firms); and

• projects to make available improved information on employment and self-employment opportunities, including an enterprise education website and a web-page providing career information to students on opportunities in small business.

The Curriculum Corporation was given prime responsibility for the development of material and resources and an Enterprise Education Reference Group was formed to undertake overall coordination of the project. Access to information about the resources and materials developed, as part of the Enterprise Education in the Schools Programme, is available from the Enterprise Education database at www.curriculum.edu.au/resource.htm. For a summary look at products and initiatives funded under Phase 1, see end of chapter.

The EES element was evaluated by Keys Young in 1999 (the full report is available at http://www.detya.gov.au/schools/publications/enterprise.pdf). This report identified several key findings with respect to furthering the adoption of enterprise education in the K-12 system. Although the Enterprise Education in the Schools Programme projects had touched every school in the country, there was less than optimal take-up of enterprise education in the classroom. Only 22% of schools made use of the Make It Happen Kit, only 23% made use of the quarterly newsletter (Ed-Ventures), only 13% of primary schools and 14% of secondary schools used Primary Ed-Ventures and Secondary Ed-Ventures resources, less than a quarter of schools were aware of the Website and only 5% had used it. Approaches to implementing Enterprise Education were found to vary considerably across States and Territories in a number of ways. Among the four major suggested strategies for effectively promoting and supporting enterprise education in Australian schools, one of the most critical was the development of a national strategic plan for enterprise education which could be used to advise on implementation in State/Territories and sectors. As barriers to the adoption of enterprise education, the Keys Young (1999) report listed:

• Absence of a committed individual or team within the school capable of ’driving’ the project;

• Limited flexibility on the school timetable to incorporate specific enterprise activities or enterprising approaches to teaching;

• Lack of funding to participate in projects;

• Resistance to enterprise education among school principals and teachers;

22 The Curriculum Corporation is a limited guarantee company, owned by all State, Territorial, and Commonwealth Ministers of Education, with public responsibility for supporting curriculum improvement.


• Perception that enterprise education is an extra activity, or ‘add-on’;
• Lack of local businesses with a capacity to support school initiatives.

All education Ministers have now agreed to the need to include enterprise education in school curriculum. This commitment was strengthened in April 1999 when all the State, Territory and Commonwealth Ministers of Education agreed to the National Goals for Schooling in the Twenty-First Century. Included was the goal that schooling should develop fully the talents and capacities of all students; and, in terms of curriculum, students should have ‘participated in programs and activities which foster and develop enterprise skills, including those skills which will allow them maximum flexibility and adaptability in the future.’

Phase 11 – 2000-2004

The 2000-01 budget of the Federal government allotted an additional $A25 million over four years for the nation’s Enterprise Education Program ‘to assist young people to develop their creative capacities and develop enterprising skills and attitudes that are critical for successful transitions from school to further education, training and work’. The focus is on partnerships with communities and schools to develop, implement and evaluate projects designed to meet student needs at the primary and secondary levels. The new Enterprise Education Program falls within the new Framework for Vocational Education in the Schools which the Ministerial Council on Education, Employment and Youth Affairs agreed to in March 2000. In particular, Enterprise Education will support key elements of the broader framework in the areas of Enterprise and Innovation, Community Partnerships, and Lifelong Learning Skills and Attributes. Enterprise Education also fits with the revised objectives of the Australian National Goals of Schooling where students must have exposure to some vocational education and must have some exposure to enterprise education.

Scoping out of the new program and its specific elements was underway in mid-year, 2000 with plans to focus on the middle school years – Grades 5 - 10. Major focus will be placed on industry input and business-education partnerships, curriculum development, and professional development of teachers and program design. The key question will be ‘where to place focus’ – on those schools already doing something in enterprise education OR those schools not doing anything.

Lessons Learned from Australia Regarding the Implementation of Enterprise Education

Based on Australia’s experience, the critical and important factors in sustaining Enterprise Education programs are:

• Professional development of teachers to enable them to teach in enterprising ways.

25 Taken from circular published by the Department of Education, Training and Youth Affairs, Canberra, 2000.
• Pre-service teacher training in the enterprise approach to teaching,

• Adequate school resources to support enterprise activities – release time for teachers, funding for student projects and activities, etc,

• Development of different teaching models that enable flexibility in learning. Associated with this is the need to recognise that the local business and general community can be a context for real and effective enterprise learning and development,

• Suitable learning opportunities for enterprise that are appropriate to all key learning areas at all year levels and which contribute to achieving curriculum outcomes in these learning areas,

• The involvement of parents and business/industry as well as teachers in ‘whole-school planning’ where the enterprise approach and activities are supported by the community,

• Clustering of enterprising schools and partnering on projects.

The view of the Ministerial Council on Employment, Education and Youth Affairs (MCEETYA) is that Enterprise Education programs will only really become mainstreamed when enterprise education becomes an explicit component of the curriculum framework of each State and Territory. The New Framework for Vocational Education in Schools aims to stimulate just that.

**Small Business Management Education at the Vocational Education Level**

The network of vocational education and training institutes (TAFE) has been delivering small business management programs and start-up programs to both its own students and to small business owners for the past several years. Curriculum modules, *Small Business 2000*, have been developed which can be adapted to different audiences in response to different needs and delivered by a multitude of training partners. These are delivered to full time and part-time students in classroom settings and in distance education modes. Certificates are also offered in Small Business Management and Developing Your Own Business.

**Entrepreneurship Education at the University Level**

A number of Australian universities offer courses in small business and entrepreneurship but only a few have developed, or are developing, core concentrations and majors in entrepreneurship. Swinburne University is attempting to position itself as Australia’s Entrepreneurial University and has been offering a Graduate Certificate and Diploma and a Masters in Entrepreneurship and Innovation for several years. It also has a Centre for Entrepreneurship and Innovation and the largest entrepreneurship research centre. Swinburne has raised $500,000 for Australia’s participation in the Global Entrepreneurship Monitor (GEM) study and there are a number of strong researchers on the faculty. They are now
finishing a business plan for a proposed undergraduate entrepreneurship degree, which is modelled after the Babson College approach.

However, there are a number of other universities with entrepreneurship classes, researchers, and programs. For example, the Royal Melbourne Institute of Technology (RMIT) in Melbourne is piloting the first undergraduate degree program in entrepreneurship at an Australian university – a 3-year Bachelor in Business (Entrepreneurship) which has as its goal to have students start and run ventures as part of their program of study. The degree program offers theoretical, project-based, case study-based and elective courses. Students work on ‘real-life’ ventures including concentrated work with mentors as a number of ventures are researched, established and grown over the period of three years. Most learning takes place in a Venture Operations Studio, the hub of learning activity where strategies are formed, methodologies are presented, discussion and reflection occur and mentoring of individuals and teams takes place. The first group of students started the program in 2001. The University of Newcastle has introduced an entrepreneurship module in the School of Chemical Engineering and has plans to extend the module to all engineering students in 2001. The University of South Australia, through its Centre for the Development of Entrepreneurs, offers a wide range of training for emerging entrepreneurs and the CEO’s of SMEs. It also offers an elective, Mastering Entrepreneurship, in the MBA program for scientists in the university. Its university incubator, ITEK, works with the Division of Business and Enterprise in the university to provide training opportunities for university staff and students in creating a business based on intellectual property of knowledge-based services. It also delivers FastTrac entrepreneurial training programs, licensed under the US program.

In May 2001, the Federal Government announced its Business Plan Competition Support Program (as part of the Promoting Young Entrepreneurs Initiative) to help tertiary educational institutions implement student business plan competitions. This is intended to help raise the profile of entrepreneurship in the community and facilitate the establishment of new entrepreneurial start-ups.27 Funding, in the form of up-front grants of A$5,000 to A$10,000 per institution per annum, will be awarded, on a competitive basis, in two rounds of financing held in the spring and fall of each year.

Small Business Support: Training, Counselling and Advisory Services

Small Business Information Sites

Coordination of business information and assistance across departments and levels of government is one of the priorities of the current government. Both the Office of Small Business and AusIndustry have websites acting as one-stop shops for business information.

- The Business Entry Point (www.business.gov.au) is Australia’s version of a one-stop shop for information on over 800 government programs and services and the primary channel for provision of on-line services and transactions for the business sector.

(launched in 1998). In its first 14 months over 1 million pages of information were provided to users. This is an initiative of the Office of Small Business.

- **BizLink Online**, the National Business Information Service ([www.ausindustry.gov.au](http://www.ausindustry.gov.au)), an initiative of AusIndustry, is a national online service providing small business and its advisers with access to comprehensive information on business related matters ranging from business licenses and permits to business assistance programs. Information on over 800 Commonwealth and State programs and services is provided by way of the Internet, a BIS Hotline Enquiry Service, and the BizLink CD-ROM.

- A compendium of Commonwealth Government Initiatives for Small Business has been completed to provide a comprehensive directory of all Commonwealth support programmes and initiatives that small businesses can access, including where to access further information. Part one of the compendium includes information on access to Commonwealth Government information services including the Business Entry Point and toll-free telephone services. Part two of the compendium contains relevant Commonwealth, State and Territory Government contacts for small business issues. The compendium is available on the DEWRSB website, [http://www.dewrsb.gov.au/smallBusiness/advice/compendium/default.asp](http://www.dewrsb.gov.au/smallBusiness/advice/compendium/default.asp).

**Entrepreneurship Advisory, Counselling and Training Services**

There are a number of entrepreneurship and small business counselling and training services and programs in Australia. These are targeted at entrepreneurs and SMEs at various stages from pre-venture to growth.

- The New Enterprise Employment Scheme (NEIS), a national self-employment training program for unemployed persons, is considered by many to be the biggest initiative in Australia in terms of impact on enterprise development ([www.jobnetwork.gov.au/general/services/neis](http://www.jobnetwork.gov.au/general/services/neis)). NEIS includes three months worth of start-up planning, access to online curriculum modules based on Certificate IV in Small Business Management materials, and business advice and mentoring support during the first 12 months of the business. Eligible candidates must be unemployed prior to being accepted into the program and will receive 12 months worth of income support while running the business.

- The national government supports the skills development of small businesses through funding for *The Small Business Enterprise Culture Programme* administered by the Office of Small Business. Announced in May 1999, this program offers additional funding for skills development initiatives, mentoring services, and support for women in small business with the objective of improving the viability and growth of small firms (A$6.4 million over three years to 2002). It was developed in response to recommendations arising from the Micro-Business Consultative Committee report, *Under the Microscope: Micro-Business in Australia, 1998*. Community-based organizations, business associations and university and college enterprise centres can apply for project funding falling within the program’s guidelines.
• Business Enterprise Centres exist in each of Australia’s States and provide a wide range of services to assist new and small businesses. These centres offer start-up seminars, advisory services, training programs, business start-up resources and access to small business networks.

• TAFE (college level education system) offers a range of business start-up and small business management training courses to new and existing entrepreneurs tailored for a variety of sectors – tourism, retail, insurance brokers, dairy producers, etc.

• The US-based FastTrac Program, in place for about two years in Australia, is offered in parts of the country to existing entrepreneurs who want to grow their firms. FastTrac has four levels – 1, 11, 111, and HGEntrepreneur; Executive FastTrac is the focus in Victoria. Groups of 14 high-growth entrepreneurs pay $10,000 for four weekend workshops over a four-month period during which time they are matched with an advisor/mentor.

In 1996, the Office of Vocational Education and Training in Tasmania became the manager of a four-year program Small Business Professional Development Programme funded by the Department of Education, Training and Youth Affairs to find ways to help small businesses take more control over their own training needs and solutions. This program was in response to findings from several studies which had been done to assess the training needs and activities of Australian small firms and which recommended that the level of small business management skills needed to be improved if Australian firms were to be competitive in the new economy. The program has encouraged innovative approaches to designing and testing small business training models and is now testing the sustainability and transferability of these models, including the use of mentoring, coaching, training networks and clusters, flexible training programs, needs analysis instruments (diagnostics and benchmarking), and tool-kits for trainers, facilitators and small business operators. The Small Business Professional Development Best Practice Programme website28 includes descriptions of the pilot projects, program materials, research on the training needs of small businesses, ethnic business owners and Aboriginal small business owners, as well as lessons learned from each of the learning models and approaches used in the program. All material can be downloaded, displayed, printed and reproduced for use by others. (It is an excellent site and full of good material).

Although most of the projects were targeted at existing small business owners, a few focused on start-ups and others focused on helping sole operators make the transition from sole operator to employer. The 1998 evaluation report suggests that the Programme has made an important contribution to the practice and policy of small business training in Australia.29 This report, in fact, raises a number of policy questions with respect to government’s role in funding and fostering small business training (Kearney, 1998).

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Mentoring

Mentoring has proven itself to be an effective model for the training of small business owners and entrepreneurs in Australia. The Small Business Professional Development Best Practice Programme developed a website for providers of training and managers of mentoring projects to disseminate guidelines and best practice. One of these publications is *Growing Business Together – A Facilitators Guide to Mentoring, 1997* 30 which includes documentation on mentoring approaches and guidelines for mentors who run training programs.

Training for Business Advisers

As in other countries, the training and professional development of public and private sector business advisers and counsellors is receiving some attention by the Australian government. Recent changes in the way AusIndustry delivers its program support (i.e., the assignment of officers to ‘a suite of companies’ to offer a more holistic business advisor type role to clients) has placed pressure on the need for internal training of officers. AusIndustry has set up an Internet Training site for officers on all products and services and encourages them to do a lot of networking with industry associations, state governments, etc. to promote AusIndustry programs and priorities.

More broadly, there is an Institute for Enterprise Facilitators (AIEF) in Australia, which provides training and certification for people who do small business counselling. AIEF was formed in 1997 in response to a recommendation of the 1995 *Enterprising Nation* report that a comprehensive accreditation process be established for small business trainers, educators, counsellors, mentors and advisors so as to upgrade the quality of small business advice. AIEF offers a Certificate in Business Facilitation. A ten-module program, offered through approved training providers, is a prerequisite for accreditation as a member of the Institute of Enterprise Facilitators. The program consists of modules related to Business Counselling Skills (four modules), Financial Awareness (three modules), Marketing for Small Business (one module), Business Planning for Growth (two modules) and Electronic Commerce (one module). The program may be completed in workshop format over a total of nine to 13 days at a cost of approximately A$1800. 31 Certificate candidates must show evidence of at least 200 hours of one-to-one enterprise facilitation to qualify for membership. AIEF has a website (www.aief.org.au), produces a newsletter and organizes professional development activities for members and non-members. It also meets with government officials to promote the concept of enhanced business facilitation skills for all business advisers.

Australia is also a partner in the APEC Training and Certification for Small Business Counsellors project, which is entering its implementation phase (2001).

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**Small Business Incubators**

Incubators are the up and coming thing. By June 2000, the government had funded over 75 incubators throughout Australia at an investment of government funds of A$30 million, which was leveraged by another A$30 million of external support. These are located on university campuses and business and technology centers, in both small and large communities. The 2000 budget allocated A$5 million for the expansion of existing incubators and the establishment of seven new ones. This incubator program is managed by the Department of Employment, Workplace Relations and Small Business and is a response to the favourable national assessment review of small business incubators by PriceWaterhouse Coopers in August 1999. This evaluation measured the impact of small business incubators on local communities, regional economies, job creation and failure rates among small businesses. *(The National Review of Small Business Incubators in Australia is available at [www.dewsb.gov.au/department/smallbusiness.htm](http://www.dewsb.gov.au/department/smallbusiness.htm)).*

The major goals and objectives of the Incubator program are to reduce small business failure rates, create new jobs and enhance small business and the promotion of entrepreneurship. Since 1992, over 900 businesses have graduated from Australian small business incubators, creating over 3,200 jobs. The direct cost per job is calculated to be A$4,300.

To quantify the performance of small business incubators, PriceWaterhouse Coopers prioritized the following performance measures:

- Number of new graduate businesses relative to the length of time the incubator has been operating;
- Number of tenant business failures relative to the level of successful graduate businesses (measure of small business failure);
- Estimates of total direct employment attributable to currently operating incubators;
- Measures of ‘stated’ and ‘underlying’ operating profitability for incubators.

PriceWaterhouse Coopers developed a simple composite index of incubator performance as a broad level indicator of the strength of currently operating incubators. The evaluation report contains a discussion of incubator best practice issues and lists ten accepted best practices. They stress four best practice issues:

1. Operating incubators as a viable business;
2. Adequacy of incubator facilities;
3. The fundamental role of incubator management;
4. A broad base of support from sponsors and other external stakeholders.

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32 A list of these small business incubators is available on the government WebSite [www.dewsb.gov.au](http://www.dewsb.gov.au).
34 Ibid, p. 76.
In terms of incubator policy, the evaluation report focused on: 1) the need for better links between financial support and program objectives; 2) increased funding flexibility in the guidelines; 3) strengthened leverage so incubators achieve objectives; and 4) increased incentives for adopting best practice incubator management.³⁶ It was recommended that Commonwealth funding of small business incubators continue. With the release of the PriceWaterhouse Coopers report in February 2000, the Department of Employment, Workplace Relations and Small Business also released A Guide for Small Business Incubator Proponents to assist supporters and promoters of new incubator projects in formulating further project proposals.³⁷ This report would be useful to other countries examining small business incubator programs.

Identification of Target Groups

Australia has targeted three primary groups for entrepreneurship support, youth women and aboriginals. Youth have become a primary focus of the Federal Government as part of its Promoting Young Entrepreneurs Program. This complements existing government, business and educational sector initiatives aimed at promoting entrepreneurial activity, including the Enterprise Education in the Schools Programme and Young Enterprise.

Aboriginal Entrepreneurs

Aboriginals are being assisted through the Indigenous Small Business Fund established in May 1999. The aim of this program is to improve the employment and future prospects of Australia’s Aboriginal and Torres Strait Islander peoples. An allotment of A$11 million over three years will foster the development of businesses owned, operated and managed by indigenous Australians through entrepreneurship and business facilitation training, business planning, and advisory and support services to develop their skills, markets and networks.

The Unemployed

Since 1985, the federal Department of Education, Training and Youth Affairs, has offered a New Enterprise Incentive Scheme (NEIS) aimed at encouraging unemployed persons to become self-employed. Under the Scheme, unemployed persons can continue to receive their unemployment benefits for the first 12 months of a business start-up. The idea and business plan must be first approved by the department and then the person can qualify for 12 month income support, a MENTOR and some enterprise training. At the end of 12 months, the person is expected to be self-sufficient through self-employment. Evaluation results reveal that 87% of these clients are still in business after 5 years. The government’s BROKER program is expected to find mentors for these new starters.

³⁶ Ibid, pp. 84-85.
Women Entrepreneurs

According to Mary Barrett, there were 366,000 women who owned their own small businesses in 1996. While women make up 43% of the labour force in Australia, they comprise only 32.7% of the small business owners. About 17% of men in the labour force are self-employed but only 10.8% of the women. Almost 70% of women do not employ others in their businesses except themselves, which is not dissimilar to male-owned firms (68.8% do not have any employees). In the own-account self-employment category, women dominate in accommodations, cafes and restaurants and in health and community services. Women owned firms are younger than those owned by men – two-thirds of women’s firms are less than five years old, compared to 50% of those owned by men (based on statistics from Small Business in Australia, 1999a: 121). Women tend to start their businesses with start-up capital of less than $10,000 and use different sources of financing than men. They are less likely to use personal savings or to borrow money (46% versus 56%) and to rely more on their own or family capital to finance their new businesses. Barrett also found that most women entrepreneurs do not participate fully in business networks, citing lack of time and relevance to their needs, as the major reasons.

As recommendations, Barrett’s report suggests that women need more access to start-up financing and self-employment training programs, greater recognition for the achievements of women entrepreneurs (e.g., more awards programs for women and creation of role-models from among the cadre of existing women entrepreneurs) and reinstatement of government subsidies for childcare. She also advocates for studies and data collection efforts designed to increase knowledge about women entrepreneurs in Australia and their specific needs.

Although much more could be done, there are a number of resources available to assist women to establish and improve their businesses, some national and others offered on a state-by-state basis. On a national level, particular attention is being paid to the development of women business owners by both the Office of Small Business (DEWRSB) and the Department of Education, Training and Youth Affairs (DETYA).

- The Womensweb (www.womensweb.gov.au) is being reconstructed by the Office of Small Business as the source to assist women in small business to quickly access Commonwealth and State/Territory information.

- Through the Small Business Enterprise Culture Programme project funding (also Office of Small Business program) mentoring projects and advisory programs for women have been funded.

- DETYA launched its Women in Business Programme in November 2000 as part of the government’s commitment to encourage women to take part in small business and to develop the skills needed to improve business performance. The program consists of two certificate qualifications in small business (Certificates III and IV of Developing

39 Ibid.
Your Own Business qualifications) and a suite of learning resources, one for women who run their businesses alone or who administer a family business and one for women who operate employer firms. The training is structured to give women a competitive edge in financial management, business planning, customer relations, marketing, legal issues, taxation, technology and time and people management. Business Services Training Australia, in conjunction with the Australian National Training Authority, is responsible for promoting the training which is delivered by twelve registered Training Organizations via the Internet, face-to-face and group sessions.41

On a regional level, the focus on women as a target group varies.

- The Western Australia Small Business Development Corporation has designed the Women’s Business Line (www.sbdc.com.au) to act as a forum for information, networking and encouragement.

- In Queensland, the Premier’s Council for Women has a Women in Small Business website which covers a range of issues from starting a business and financial assistance to information on tax, industry associations and networks (www.qldwoman.qld.gov.au) and the Queensland University of Technology has a portal dedicated to women who are already in business (www.wisbis.qut.edu.au).

- The State and Regional Development Department in New South Wales funds a two-pronged Women in Business program which provides: 1) mentor support for recent women entrepreneurs (in business for less than two years) and 2) a Growth Strategies Workshop series for women who want to grow their existing firms (see www.smallbiz.nsw.gov).

- Women’s Enterprise Centres are rare and women-focused direct financial assistance programs do not exist.

**Young Entrepreneurs**

The development of youth enterprise is promoted by the Enterprise Education in the Schools Programme as outlined above. Further to that, special initiatives are in place on a state-by-state basis. These include Australian Business Week, a one week program for Year 11 students who learn about business by running their own computer simulated company (www.socs.uts.edu.au/abw); a Plan Your Own Enterprise business plan competition to raise awareness of small business management and planning principles and practices; Young Achievement Australia Business Skills where groups of Year 10 and 11 students operate their own company over the course of a 26 week period (www.yaa.org.au); and Operation LiveWire which helps 18-28 year olds start businesses with support from advisers and mentors (www.operationlivewire.com.au). Youth enterprise projects are also being piloted in five sites across Australia to demonstrate models for local community support for youth enterprise.

41 See www.bsitab.org/wish_intro.htm.
The Federal government Department of Industry, Science and Resources has recently launched a Promoting Young Entrepreneurs initiative (described above). Youth Enterprise is targeted through the Young Entrepreneurs Program which aims to help build both a culture of entrepreneurship in young people at secondary school and tertiary level (that is, before most have decided on a career path), as well as in the broader educational and business communities (www.isr.gov.au/industry/innovation)

Networks

There are many small business associations in Australia. They are comprised of a variety of networks – small business advisors and support professionals, researchers and academics, and small business owners. Some examples are:

- The Council of Small Business Organisations of Australia (COSBOA) – a peak body of business organisations and individual firms which promotes the economic value of small firms and pursues their interests.
- The Small Business Coalition (SBC) – a grouping of key industry associations with an interest in advancing small business.
- Small Enterprise Association of Australia and New Zealand (SEAANZ) – a network of researchers and academics in the field of small business and entrepreneurship research and teaching. SEAANZ is an affiliate of the larger umbrella group, International Council for Small Business (ICSB).
- Australia Institute of Enterprise Facilitators (AIEF) – a network of small business advisers and trainers interested in professional development leading to certification.
- Australia New Zealand Association of Business Incubators (ANZABI) – an organization dedicated to the development and operation of small business incubators.
- National NEIS Association – members are persons contracted by the Commonwealth government to provide assistance to unemployed people establishing small businesses under the New Enterprise Incentive Scheme.
- The Australian Venture Capital Association.

These associations organize conferences, hold meetings, disseminate information and exchange knowledge and experience to advance learning.

More ‘horizontal’ entrepreneur networks are beginning to take shape in Australia, for example the B2B Café and the VentureLink network for entrepreneurs and innovation (Swinburne University). These are places where entrepreneurs can meet monthly with vencaps, government, banks, and other entrepreneurs, solicit feedback on business ideas and make strategic contacts.
In terms of more formal small business networks, Australia piloted a national Business Networks project from 1996-98 based on the Danish model and similar to the Canadian Business Networks Coalition Project (CBNC) in Canada. The major purpose of the project was to assist existing small businesses in forming goal-directed networks with other small businesses to form marketing, production, or other types of alliances. The federal government provided initial three-year funding of A$38 million ending in 1998; some of the networks are still running but have been devolved to individual states. Over 100 Registered Business Network Brokers were trained to facilitate these formal small business networks. Over 400 networks were formed during the pilot stage, covering 31 individual sectors. A website is dedicated to providing details on the implementation of the pilot project (www.ausindustry.gov.au/documents).

The perception exists in Australia that there is a lot of competition between business associations and organizations, not enough networking across associations and limited links between business associations, government and consultants and the academic community.

Access to Financing and Seed Capital

The Government of Australia offers a number of direct financial assistance programs to new businesses including the R&D Tax Concession, R&D Start, The Commercialising Emerging Technologies (COMET) Program, the Innovation Investment Fund (IIF) and a range of sectorally-based programs. Other funded programs foster business training, advice and counselling services, or the building of networks to help people start businesses, for example the Small Business Enterprise Culture program, the Small Business Incubators Program and the Indigenous Small Business Fund. However, government programs, which provide direct financial assistance to small businesses, are not as common as in most countries in this study. As several interviewees emphatically stated, ‘grants and subsidies are out!’

R&D Start Program

R&D-Start is a merit-based billion dollar AusIndustry program to assist companies undertake R&D and related activities. There are five separate areas of funding depending on whether the client company has sales revenue of over $50 million or less than that. Concessional loans are available to firms with less than 100 employees but for the most part, the R&D funds are targeted at more substantial firms. Support is provided for up to 50% of project costs ranging from less than A$100,000 to several million. Funding of up to A$180 million per year is available.

Venture Capital Program

AusIndustry has several programs to increase the amount of public and private sector venture capital for growth-oriented firms.

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• **COMET (Commercialisation of Emerging Technologies Program)** is a financial assistance program to assist early stage innovative firms to overcome barriers to commercialisation. The Program assists firms to meet their commercial objective, whether it is to raise capital or debt, establish strategic alliances, joint ventures, or other paths to market. It is contracted to the private sector for delivery. A network of 10 business advisers across the country provide evaluation input to the client, help identify what resources they need for the project and mentor them throughout this period. A$70 million is available under the program, which has already assisted many small firms to raise private capital.

• **The Innovation Investment Fund (IIF)** provides an incentive for the development of the venture capital market for early-stage technology-based companies. Over $345 million is expected to be generated in nine private sector funds over the next ten years, with the government investing A$220.7 million of that amount.

• **The Pooled Development Funds Program** is designed to increase the supply of equity capital for investment in SMEs. The program has amassed A$400 million so far by encouraging people to pool their money for venture capital investments under a tax credit scheme.

• **The Pre-Seed Fund** is a competitive Pre-Seed Fund for Universities and Public Sector Research Agencies, announced as part of the 2001 Innovation Statement of the Federal Government. This is an A$78.7 million, five-year fund to encourage universities and public sector research agencies to commercialise their discoveries and create new businesses. The purpose of the fund is to overcome the ‘innovation progression gap’. The fund will be managed by private sector fund managers; details are being finalized (May 2001).  

1999 was a record year for venture capital in Australia (double the 1998 investment activity), but it is growing from a small base. Surveys indicate that the bulk of investments are allocated to expansion and buy-out/buy-in activities, accounting for 70% of 1999 investments. The supply of venture capital for early stage ventures is improving due to the launch of government funded programs (IIF) but it is expected to continue to focus on larger firms.

**Business Angels**

Business angels are considered to be an important source of risk capital for new ventures. In the Australia GEM 2000 study, the average angel investment was A$60,000 ranging from A$500 to A$600,000. Extrapolated to the whole population, Hindle and Rushworth estimate that over A$4 billion of angel investment is made available on an annual basis, compared to A$240 million of venture capital in early stage ventures in 1999. A government policy

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44 Hindle and Rushworth, 2000, p. 11.
implication of this study is that the government should aim more of its programs to stimulate investment in early stage ventures (Hindle and Rushworth, p. 42).

**Research: Entrepreneurship/SME Research Issues**

**Government Research**

The Australian Bureau of Statistics (ABS) has an area dedicated to producing small business statistics. The ABS reports to the Treasurer. The Minister has established a Watch Dog Committee, an independent Advisory Committee with 12 or so representatives from the unions, small business and academia, which meets three times a year. ABS does contracted research for other departments and undertakes research projects as part of its own annual research program budget. The Policy departments of other Ministries are given copies of all SME research reports so they can review results and identify any policy issues.

ABS produces a **bi-annual State of Small Business report** 46; annual updates of Chapters 1-3; and an Economic Activity Statement (which is the Canadian equivalent of the financial ratios report). This latter report covers the 1991/92-1997/98 period and is produced primarily to service National Accounts, although it could be useful to business counsellors for benchmarking and business planning purposes. ABS is now looking at a partnership with the Institute of Chartered Accountants to do a joint interactive publication to make the information more useful to SMEs and to their financial advisers. The existing data can be purchased for A$700 but is not that user-friendly or accessible.

In 1994-95, the Commonwealth funded a large 4-year Small Business Research Program within the ABS to produce longitudinal data on the small business sector, at a cost of about A$600,000 per year. The project tracked the performance and growth of over 5,000 Australian small businesses over a four-year period and produced three major reports on the key characteristics of Australian business comparing results by business size, industry and age. A detailed analysis of the Business Longitudinal Survey data is available through a series of Office of Small Business publications entitled *Portraits of Australian Business* and specific survey data is provided by the ABS on request. In addition the *Portrait of Australian Business* reports for 1995, 1996, and 1997 and *State Portraits of Australian Business – Results of the Business Longitudinal Survey* were produced for 1996 and 1997. The funding ended in 1999.

The Office of Small Business produces an **Annual Review of Small Business**, which reports on developments in the SME sector and the government’s progress in implementing small business measures. Also evident in Australia is the prevalence of several policy-oriented studies and research projects initiated by the Office of Small Business. Studies exist on micro-business, 47 home-based business, 48 and small business incubators – all oriented towards either determining special needs of certain segments of the small business population or evaluating the impact of government funding. Another useful initiative of the Office of Small Business is

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46 To produce the Small Business Australia report requires the time of one full-time person for three (3) months; only 1500 copies are published most of which are given away; the purchase price is A$34.
the inclusion on their WebSite of a database of Small Business Researchers which includes
the researcher’s name, principle areas of research, institution and location. They also include
copies of many of the reports and documents, which are produced annually on aspects of the
small business sector.

However, a number of research challenges continue to exist. In Australia it is difficult to
collect data on actual business start-ups at the present time. The ABS does not have a
comprehensive database from which to count actual new business entries (at the time when
they are started). So the business start-up rate is not very precise. The new GST registration
system will be helpful in identifying new businesses above a certain minimum sales level.
ABS has recently undertaken an examination of the justification of employment size as a
proxy for defining small business because of a debate about whether employment was the best
measure of size or the best way to measure growth in a small business.49

Academic Research

There is a myriad of small business research being produced in Australia. It has been an area
of academic interest for several years and a number of researchers produce papers and articles
for publications and conferences. The Small Enterprise Association of Australia and New
Zealand (SEAANZ) launched The Journal of Small Enterprise Research in the late 1990s to
courage the dissemination of this research.

Starting in 2000, Australia (Swinburne University) is participating in the international
Global Entrepreneurship Monitor research project, intended to measure the level of
entrepreneurial activity in a number of countries and to identify the major factors differen-
tiating high entrepreneurial countries and low entrepreneurial countries. The first report was
released in November 2000.

In spite of the number of small business researchers in Australia, some academics are
concerned about stimulating the next group of small business/entrepreneurship researchers;
they do not see sufficient interest in developing an academic career in the field.

SECTION 2: EXPERIENCES/EVALUATION OF
IMPACT

Evaluating the Effect of Programs and Policy Orientations

The Commonwealth government has a record of being diligent in its program evaluation
research. In the context of this study, several evaluation studies were reviewed – the
evaluation of the Enterprise Education in the Schools Programme, the Business Networks
Programme, the Small Business Incubators in Australia Programme and the Small Business
Professional Development Programme. Lessons learned from these evaluations have been

49 For a full discussion of the issue see Chapter 7 of Small Business Australia 1999.
disseminated by way of best practice or used as input for modifications. Government use of performance indicators to measure the impact of policy and program measures on entrepreneurship development is not evident. However, GEM interviews with experts across Australia commented negatively on the Australian government’s evaluation processes, stating the opinion that often quite arbitrary decisions are made about whether programs continue or are abandoned, independent of evaluation outcomes.

SECTION 3: OBSERVATIONS AND CONCLUSIONS

A: General View

Some Australians describe the government’s view on small business support at the moment as one of ‘if we get the environment right, then small business will be OK’. The Victorian Government’s Small Business Development Corporation Acts have been repealed and support for the network of Enterprise Centres across Australia seems to be waning. According to certain experts, a very serious problem for policy development and formulation of Australia’s strategy is a Commonwealth election every three years. ‘Australia is very ‘state-driven’ so it’s important for the States to get together. The national government is weaker in Australia. The government changes every three years so there’s not much of a consistent industrial policy at the Commonwealth level.’ (VECCI)

‘Government changes in Australia are a major barrier for SME development. New governments are always asking the same questions, should Australia have SME advisers or not? Should there be Small Business Enterprise Centers or not? Four years ago, the new Conservative government repealed the Small Business Development Corporation Act in Victoria because Conservatives don’t feel government should be involved in providing advisory services – but the Act required that they provide this service, so they repealed the Act... It’s different in each state’ (Anonymous expert).

In terms of priorities for government action, several experts indicated that the entrepreneurship culture in Australia is still weak, thus adopting entrepreneurship education in the education system is the key to long-term growth in the SME sector. The GEM 2000 report for Australia supports this view, but also points to the need for more promotion of role-models (Hindle and Rushworth, p. 45), ‘We need our media to promote positive role-models to replace negative stereotypes and to correct any misunderstandings of entrepreneurship that may still linger…. We need entrepreneurial role models in all shapes and sizes, and we need to hear about them regularly... We particularly need role models who are currently less likely to participate in entrepreneurial activity: the over 45’s and females’ (Hindle and Rushworth, p. 44). Hindle and Rushworth’s Australian Entrepreneurship Policy Framework calls for an integrated, multi-partnered approach which could be used to guide an assessment of the government’s current focus in creating a supportive environment for entrepreneurship (p. 41). They propose a role for government (taxation, employment, innovation,
infrastructure, and promotion), the media (role models), the education community (capacity),
individual firms, industries and society at large.

GEM 2000 experts expressed the view that the Australian government was genuinely
concerned about promoting entrepreneurial activity but their effectiveness was limited by a
lack of coordination between different government departments and States, a lack of relevant
skills of government staff in administering the programs, the lack of an effective program
evaluation process and shifting program support based on political caprice rather than rational
evaluation (Hindle and Rushworth, p. 25). Key informants also commented on the lack of
market openness in Australia which creates barriers to business entry; sectors like
telecommunications, banking, retail, ports, the media and airlines were mentioned (p. 30).
This suggests a possible need for deregulation and changes to Competition Policy. A lack of
seed and early stage capital is perceived to be the greatest problem for start-ups along with the
lack of patient capital and an overly conservative banking sector (p. 3).

‘Risk capital is an immature market in Australia, it’s not that well structured right now.
It’s hard for a small company to know where to go to find money. They are trying to develop
an angel’s market to help locate seed-capital’ (VECCI).

B: Assessment of Entrepreneurship Policy Emphasis

The major tools used to create more widespread awareness of entrepreneurship in Australia
are Small Business Awards and the creation of small business role models and events –
Australia Business Week and other seminars and events. Television has been used to promote
more awareness of entrepreneurship but only in a minor way and reports are that much of the
print media coverage of entrepreneurship is negative. A major initiative, Promoting Young
Entrepreneurs, was announced in the spring of 2001. This is intended to promote the
achievements of Australia’s successful entrepreneurs and to assist in the development of the
entrepreneurial capability of tertiary students. The overall aim is to link entrepreneurship with
innovation and the commercialisation of ideas and research and development.

There is a somewhat limited emphasis on the opportunity factors for start-up. The
enterprise culture is building, but in terms of access to the resources necessary to start a
business, the Commonwealth priority is on technology start-ups, venture capital and
incubators, which will only reach a small percentage of the nascent entrepreneur population in
Australia. The one area where the government is placing focus is access to information about
government programs and services. This is evident from First Place Business Directions, the
Business Entry Point, the National Business Information System and other one-stop shop
models. The provision of government financial assistance to small business has been virtually
eliminated. Business advice and assistance is being offered from a number of Business
Enterprise Centres at the state level.

There seems to be a considerable emphasis on enhancing the skills and competence of
existing small business owners. The Small Business Enterprise Culture Program, TAFE
vocational qualifications for Small Business Manager, the Small Business Incubator Program
and the Indigenous Small Business Fund emphasize management training, mentoring and the
provision of advice and counselling. The NEIS also employs a self-employment-training
component for unemployed people but the reach is small. There are efforts to increase the competency of small business advisors (Australian Institute for Enterprise Facilitators) and government officers (AusIndustry initiative).

One of the most effective strategies for enhancing the competence of new entrepreneurs is to introduce people to the principles and practices of entrepreneurship while they are still in school. Australia has implemented an Enterprise Education in the Schools Programme and is introducing enterprise as a curriculum area in both primary and secondary education. Considerable progress has been made to develop resource materials for teachers and to pilot enterprise courses in the schools. Evaluations of the impact of enterprise education were favourable enough to attract an additional four-year funding of A$25 million in 2000 although some experts do not feel this is a sufficient allocation of resources to do the job of exposing all students to enterprise and entrepreneurship.

Overall, it seems that Australia’s approach to entrepreneurship policy development is focused on reducing barriers to entry, increasing access to information, promoting enterprise education in the schools and improving the management skills of SME owners and managers; in other words, the Opportunity and Skills circles, with more emphasis on the Skills component. There is a decided emphasis on technology-oriented, innovative entrepreneurship.

C: Insights, Observations and Lessons Learned

- Small businesses make up about 97% of all enterprises and employ almost half of the private sector workforce (using the definition of a small business as one with fewer than 20 employees). New and small firms are the major job creators. The self-employment rate is about 14.5%.

- Australians do not like to use the word ‘entrepreneur’, preferring to use the word ‘enterprise’ and referring to entrepreneurs as small business owner/managers.

- The federal government’s approach to economic development weighs on the side of creating a ‘favorable business environment’ and emphasizing innovation, R&D, foreign investment, export trade, and targeted sectors and industries. Some experts believe that the government’s support for entrepreneurship has been waning.

- The 2001 Innovation Statement clearly identifies entrepreneurship as an important ingredient in the innovation agenda and essential for the commercialization of R&D and technological ideas. Thus entrepreneurship is being promoted within the context of innovation. Incentives are being offered to university and public sector research institutes to create new businesses from scientific and technological discoveries.

- The Office of Small Business plays a key SME policy role from within the Department of Employment, Workplace Relations and Small Business (DEWRSB), not from within the Department of Industry, as is the situation in most of the countries in this study. Australia seems to separate support for micro-enterprise and small business from larger SMEs in terms of programs and services. DEWRSB manages the issues related to regulatory environment and reduction of red-tape, small business management and skills development, programs targeted at women and indigenous
population, and micro-enterprise issues, while AusIndustry delivers the economic policy agenda around internationalization, R&D, venture capital programs, innovation and targeted key strategic and growth sectors.

- The Office of Small Business supports lots of initiatives for existing small firms – to improve their skills and management ability. It has commissioned research on the micro-enterprise sector and there is evidence of several small business consultative committees. In terms of targeting, the Office places emphasis on development of Aboriginal entrepreneurs and women entrepreneurs. Regulatory burden is a priority but the TimeSaver may not be as sophisticated as the system in the Netherlands which calculates the cost of compliance before reporting is required or the US system for calculating direct and indirect compliance costs.

- The Office produces the *Annual Review of Small Business* for wide dissemination and the ABS produces a statistical report on the state of small business, *Small Business Australia*.

- Several federal government departments and state departments are involved in small business programs and services – AusIndustry, Trade and Commerce, Education, Training and Youth Affairs, Employment, Workplace Relations and Small Business, and the state departments of development or regional development.

- There is a network on small business/entrepreneurship policy issues across government departments and between state and federal departments through officials’ groups such as the Standing Committee of the Small Business Ministerial Council and the National Executive of the Small Business Agencies.

- Most grass roots SME support is driven at the state level; each State has a mechanism for delivering programs and services to SMEs but the policy frameworks lack consistency.

- At the state level, enhancing the management skills of SME owners is seen as a major need. Some States are more focused on entrepreneurship than others (Queensland, for example).

- The Federal Government launched a national initiative, Promoting Young Entrepreneurs, in 2001. The objective is to encourage a broader culture of entrepreneurship in the community. This is being done in conjunction with the National Innovation Awareness Strategy intended to build a national framework of public awareness and support for innovation, leading to an increase in the uptake of careers by young Australians in cutting edge science and technology fields and entrepreneurship.

- There has been limited widespread promotion of entrepreneurship, although entrepreneurship /SME awards do exist and there is an annual Australia Business Week. There is some caution about promoting ‘entrepreneurship’ because of negative connotations in the past. This is changing.
Australia has made some progress in the integration of enterprise education in the schools – at the primary and secondary levels. This is a strategic national effort, led by the Department of Education, Training and Youth Affairs with the Council of Ministers (from each State), one of the few such efforts in this study. Enterprise and entrepreneurial skills are core elements of the National Curriculum Guidelines and several resources have been developed. Phase I of the National Enterprise Education in the Schools Programme was subject to an extensive evaluation and Phase 2 has been funded (however, some experts believe insufficient federal resources have been allocated to this program). The approach is worthy of examination for lessons learned.

Universities are focusing more on entrepreneurship studies (concentrations) at the undergraduate and graduate levels.

The government has recently developed a framework for promoting entrepreneurship among youth. This will raise the profile of entrepreneurship, in the context of innovation, among youth and complement what is happening through Young Enterprise (Junior Achievement), the Shell LiveWire Program and the Youth Enterprise projects in Victoria and Queensland and the National Enterprise Education in the Schools Programme. It will also build bridges at the college and university levels with the Business Plan Competitions Support Program.

There was very little mention of women as business owners during the interview process, although some research has been done, some Women in Business programs exist (training, mentoring, etc.) and websites focused on addressing the information needs of women business owners are being launched.

There are a number of professional associations related to small business support, but SME networks seem to be somewhat weak. Horizontal entrepreneur networks are beginning to form but experts suggested that cross-network links are rare. The Business Networks Project Pilot provided an opportunity to experiment with different approaches to facilitating goal-oriented network activity among SMEs.

A need exists for professional development of government officers – more SME orientation is required as AusIndustry moves to softer forms of assistance. There is the view that policymakers need more education and orientation about the SME sector and the role entrepreneurship plays in economic development (new theories, models and relationships) so policy is not so driven by personal beliefs or misleading assumptions.

Australian governments do not generally provide direct SME financing loan programs (‘grants and subsidies are out’). There is an R&D Start Program to provide financing for innovative projects (most of which seems to go to existing firms) and the government has recently launched a Venture Capital Program (The Innovation Investment Fund) to stimulate more venture capital investments.

The government does fund third party projects to support services to the small business community, for example mentoring, advisory services, networking, training, etc.
• A minority of existing venture capital finds its way into new and early stage ventures. The angel investment on an annual basis is sizeable, substantially larger than the formal venture capital. Most of the angel investment targets new and early stage firms.

• Australia has good experience with their national Small Business Incubator Programme. An evaluation has been completed and guidelines and criteria for effective small business incubator management have been developed. Lessons can be learned from this initiative.

• There is a significant amount of Australian-based SME/entrepreneurship research, including statistical and longitudinal databases and empirical studies. The Australian Bureau of Statistics produces a bi-annual Small Business in Australia and other relevant business performance reports. Several universities have entrepreneurship research programs and centres and Australian academics can publish their research results in the Journal of Small Enterprise Research.

• Data sources for measuring start-up and exit rates are not well developed at the moment, but the implementation of the Australian Business Number will likely improve the situation.

• Experts stated their opinion that federal elections every three years and ensuing changes of government have not been conducive to consistent small business policy. There have been frequent changes in governing parties in Australia over the past several years making it difficult to build strength in a consistent strategy for small business and entrepreneurship development.
ANNEX: OVERVIEW OF THE SME SECTOR

Definition of Small Business

According to the Australian Bureau of Statistics, the following definitions apply to the various categories of business in Australia (agricultural firms are excluded):

- A micro-business is one employing fewer than 5 employees,
- A small business is one employing fewer than 20 employees,
- A medium business is one with more than 20 but fewer than 200 employees,
- A large business is one employing 200 or more employees.

The ABS’s definition is widely used across government and the private sector. In adopting the definition, ABS recognises that there will always be requirements to produce statistics classified by business size categories which do not fit the standard definition. These requirements usually relate to assessing the effect of different policies. For example, AusIndustry’s definition of small business is one with fewer than 100 employees and less than $50 million in revenue.

Number of SMEs and SME Employment

There are more than one million small businesses (businesses with under 20 employees, excluding agriculture) representing about 96% of all businesses. They produce at least one-third of total GDP and employ 47% of the private sector workforce (35% of the total workforce). If one includes medium-sized enterprises, SMEs make up 99.7% of all private sector firms and employ almost 74% of private sector employees. Like most other countries, Australia is a nation of very small firms; over 80% of Australian private sector businesses have fewer than 5 employees and more than 99% have fewer than 100 employees (see Table 1). There were only 2,700 firms with more than 200 employees in 1998-99. Almost 50% of Australian enterprises have no employees except for the owners themselves. Three-quarters of persons working in their own enterprises are solo entrepreneurs.

Although firms with under five employees make up 80% of all firms, they employ only a quarter of the private sector workforce. Large firms, on the other hand, which make up less than 0.3% of all enterprises, employ 26% of the private sector workforce. The average size of a small firm in Australia has been getting smaller; in 1983-84 the average firm had 3.54 employees; by 1998 it was 3.28 employees. In 1999, more than 60% of Australian small firms were operated from, or at, home.

Table 1 – Number and Distribution of Private Sector Firms and Employees by Size of Firm, 1999-00

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>Number of firms (000)</th>
<th>Percent of firms in size class (%)</th>
<th>Number of employees (000)</th>
<th>Percent of employment in size class (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No employees</td>
<td>542.2</td>
<td>48.6</td>
<td>976.6*</td>
<td>14.5</td>
</tr>
<tr>
<td>1-4 employees</td>
<td>365.7</td>
<td>32.8</td>
<td>760.2</td>
<td>11.2</td>
</tr>
<tr>
<td>5-19 employees</td>
<td>167.1</td>
<td>15.0</td>
<td>1,444.2</td>
<td>21.4</td>
</tr>
<tr>
<td>20-99 employees</td>
<td>33.2</td>
<td>3.0</td>
<td>1,287.3</td>
<td>19.1</td>
</tr>
<tr>
<td>100-199 employees</td>
<td>3.7</td>
<td>0.3</td>
<td>512.6</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>SME Subtotal</strong></td>
<td><strong>1,111.9</strong></td>
<td><strong>99.7</strong></td>
<td><strong>4,980.9</strong></td>
<td><strong>73.8</strong></td>
</tr>
<tr>
<td>Over 200 employees</td>
<td>2.7</td>
<td>0.24</td>
<td>1,753.9</td>
<td>26.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,114.6</strong></td>
<td><strong>100.0</strong></td>
<td><strong>6,734.8</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Compiled from Small Business Australia 2000, Tables 2.3 and 2.4, ABS; excludes agricultural firms. *These are people who are self-employed or business owners.

**Sector Distribution of Enterprises**

Most small businesses are located in services, property or construction sectors with less than 10% in each of personal services, wholesale trade, manufacturing and accommodation and food services (Table 2). Almost three-quarters of non-agricultural small businesses are in service producing sectors – almost 20% in property and business services alone. The large firm sector is more heavily represented by manufacturing firms and accommodation, cafes and restaurants and SMEs are more heavily represented by construction firms, property and business services and retail trade.

Table 2 – SME and Large Firm Employment by Sector, 1997-98

<table>
<thead>
<tr>
<th>Sector</th>
<th>Sector Distribution of SMEs (%)</th>
<th>Sector Distribution of SME Employment (%)</th>
<th>Sector Distribution of Large Firms (%)</th>
<th>Sector Distribution of Large Firm Employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>8.0</td>
<td>12.1</td>
<td>26.0</td>
<td>21.5</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>15.3</td>
<td>16.6</td>
<td>11.0</td>
<td>23.7</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>5.9</td>
<td>9.7</td>
<td>7.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Construction</td>
<td>19.4</td>
<td>11.0</td>
<td>3.7</td>
<td>2.3</td>
</tr>
<tr>
<td>Property &amp; Business Services</td>
<td>19.3</td>
<td>17.8</td>
<td>14.8</td>
<td>11.6</td>
</tr>
<tr>
<td>Accommodation, Cafes &amp; Restaurants</td>
<td>2.8</td>
<td>7.3</td>
<td>7.4</td>
<td>3.6</td>
</tr>
<tr>
<td>Transportation &amp; Storage Services</td>
<td>5.9</td>
<td>4.7</td>
<td>3.7</td>
<td>5.0</td>
</tr>
<tr>
<td>Personal &amp; Other Services</td>
<td>7.1</td>
<td>4.7</td>
<td>3.7</td>
<td>1.4</td>
</tr>
</tbody>
</table>

120
Health & Community Services

<table>
<thead>
<tr>
<th></th>
<th>6.4</th>
<th>7.7</th>
<th>7.4</th>
<th>9.0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>9.0</td>
<td>8.4</td>
<td>14.8</td>
<td>16.3</td>
</tr>
</tbody>
</table>


**Self-Employment Trends**

The proportion of self-employed persons to total private sector employment is estimated at 14.5% (2000) but this has dropped from 15.3% in 1998. The self-employed comprised 11.3% of total employment in 1999 (both public and private sector employment, including agricultural sector).

**Growth Rates in the SME Sector**

During the last 10 years (1987-1998), the number of firms increased at an annual rate of 3.4%, with the greatest growth rate in number of businesses with 1-9 employees (4.5% annually). The growth rate in the number of small businesses has been decreasing since 1995 (only 2.0% per year during the 1995-1999 period), the overall slowing down being driven by a decrease in the number of non-employing businesses (negative annual growth rate of – 0.4%). The highest growth rates have been in property and business services and health and community services over the past 15 years (8% annual average growth rate). The number of small businesses in personal and other services is currently increasing at the fastest rate – an increase of 19% from June 1997 to June 1998. Sectors with the highest growth rates in number of firms are also the ones with the highest growth rates in employment.  

Over the past 15 years, employment in small business employer firms increased annually by 3.7% while growth in own-account employment grew at an annual rate of 2.8%. Over the past ten years, the change in number of employees was greatest in the 1-9 employee category, 3.8%. Employment growth has been slowest in the firms with over 100 employees.

During the past four years (1995-99), the growth rate in small business employment has been decreasing, slowing to only 1.6% per annum. Very small firms, employing 1-4 employees, have maintained reasonably strong employment growth over the 1995-1999 period, at an average annual rate of 3.5%. The Assistant Director of Small Business Statistics, Australian Bureau of Statistics (ABS), emphasized that not much employment growth is coming from own-account self-employment (contrary to Canada’s situation) but more from the own-account self-employed who are becoming employer firms. However, firms in the category with no employees or with 10-19 employees experienced the highest growth rates between 1996-97 and 1997-98 (6.0% and 8.0% respectively).  

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53 Interview with Assistant Director, Small Business Statistics, ABS, Brisbane, June 2000.
SME Start-up, Survival and Exit Rates

There is a problem with the reporting of business start-up statistics in Australia so it is not possible to determine the actual business start-up rate. The introduction of the Australian Business Number and the Goods and Services Tax in 2000 will alleviate part of the problem, but in the past this data has not been available. There is some indication of the level of entrepreneurial activity from the GEM 2000 report. The new firm prevalence rate in 2000 was 3.3%\textsuperscript{54} meaning that over 3% of Australian adults were involved in a venture less than 42 months old; additionally, over 8% of Australian adults were currently in the process of trying to start a business, rendering Australia the fourth highest level of Total Entrepreneurial Activity of the 21 countries in the GEM study.

It is estimated that 85.7% of firms survive their first two years in business and 72% survive their first five years.\textsuperscript{55} According to the findings in ABS research, failure peaks at year 3 and then again at year 5; but survival rates appear higher than those in other countries in this study. Professional advice improves the odds for success and screening prior to start-up and professional advice reduces the probability of failure.

Job Gains and Losses in Australian SMEs

There is evidence of considerable employment churning within Australian businesses. Total employment creation in 1997-98 was about 1 million (down from 1.1 million during 1996-97) and total employment destruction was 652,000 (down from 750,000 in 1996-97), netting 360,000 jobs.\textsuperscript{56} (See Table 5).

Table 5 – Net Change in Number of Jobs by Size of Enterprise and New versus Existing Firms, 1997-98

<table>
<thead>
<tr>
<th>Job Status</th>
<th>Small Enterprises</th>
<th>Medium Enterprises</th>
<th>Large Enterprises</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
<td>%</td>
</tr>
<tr>
<td>Jobs gained:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New firms</td>
<td>224,000</td>
<td>96,000</td>
<td>143,000</td>
<td>463,000</td>
</tr>
<tr>
<td>Growing firms</td>
<td>268,000</td>
<td>159,000</td>
<td>122,000</td>
<td>549,000</td>
</tr>
<tr>
<td>Total jobs gained</td>
<td>492,000</td>
<td>49%</td>
<td>255,000</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>265,000</td>
<td>26%</td>
</tr>
<tr>
<td>Total</td>
<td>1,012,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jobs lost:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Declining firms</td>
<td>161,000</td>
<td>134,000</td>
<td>112,000</td>
<td>407,000</td>
</tr>
<tr>
<td>Exiting firms</td>
<td>150,000</td>
<td>60,000</td>
<td>35,000</td>
<td>210,000</td>
</tr>
<tr>
<td>Total jobs lost</td>
<td>311,000</td>
<td>48%</td>
<td>194,000</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>181,000</td>
<td>50%</td>
<td>61,000</td>
<td>17.5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>118,000</td>
<td>32.5%</td>
</tr>
</tbody>
</table>

\textsuperscript{54} Hindle and Rushworth, 2000.
\textsuperscript{55} Reported in Hindle and Rushworth, 2000, p. 39.
Net job change


From Table 5, it is evident that:

- 50% of the net employment generation came from small businesses and one-third from large enterprises;
- 45% of gross job creation came from new firms starting up and 55% from existing firms which added employment;
- 37.5% of gross job loss was from firms which ceased operations and 62.5% from existing firms which shed employment over the year;
- overall, there were 463,000 new jobs from new firms and a net loss of 103,000 from existing firms (the net of new jobs created from growing firms less the jobs lost by existing firms which downsized or ceased operations);
- new firms are very important to Australia’s overall job growth.

Regional Variations

There are wide variations in the distribution of small businesses across Australian states and territories. Over three-quarters of small businesses are located in three states – New South Wales, Victoria and Queensland, as is the general population (see Table 6). Over the past fifteen years, Western Australia and Queensland have experienced the highest annual growth rates in the number of firms (almost 5%) and small business employment (over 4%), while Victoria and Tasmania had the lowest growth rates of businesses and jobs (3.1% – 2.5% and 2.4% – 1.8% respectively).

Table 6 – Distribution of small businesses by state/territory and small business employment share in each region, 1998-99

<table>
<thead>
<tr>
<th>State/ Territory</th>
<th>Number of SMEs (1999)</th>
<th>State % share of nation’s businesses and population</th>
<th>Small business share of employment in each state</th>
<th>Average annual growth rate 1983-84 to 1998-99</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Small businesses %</td>
<td>Population (1997) %</td>
<td>%</td>
</tr>
<tr>
<td>New South Wales</td>
<td>317,600</td>
<td>33.0</td>
<td>33.8</td>
<td>46</td>
</tr>
<tr>
<td>South Australia</td>
<td>70,600</td>
<td>7.4</td>
<td>8.0</td>
<td>48</td>
</tr>
<tr>
<td>Victoria</td>
<td>225,400</td>
<td>24.0</td>
<td>24.8</td>
<td>44</td>
</tr>
<tr>
<td>Queensland</td>
<td>189,200</td>
<td>20.0</td>
<td>18.3</td>
<td>50</td>
</tr>
<tr>
<td>Western Australia</td>
<td>106,600</td>
<td>11.2</td>
<td>9.7</td>
<td>48</td>
</tr>
<tr>
<td>State</td>
<td>Population</td>
<td>Percentage to Total Population</td>
<td>Percentage</td>
<td>Incumbents</td>
</tr>
<tr>
<td>------------------------</td>
<td>------------</td>
<td>--------------------------------</td>
<td>------------</td>
<td>------------</td>
</tr>
<tr>
<td>Northern Territory</td>
<td>7,400</td>
<td>0.8</td>
<td>1.0</td>
<td>50</td>
</tr>
<tr>
<td>Tasmania</td>
<td>19,600</td>
<td>2.0</td>
<td>2.6</td>
<td>49</td>
</tr>
<tr>
<td>Australian Capital</td>
<td>14,700</td>
<td>1.5</td>
<td>1.7</td>
<td>54</td>
</tr>
<tr>
<td>Australia</td>
<td>951,100</td>
<td>100</td>
<td>100</td>
<td>47</td>
</tr>
</tbody>
</table>

Source: Population percentage by state is taken from ‘State Portraits of Australian Business: Results of the 1997 Business Longitudinal Study’, Small Business Research Program, Commonwealth of Australia, 1999; the rest of the table data is derived from Small Business Australia, 1999, Table 3.1, p. 36.
ORGANIZATIONS CONSULTED

1. Australian Bureau of Statistics, Canberra
2. AusIndustry, Victorian Regional Office, Melbourne
3. Small Business Victoria, Melbourne
4. Small Business and Services Policy, Department of State and Regional Development, Melbourne
5. Industry Victoria, Department of State and Regional Development, Melbourne
6. Victorian Employers’ Chamber of Commerce and Industry (VECCI), Melbourne
7. Pivotal Management Consultants Pty Ltd., Melbourne
8. Institute of Applied Economic and Social Research, University of Melbourne
10. Managing Director, David James Investments Pty Ltd., Central Victoria
11. The Carlton Consulting Group, Melbourne
12. Youth Enterprise Victoria, Employment Victoria, Department of State Development, Melbourne
13. Royal Melbourne Institute of Technology, Melbourne
14. Swinburne Graduate School of Management, Victoria
15. Faculty of Business and Law, Victoria University, Melbourne
16. School to Work Section, Department of Education, Training and Youth Affairs, Canberra
17. Office of Small Business, Department of Employment, Workplace Relations and Small Business, Canberra
18. Youth Enterprise Project Officer, Employment Victoria, Warrnambool Business Centre
19. EasyRider Surf School, Warrnambool

BIBLIOGRAPHY AND REFERENCES

# Products and Outcomes of Australia’s Enterprise Education in the Schools Programme, 1996-99

<table>
<thead>
<tr>
<th>Project Areas</th>
<th>Proposed Outcomes</th>
<th>Products Produced57</th>
</tr>
</thead>
<tbody>
<tr>
<td>B: Resources for schools to use in developing business/industry links</td>
<td>Text: describe models of local enterprise partnerships to guide schools in developing productive linkages.</td>
<td>School Industry Links Demonstration project to foster creative links between schools and small businesses (1996-1998). National Enterprise Education Days Initiative – support for 40 Enterprise Education Days in schools across Australia for parents, teachers, students, businesses, and the community on the benefits of being enterprising and to stimulate interest from small business in improved management practices and enterprising initiatives that may create further employment opportunities for youth.</td>
</tr>
<tr>
<td>C: Programs, resources and materials to support teacher professional development</td>
<td>Enterprise Education Workshop: a mechanism for providing professional development to a group of teachers each year who could then become leaders in enterprise education in their own regions and conduct professional development for other teachers on a ‘cluster’ basis. Enterprise Education Workshop Materials: produced to support the workshops.</td>
<td>Eight Enterprise Education Workshops for school principals.</td>
</tr>
<tr>
<td>E: Promotional and community</td>
<td>Public relations campaign: to promote the relevance and importance of enterprise</td>
<td>Launch of the Enterprise Education Awareness-Raising Package. Enterprising Communities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>activities</th>
<th>education, of partnerships, of the Enterprise Education Workshops and the Enterprising Communities Competition.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Competition and Award: development of a national competition for local communities in recognition of the quality of their enterprising partnerships. Australian Business Week ‘In-school’ Program available to all schools nationwide. Youth Enterprise Forums to showcase the work of enterprising young Australians(^{58}).</td>
</tr>
</tbody>
</table>

Regulatory Performance Indicators

RPI 1. Proportion of regulations for which the Regulation Impact Statement adequately addressed net benefit to the community.

RPI 2. Proportion of regulations for which the Regulation Impact Statement adequately justified the compliance burden on business.

RPI 3. Proportion of regulations which provide businesses and stakeholders with some appropriate flexibility (as defined) to determine the most cost-effective means of achieving regulatory objectives.

RPI 4. Proportion of cases in which external review of decisions (as defined) led to a decision being reversed or overturned.

RPI 5. Proportion of regulatory agencies whose mechanisms for internal review of decisions meet standards for complaints-handling outlined in Principles for Developing a Service Charter, published by the Department of Finance and Administration.

RPI 6. Proportion of regulatory agencies having communications strategies for regulation, or formal consultative channels for communicating information about regulation.

RPI 7. Proportion of regulatory agencies publishing an adequate forward plan for introduction and review of regulation.

RPI 8. Proportion of regulations for which the Regulation Impact Statement included an adequate statement of consultation.

CHAPTER FOUR

THE CASE OF CANADA

INTRODUCTION

The estimated population of Canada is 31.3 million, an increase of 1.02% over 1999.\(^1\) A major contributor to population growth in Canada is immigration. The projected immigration rate for 2000 (immigrants per 1000 population) is 6.2, the highest of the countries in this study. 1999 GDP was US$722.3 billion – US$23,300 per capita.\(^2\) The annual GDP growth rate for the 1995-99 period was 3.1% and forecast to be 2.9% for 2000.\(^3\) The private sector contribution to GDP is 63%. Agricultural output to GDP is 3%, manufacturing output to GDP is 31% and service sector output to GDP is 66%.\(^4\)

There were 15.9 million people in the labour force in 1999, resulting in a labour force participation rate of 66%\(^5\) (72% for men and 58% for women). The unemployment rate is about 6.8%, the lowest level since 1981.\(^6\) The self-employed number 2.36 million\(^7\) and account for 16% of all workers, an increase from 13% in 1989 but lower than the 19% rate observed in 1998.\(^8\) There are almost one million employer-SMEs in Canada. Combined with the own-account self-employed, SMEs employ almost 54% of the private sector workforce.\(^9\) Forty percent (40%) of the own-account self-employed and 27% of the owners of employer firms are women, averaging over a third of this segment of the business population.

The 2000 Global Entrepreneurship Monitor ranked Canada the sixth most entrepreneurial of 21 nations on its Entrepreneurial Activity Index (TEA).\(^{10}\) One in 16 adults is currently trying to start a business (6.1%) and one in 45 is involved in the ownership of a new firm that is less than 42 months old (2%). Its overall 7.9% on the TEA index puts Canada in the group of highly entrepreneurial nations, even though it ranks 9th on the new firm prevalence rate. Almost 500,000 people were actively trying to start a business in 1999.\(^{11}\)

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\(^{2}\) Ibid.
\(^{5}\) Ibid.
\(^{11}\) Peterson, Rein, Global Entrepreneurship Monitor: 1999 Canadian National Executive Report, Schulich School of Business, York University.
SECTION 1: DEVELOPMENT & EVOLUTION OF SME POLICIES AND PROGRAMS

A: Canadian Industrial Development Policy

In the 1960s, Canada’s industrial strategy focused on industrial R&D (as per Industrial Research and Development Incentives Act of 1961). In the 1970s, priority was placed on adjustment assistance – helping large firms compete internationally, revitalizing traditional industries such as footwear and textiles, and supporting the restructuring activities of large troubled firms. The federal government initiated various responses to the serious industrial dislocation situation, including assistance for displaced workers as the result of plant closures in many of Canada’s regions. One of these was the Regional Development Incentives Act to encourage new manufacturing and processing facilities in areas of high unemployment (through the use of non-taxable grants).

From 1982-87, the major goal was to reduce economic disparities in Canada’s regions by stimulating traditional manufacturing sectors and encouraging large firms to set up operations in marginal areas. In 1982 the Entrepreneurship and Small Business Office was set up within the Department of Regional Industrial Expansion to examine small business issues. At this time, the Business Immigration Program was introduced allowing more generous immigration procedures for three classes of immigrants: entrepreneurs, self-employed persons and business investors. The government was also spending lots of money on scientific and technological R&D either by way of grants or tax credits and trying to stimulate increased export activity of Canadian firms. In 1989, the government announced the National Policy on Entrepreneurship (see discussion of this below).

The Department of Regional Industrial Expansion (DRIE) was changed to the Department of Industry, Science and Technology in 1990. Its mandate was to ensure Canada’s international competitiveness through strong integration of scientific, technological, and industrial strategies and action. Firm productivity, regional development, science and technology, strategic technologies, and export activity were priorities. Four Regional Development Agencies were set up in 1987 with a mandate for regional economic development through a focus on SMEs.

Today, responsibility for Canada’s industrial policy rests with Industry Canada, a portfolio of 15 departments and agencies including four regional development agencies. Industry Canada’s mandate is to increase productivity and competitiveness in the knowledge-based economy to improve life for all Canadians, to stimulate more and better-paying jobs, to produce stronger business growth through improvements to productivity, to ensure a fair, efficient and competitive marketplace, and to build the knowledge-based economy in all regions of Canada. The tools for doing this are: 1) increased support for scientific and technological innovation, 2) increased trade and investment, 3) growth of the SME sector, and 4) economic growth of communities through community economic development and
infrastructure (i.e., policies related to R&D, trade, SME development, and regional development).

Priorities for 2001 are to: 1) improve Canada’s ‘innovation’ performance, 2) continue the ‘connectedness agenda’ to make Canada the most connected nation in the world, 3) ensure a fair, efficient and competitive marketplace, 4) improve Canada’s position as a preferred location for domestic and foreign investment, and 5) increase Canada’s global trade. The majority of government expenditure in these areas is committed to innovation performance and connectedness.

B: SME Policy Development

During the last three decades, the Department of Industry has undergone several reorganizations. Support for the SME sector has been at least a part of the policy agenda each time. In the earlier decades, there was a heavy bias towards manufacturing and processing sectors. The prime small business development incentives were grants and contributions, tax credits and procurement opportunities. Canada’s initial support for small business began in 1961 with the passing of the Small Business Loans Act to improve access to SME financing for individuals who could not meet collateral security requirements to obtain bank loans. In 1975, the government actually started its own small business bank, the Federal Business Development Bank, to act as a ‘last resort’ lender to the small business community and to provide management training to improve the skills of small business owners. The Bank set up a Small Business Information Service and a Management Training and Counselling Service and started publishing a series of Minding Your Own Business booklets and the newsletter, Small Business News.

In the 1980s, the government broadened its support to include the upgrading of SME management skills within existing firms. The Entrepreneurship and Small Business Office was established in the Department of Regional Industrial Expansion (1982) to fund policy research studies related to small business issues and the development of small business case studies and course materials for university teaching. In the mid 80s, the federal government started looking at entrepreneurship and small business to provide the jobs, innovation and requisite diversity to enable Canadian society to accommodate the future. A Consultation Paper on Small Business was produced and responses invited from the small business community. In the late 1980s, the Minister of State for Small Business established a National Task Force on Small Business and Entrepreneurship (academics and business associations) to advise the government on effective strategies to increase entrepreneurship. The work of this Task Force resulted in Cabinet approval for the first National Policy on Entrepreneurship and five-year funding for the new National Entrepreneurship Development Institute (NEDI) and the National Entrepreneurship Awareness Program, to be managed by the Entrepreneurship and Small Business Office.

The goal of the National Entrepreneurship Policy was to encourage an ‘entrepreneurship culture’ and to promote entrepreneurship as an option for all Canadians. This program ran for

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five years; several initiatives took place to create awareness of entrepreneurship across the country. In addition, other government departments started to examine their programs and policies for the purposes of improving the environment for new and small firms. Revenue Canada established a National Small Business Advisory Committee and six regional committees, which served as a consultative group of small business representatives to advise on new tax initiatives. The Department of Employment and Immigration launched a Self-Employment Assistance Program to help unemployed people become self-employed and funded a network of Community Futures Development Corporations in rural communities across the country to promote self-sufficiency through local enterprise and small and micro-enterprise development. In 1993 the government changed and funding for the National Entrepreneurship Awareness Program and NEDI was discontinued. The position of Minister of State for Small Business was abolished and there has not been a specific Minister for Small Business since then.

In the 1990s, SME focus was on access to management skills, technology and export opportunities. The government piloted the concept of ‘single-window service’ to the SME sector in 1993. The Canada Business Service Center concept was a co-operative initiative of 19 federal departments and provincial and local governments to simplify access to information on the more than 700 small business programs. This was an effort to reduce the costs to government of managing the delivery of these programs and to reduce SME barriers to access. This initiative was expanded to all provinces the following year.

In the mid 1990s, faced with a huge federal deficit and high national debt, the government undertook a major Program Review to reduce program redundancies and improve efficiencies. Leading up to the February 1994 budget, the government conducted a major national consultation on small business issues. A Small Business Working Committee was established to examine a variety of issues that influence the ability of small businesses to grow and to create more jobs. The report of this Working Committee, Breaking Through Barriers: Forging Our Future, made several recommendations for developing a climate to encourage innovative small businesses to start-up and grow – taxation issues, access to debt and equity capital, regulatory reform, export support and improved training.

The House of Commons Standing Committee on Industry produced Taking Care of Business which emphasised the need to improve SME financing, reform small business taxation, improve statistics on bank lending to the small business sector, upgrade small business support programs, and encourage competition in the banking industry. Reviews of SME financing (Financing the New Economy), federal science and technology investments and SME export activity were undertaken. One of the outcomes of this process was the government’s decision to focus its limited resources more narrowly on the 4% of Canadian SMEs considered to be ‘growth-oriented’, estimated at that time to be about 50,000 firms, rather than on the broader encouragement of new business start-ups. Its new policy framework for small business, laid out in Growing Small Business, tended to concentrate on issues of relevance to existing firms – e.g., taxation, red-tape and paper burden, equity financing, and program and service delivery. A major review of regulatory and tax burden took place in 1994-95. A joint public-private sector Forum on Paper Burden was created to develop a plan for reducing the information and reporting demands on small businesses. 1995 saw the passing of the Regulatory Efficiency Act to cut red tape, build flexibility into SME
compliance with government regulations and improve management of the regulatory system for SMEs. It advocated co-operation between federal government departments and other levels of government (e.g., reduced reporting requirements, harmonization of regulations and taxation, etc.). In December 1995 the Treasury Board issued The Regulatory Review Report which reported on its plans to revoke 250 regulations and revise another 370 by the end of 1996.\(^{13}\) Revenue Canada introduced a Single Business Number system to eliminate the need for multiple registrations for GST, income tax and payroll taxes and the Business Impact Test (BIT), an interactive software tool,\(^{14}\) was adopted by all federal regulatory departments to help determine the impact of government regulations on small businesses. Several sectors were targeted – automotive, forestry products, aquaculture, health, food, biotechnology and mining, as examples. Small Business: A Progress Report, a review and report on small business financing, taxation and small business, regulation and paper burden, program and service delivery, skills development, science and technology, and international business was released in 1995.

By 1996 the federal government had launched several new programs, the Business Network Coalition, the Canada Community Investment Program, the Strategis website and a series of government small business Info-Fairs. It began the process of redirecting its federal SME support away from grants and subsidies to repayable loans, and from a major emphasis on direct financing to improved SME access to information. Much of the responsibility for direct federal support to the SME sector was left to each of the regional agencies, although the Federal Business Development Bank started innovating with a number of new small business financing products (e.g., MicroLoans, Aboriginal Businesses Loans, Working Capital for Growth Loans, patient capital). Most of the micro-economic research and policy analysis was focused on addressing Canada’s productivity crisis and supporting the development of technology sectors. Late in 1996, the federal government set up a Prime Minister’s Advisory Council on Science and Technology to provide advice on how to best capitalize on the government’s R&D investments. Technology Partnerships Canada (TPC), a technology investment fund, was announced later in the year.

The profile of youth entrepreneurship accelerated in 1999 when the Prime Minister established the Prime Minister’s Caucus Task Force on Youth Entrepreneurship. This was led by a group of Members of Parliament who held regional consultations on the state of youth entrepreneurship across the country. Its final report made several recommendations for actions to support the development of young entrepreneurs.\(^{15}\) In 2000, e-commerce became a large priority with particular emphasis on the adoption rate of small firms.

There is still a major focus on export development, R&D and technology development, Internet connectedness and the international competitiveness of Canadian industry. The rubric for all of this is ‘innovation’, a major government preoccupation going into the 21st century. Another review of small business policy will be undertaken in 2001.


\(^{15}\) Canada’s Job-Makers, A Report to the Prime Minister of Canada on youth entrepreneurship, 1999.
The Small Business Policy Branch (SBPB)

Several federal departments are involved in supporting the SME sector including Industry Canada, Human Resources Development Canada, the Department of International Trade and Foreign Affairs, the Regional Agencies, the Department of Indian and Northern Affairs, the Department of Agriculture and the Customs Collection and Revenue Agency. Provincial and territorial governments also support the SME sector through their economic development departments. Since economic development and small business development are constitutional jurisdictions shared between the federal government and the provinces, Canada’s regional development agencies have been mandated to work closely with provincial and municipal governments in the SME area, particularly in the area of start-ups and the growth of nascent firms. In this way, responsibility for SME development has been delegated to the regional and local levels.

At the federal level, the Small Business Policy Branch (SBPB), located in the Industry, Science Policy Sector of Industry Canada, has responsibility for SME policy issues. The mandate of the SBPB is to support the growth and productivity of small businesses by: 16

- Providing the Minister and senior management with strategic policy and program advice and information;
- Fostering the development of coherent and effective small business policies, programs, and information products through working with small businesses, partners in government and other stakeholders;
- Maintaining a strategic overview of small business, across regions and industrial sectors, assessing gaps and weaknesses of the marketplace and advising on government policy and programs.

The four key functions of the Branch are Policy Research, Policy Development and International Liaison, Information Management and Small Business Financing Policy. It has responsibility for monitoring the Canada Small Business Financing Act (small business loan guarantee program), the Business Development Bank of Canada Act and regular reporting on bank lending to the small businesses. It produces a quarterly newsletter on small business (Small Business Quarterly) and conducts and contracts research on key SME issues. Recent examples are a study of micro-enterprises and a study of SME management needs. There is a concerted departmental effort to increase awareness of policy activities among other departments and stakeholders. The SBPB produces information products for small businesses and manages a homepage on Strategis 17 that provides sources of information and network links for people who want to start businesses, existing SMEs and small business advisers. The SBPB also develops and delivers, through partners, pilot demonstration projects to fill demonstrated needs within the small business community. The latest example is the Canada Community Investment Program pilot project, which is seeking to mobilize private

17 (http://strategis.ic.gc.ca/sc_mangb/contact)
investment and venture capital for SME financing in 22 pilot communities (www.ccip.ic.gc.ca/SSG/cw01100e.html).

SBPB officials, of which there are about 30, attend meetings of the OECD Working Party on SMEs and the SME Policy Level Working Group of APEC.

C: Current SME Policies, Programs and Structures

The Small Business Agenda

Canada’s small business priorities are laid out in the Federal government’s Main Estimates and otherwise dispersed in the documents of several departments and agencies. The SBPB of Industry Canada places a priority on access to financing and information issues, the Department of Foreign Affairs and International Trade has a goal to increase the number of new SME exporters, Human Resources Development Canada encourages the unemployed and youth to consider the self-employment option, and the regional development agencies have a mandate to strengthen and grow the SME sector through financial and non-financial business supports. The programs and services of most departments have a limited focus on sectors (agri-food, information technology) or target groups (Aboriginals, youth, the unemployed) and serve economic (Industry Canada) and social (Human Resources Development Canada) development goals.

The federal government’s small business policy framework has not been renewed since preparation of Growing Small Business (1994) and will be revisited in 2001. Current policy priorities of the Small Business Policy Branch are access to capital, encouraging the use of e-commerce, identification of issues affecting self-employment and the establishment, viability and growth of micro-enterprises, reducing the burden of government (compliance costs, regulatory burden, administrative hurdles), improved small business management skills, and improved understanding of how trade, taxation, innovation and technology management impact on small business growth and development. SME programs and services focus on improving access to information, counselling and advisory support, capital, export development, R&D support and e-commerce. In 1997, the Department of Foreign Affairs and International Trade set up an SME unit to stimulate increased export activity among SMEs with particular emphasis on increasing the trade activity of youth-owned firms, women-owned firms and Aboriginal-owned firms. A significant portion of Industry Canada’s budget is allocated to R&D and technology support programs – funding for the Canadian Foundation for Innovation, Technology Partnerships Canada and several other agencies and initiatives. Very little of this support finds its way directly to SMEs. Most of it is delivered through third parties – universities, large corporations, research and productivity centers. The Industrial Research Assistance Program (IRAP) is one that does provide direct technical assistance to SMEs in their technology development efforts.

At the present time, SME policy objectives are fragmented along departmental lines and there is no comprehensive national, strategic emphasis on entrepreneurship development. With the exception of federal interest in the promotion of youth entrepreneurship (as a

18 Small Business Policy Branch Strategic Plan, 2000/01 to 2003/04.
solution to youth unemployment and a changing labour market), most entrepreneurship
development efforts are carried out at a regional level, for the jurisdictional reasons noted
above. The focus of regional development agencies varies, with the Atlantic Canada
Opportunities Agency (ACOA) being the most advanced in efforts to stimulate an
entrepreneurship culture. ACOA has had an Entrepreneurship Development Directorate since
1990. ACOA’s rationale for identifying entrepreneurship development as a strategic priority
is stated as ‘support for potential entrepreneurs ensures that business start-ups continue to
generate new employment’.

The mandate of its current Entrepreneurship and Business Skills
Directorate is made up of four strategic elements, namely Entrepreneurship Education, Youth
Entrepreneurship, Business Skills Development, and Skills Research and Advocacy. To fulfill
this mandate, the Agency uses a wide array of tools including public opinion research,
awareness and promotion activities, counselling services and network building opportunities.
A case study of ACOA’s entrepreneurship development approach has been documented in a
1996 OECD publication.

The regional agency in Quebec defines ‘Entrepreneurship and Business Climate
Development’ as one of its areas of activity. The IDEA_SME Program provides funding to
business associations, universities and economic development organizations for projects
intended to support the emergence of dynamic entrepreneurship (www.dcced.ge.ca/em/2-4-
3.htm). Both Western Economic Diversification (WED) and FedNOR (Northern Ontario
Regional Agency) also encourage and promote entrepreneurship activities.

D: Description of Existing Programs and Services in Support of
Entrepreneurship

The Regulatory Environment for Start-Ups

It is neither difficult nor costly to start a business in Canada. Canada ranked number one in a
recent study of the regulation of business entry in 75 countries. This was measured in terms
of the number of procedures required to set up a normal business, the length of time it takes to
gain all approvals and the cost in per capita GDP. For Canada, this was two procedures, two
days and a cost of 0.01140 of per capita GDP. Information on how to start a business is
readily available (www.BusinessGateway.ca). Several government departments publish start-up
guides which list all the things to do and all the relevant government departments and contacts
for such things as registering a business number, obtaining a GST account, and setting up a
payroll deduction file. The most complicated issue would be dealing with the collection and
remittance of sales tax and GST, something most new entrepreneurs complain about. The
implementation of a Single Business Number has simplified all business dealings with
government and enabled one-stop communication on all tax (corporate, GST, import and

20 Stevenson, Lois, Implementation of an Entrepreneurship Development Strategy in Canada: The Case of the
21 Djankov, S., R. La Porta, F. Lopez-de-Silanes & A. Shleifer, The Regulation of Entry, Harvard Institute of
export), payroll deductions and social security issues. This facilitates the registering of new businesses, the opening of new tax accounts and the recording of any business changes.

**Administrative Burden**

Most of the focus on the regulatory environment for small business in Canada is on reduction of red tape and paper burden. This issue is more relevant to existing businesses than it is to entrepreneurs at the start-up stage. The Regulatory Efficiency Act resulted in the revoking or revision of hundreds of government regulations in favour of SMEs. A Business Impact Test (BIT), an interactive software tool, has been developed and adopted by all federal departments to help determine the impact of government regulations on small businesses.22

**Taxation**

Small businesses with less than $200,000 in taxable income benefit from a **Small Business Deduction**, which reduces their federal corporate tax rate from 28% to 12%. As of January 2001, the new 21% corporate tax rate will apply to business income from $200,000 to $300,000.23 In addition, small firms with under $200,000 in taxable income are eligible for a 20% Tax Credit on their scientific R&D expenditures.

Small firms with less than $30,000 in annual revenue are exempt from the collection of GST on sales. This reduces compliance burden for many new and micro-businesses. In the name of Rewarding Entrepreneurship and Innovation, the 2001 Federal Budget announced 1) decreases in the corporate tax rate from 28% to 21% to be phased in gradually over the next three years and 2) a further immediate reduction in Capital Gains Tax to 50%.24 In the name of Encouraging Growth and Job Creation, new tax laws allow self-employed individuals (operating unincorporated businesses) to make a deduction for the employer portion of contributions to the Canada Pension Plan. This equalizes, in part, tax treatment for incorporated and unincorporated firms.

One of the big issues in Canada, like in the Netherlands and some other countries, is defining self-employment for the purposes of taxation and social security benefits. With the rapid increase in the own-account self-employed in Canada and blurrier lines between the status of employee and self-employed, Revenue Canada has developed a guide that lays out the set of criteria used in making this determination.25 The four factors measured are 1) control over the work, 2) ownership of tools, 3) chance of profit/risk of loss, 4) integration (relationship of the worker to the client).

The Canada Customs and Revenue Agency seeks advice on SME taxation issues from a Small Business Advisory Working Group.

Promotion of Entrepreneurship

Widespread promotion of entrepreneurship began in 1990, following the launch of the National Entrepreneurship Awareness Program, which was in effect from 1989-1993. Its goals were to raise awareness of the role of entrepreneurship and small business in the Canadian economy and to motivate more Canadians to become entrepreneurs, regardless of gender, race, or economic status. Conferences, workshops, entrepreneurship awards programs, entrepreneurship research, promotional campaigns, and self-employment training programs were some of the initiatives supported under this program. Since 1993 the most prevalent promotional activities at the national level are entrepreneurship awards programs and entrepreneurship conferences. At the local level, small business awards are again the major promotional vehicles. These are often sponsored by local Chambers of Commerce and economic development agencies.

A national Canadian Broadcasting Corporation (CBC) program, Venture, has been produced and televised for several years. Each week, business stories from across the country are broadcast in a half-hour format. Often, these stories feature the pitfalls and failures of entrepreneurial start-up and growth firms. Canada also benefits from the spillover of US promotion of entrepreneurship – television programs like Business Unusual, CNN.dotcom and Managing – as well as entrepreneurship and small business magazines. Canada itself has a small business magazine, Profit, and national dailies like the Globe and Mail publish an Enterprise section on a weekly basis. There have been examples of radio programs on small business/entrepreneurship and a few examples of regional television coverage of the entrepreneurial story. All of this has served to raise awareness of entrepreneurship and to increase its legitimacy as a viable economic activity in Canada.

The most comprehensive example of an integrated entrepreneurship promotion strategy has been in the Atlantic Region of Canada (four provinces of Nova Scotia, New Brunswick, Prince Edward Island and Newfoundland). It was developed and managed by the Atlantic Canada Opportunities Agency as part of its Entrepreneurship Development Program. This involved funding for several initiatives including:

- a weekly regional English television program, The Leading Edge, and a weekly regional French language program, Temps d’affaires, which both profiled small business owners,
- newspaper and radio programs on entrepreneurship,
- television advertising campaigns,
- Make It Happen publications profiling successful small business owners and focusing on women, youth, students, people with disabilities, immigrants, etc.,

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- production of video and CD-ROM materials for use in schools (*The Spirit Lives* series for school, *Owning Your Own Business*, a 13-module series for television broadcast, and

- major entrepreneurship events.

More recent examples include the sponsorship of some of the MeInc young entrepreneurs’ segments within the national CBC-TV series Street Cents. In co-operation with Le Centre Assomption de recherche et de développement en entrepreneuriat (CARDE) at the Université de Moncton, ACOA funded the production of 20 video and audio vignettes of young francophone entrepreneurs. These were used in an awareness campaign, which included referral to a special web site, visits by the CARDE team to high schools and colleges, a TV and community radio campaign, posters, etc.

These promotional efforts are credited with creating a considerable change in people’s awareness of entrepreneurship in the Atlantic Region and doubling the ‘intent of the population to start a business within the next two years’.

**Awards**

At present, there are a myriad of entrepreneurship and small business awards. At the national level the most prominent are:

- The Ernst&Young Entrepreneur Of The Year Program is part of E&Y’s international program. Each year there are regional celebrations of the regional finalists and winners who then participate in a national awards celebration.

- The Young Entrepreneur Awards Program, sponsored by the Business Development Bank of Canada, honours the top young entrepreneur from each of Canada’s provinces and territories. This award is sponsored by the Bank in co-operation with Canada Post, the Chamber of Commerce, the Royal Bank, VIA Rail, Rogers Communications and others (www.bdc.ca).

- The Student Entrepreneur of the Year award is sponsored by the Association of Collegiate Entrepreneurs (ACE), a network of collegiate entrepreneur chapters on over 35 Canadian University campuses (www.ace.org).

- The Chinese Canadian Entrepreneur award promotes entrepreneurship in the Chinese community by recognizing their contribution, encouraging new business start-ups and promoting social responsibility in entrepreneurship (www.acce.ca/profile.htm).

- The Canadian Woman Entrepreneur of the Year program, initiated by the University of Toronto’s Center for Women in Business, recognizes women entrepreneurs from all of Canada’s regions in several award categories.

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29 For a comprehensive listing of entrepreneurship awards programs, visit http://strategis.ic.gc.ca/SSG.
• The Canadian Awards for Excellence recognize entrepreneurial firms for quality and healthy workplaces. It is hosted by the National Quality Institute with funding from the federal government and private sector sponsors (www.nqi.ca).

• The Chambers of Commerce, at the provincial and local level, are also actively involved in sponsoring small business awards, as are a number of other local enterprise and economic development organizations.

Events

The Business Development Bank promotes an annual national Small Business Week in October of each year. Both government departments and business associations partner in the organization of seminars, conferences and workshops in local communities, featuring small business success stories and promoting the importance of entrepreneurship and small business to the economy.

In 1996, Industry Canada initiated a series of information fairs in towns and cities across the country: Info-Fairs take the form of one-day conferences and expositions in which all federal departments involved in serving small firms participate, ranging from the Taxation department to the Business Development Bank to the Regional Development Agencies. Since 1996, over 86,000 Canadians have attended these events, many who were people interested in starting a business.

In addition, numerous other conferences and events are hosted by entrepreneur associations ranging from the Association of Collegiate Entrepreneurs to Women Business Owners of Canada to the Black Business Association. Often these are built around the entrepreneur or small business awards.

Entrepreneurship Education

K-12

Implementing national entrepreneurship education programs in the schools is difficult in Canada because education is within the jurisdictional domain of the provincial governments. For the most part, entrepreneurship education initiatives are specific to a school, a grade level or a province. At the public and high school level, some schools, in some provinces, offer business economics courses and in some cases, courses in entrepreneurship and innovation. This depends on individual provincial departments of education and schools. The Ontario Department of Education, for example, exposes Grade 7 and 8 students to entrepreneurship in the Visions course; in Alberta Grade 11 students can take a class in innovation and technology.

The departments of education in the four Atlantic Provinces, in partnership with the Atlantic Canada Opportunities Agency, are the exception in terms of a strategic approach to the development of entrepreneurship education in the formal K-12 education system. The Entrepreneurship Education Program evolved from a major million-dollar study of the status
of entrepreneurship education in the school system that was completed in 1990. This study recommended that concerted efforts were required to develop entrepreneurship-oriented curriculum at all grade levels, to train teachers in enterprising teaching strategies, to foster links between classrooms and the small business community and to generally promote the importance of entrepreneurship in schools and communities. Armed with substantive indications of the need for a stronger entrepreneurship focus in the education system, ACOA held meetings with the four departments of education that ultimately led to the signing of a five-year partnership agreement providing for the co-funding of:

- a set of resource materials for the teaching of entrepreneurship education at each level of the education system, grades K-3, 4-6, 7-9, and 10-12,
- professional development of teachers regarding enterprising pedagogies and the introduction of entrepreneurship content in existing and new courses, and,
- networks for the exchange of entrepreneurship education materials, approaches, and information.

The first pan-Atlantic agreement was signed in 1992. Since then, there have been significant achievements in the development and promotion of entrepreneurship education at all levels of the system, supported with over $43 million of expenditure from ACOA, the provincial governments and other partners. Resources and programs span all grade levels and according to research, over 60% of all students had the opportunity to be exposed to entrepreneurship content in the curriculum during 1999-2000, either as stand-alone courses or modules within cross-curricular subject areas. Thousands of teachers have been oriented in the use of curriculum and resource materials. Although gaps still exist where entrepreneurship education materials do not exist, particularly in the French language, there has been a considerable investment in development of resource materials that can be used in perpetuity. In-servicing of new teachers is still a priority, but with the on-going commitment to teacher professional development of organizations such as the Centre for Entrepreneurship Education and Development, the foundation for continuing exposure to entrepreneurship in the classroom is solid. Essential Graduation Learnings (i.e., the set of knowledge, skills and attitudes expected of graduates of public schools), recently identified by the Departments of Education, has provided an invaluable framework for the substantiation of general and specific outcomes in entrepreneurship education at the K-12 level. In the next phase, ACOA will pursue bilateral agreements with individual departments of education or school boards and examine the potential for increasing its support for extra-curricula, outside the classroom, entrepreneurship-related activities and initiatives, for example with 4-H, Junior Achievement and community-based organizations.

Entrepreneurship education is defined by ACOA as ‘the process whereby students become aware of business ownership as a career option, develop ideas for ventures, learn the process

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30 New Directions in Enterprise Education: Projet Entrepreneurship Project, prepared by University of Moncton and Mount Allison University for the Atlantic Canada Opportunities Agency, October 1990.


32 www.ceed.ednet.ns.ca.
of becoming an entrepreneur (including enterprising qualities) and undertake the initiation and development of a business; by extension, non-commercial ventures have been accepted as examples of enterprises for consideration in schools within the context of entrepreneurship education'.

To clarify the distinction between entrepreneurship and enterprise, enterprise education is described as a strategy that helps students learn ‘enterprising qualities’ such as creativity, problem-solving, decision-making, risk-taking, and initiative. The objectives of the entrepreneurship education program are to increase the opportunities students have to learn the process of becoming an entrepreneur and starting a business. The desired results are to expose all K-12 students to entrepreneurship courses and to increase the intent of Grade 12 students ‘to start a business someday’. The basic approach to integrating entrepreneurship concepts in the education system is to focus more on enterprise education at the elementary levels, knowledge about entrepreneurs and entrepreneurship at the junior high level and more hard core venturing skills at the senior high level.

In terms of future directions, ACOA has identified the following needs:

- Need for a clear, common developmental strategy for K-12 in entrepreneurship/enterprise education including a clarification of the difference between enterprise education and entrepreneurship education. Achieving a common understanding of the purpose and placement of enterprise education in the school system among the four departments of education continues to be a challenge in spite of all the progress to date.

- Need for a Progression Model that identifies and validates general, key stage and specific outcomes for entrepreneurship education by grade level. An established framework to guide the development process and to ensure that initiatives progress from one grade level to the next is still lacking. Without clear standards it is difficult to evaluate the validity and appropriateness of new initiatives.

- Need for the departments of education to make a long-term commitment to the hiring of entrepreneurship consultants who can coordinate entrepreneurship/enterprise education for the departments – short-term intermittent use of consultants limits the sustainability of an entrepreneurial culture in the system.

- Need for on-going efforts to in-service new entrepreneurship teachers and to provide follow-up support to ensure that materials, programs and ideas are being implemented appropriately.

- Need to provide professional development to guidance counsellors, administrators, district/board and department personnel so they are aware of the purpose and value of entrepreneurship/enterprise education.

- Need for continued exposure for students in and beyond the classroom environment as part of an overall strategic plan to support their on-going development of entrepreneurial skills and orientation.

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33 Entrepreneurship Education – Year 2000 plus 5, p. 9.
34 Ibid, p. 9.
• Need to focus more on the specific entrepreneurship orientation of female students who tend to identify less with the entrepreneurial role than male students do.

• Need for development of appropriate evaluation tools to measure the effectiveness of various courses and approaches to the development of key entrepreneurship/enterprise skills and attitudes, including age-appropriate indicators for students at the Grade 3, 6, 9 and 12 levels. Also needed is control group research on the impact of entrepreneurship education on the career decisions of graduates five years following high school completion.

Community College Level

There has been some success at introducing entrepreneurship education at the community college level across Canada. Some colleges have enterprise centres where students can gain experience doing consulting projects with small businesses and gain support in developing their own business plans. Entrepreneurship courses tend to be offered as isolated one-off courses but in some instances, a college may offer an Entrepreneurial Studies stream. It is not standard, however, to offer all community college students, regardless of their program of study, the opportunity to be exposed to entrepreneurship content. The biggest barriers seem to be lack of resource and support materials and training for non-business instructors. Instructors also complain about lack of time to fit an entrepreneurship module in already crammed technical program areas. This is unfortunate because of the high propensity of community college graduates to turn their vocational/technical training into a viable business, i.e., to become self-employed in their occupation.

Again, Atlantic Canada has been very innovative in its approach to develop partnerships and integrate entrepreneurship in all curriculum areas. The vision of the Atlantic Colleges Committee for Entrepreneurship Development (ACCED) is to: 1) position Atlantic Canadian colleges as recognized leaders in entrepreneurial education, practices and culture in order to foster economic growth, and 2) assist instructors and students to experience a college environment where entrepreneurship culture is a priority. ACCED, formed in 1996, is a partnership between the region’s community college instructors and ACOA. It is now developing learning resources for community college instructors and offering 2-3 day workshops for instructors to encourage them to embrace entrepreneurship content in all community college programs. The learning resource for college faculty, From Attitude to Action: Creating An Entrepreneurial Learning Environment, is an activity-based, ‘learn-by-doing’ resource that emphasizes skill development in personal development, communications, business/project development and operations and enables learners to relate their chosen field of study to business activities. The professional development workshop for instructors, Entrepreneurializing the Learning Environment, promotes an entrepreneurial approach to the teaching and learning of all program study areas. ACCED organizes an annual regional conference for instructors and sponsors a region-wide awards program to recognize achievements of instructors, colleges, communities and students in pursuing entrepreneurship activities (e.g., College Entrepreneurship Chapter Awards, President’s Recognition Awards and Entrepreneurship Advancement Awards). ACCED’s English-French website is designed to be an information-sharing resource and provides information on all of its project activities.
and initiatives.\textsuperscript{36} One of the latest projects is the Virtual Entrepreneurship Course led by the Nova Scotia Community College.\textsuperscript{37}

**University Level**

Nationally, most universities offer at least one course in Small Business or Entrepreneurship. Increasingly more of them are developing entrepreneurial studies or small business concentrations within their business degree programs. Several Entrepreneurship Chairs are springing up with funding from ‘entrepreneurial families’ or provincial/federal governments. The federal Social Sciences and Humanities Research Council has funded a large Entrepreneurship Research Program led by the University of British Columbia, but networked with partners in Ontario, Quebec and Atlantic Canada.

In Atlantic Canada, Memorial University has been offering an entrepreneurship concentration in its business degree program as has Acadia University, St. Mary’s University and Dalhousie University. Innovative programs and curricula have been developed at the University of Calgary, the University of Victoria, the University of Western Ontario, Université Laval, Hautes Etudes Commerciales at the University of Montreal and Ryerson University to name only a few. The Slate Foundation recently gave $250,000 to Ryerson who is using part of these funds to implement an annual $25,000 Business Plan Competition for students. Ryerson students in dance, computer studies, nursing, fashion, theatre and other programs can elect to take a one-semester Entrepreneurship Module as part of their studies.

Several universities across Canada operate Small Business or Entrepreneurship Centres where students can consult with small businesses and gain experience in small business decision-making. In rare cases, the university also operates an incubator where students can both do work-terms in their own businesses or start full-time ventures following graduation.

**Small Business Support**

There are a number of public-sector agencies and quasi-government organizations that provide information and advisory services to new and existing entrepreneurs in the country. Both the federal and provincial government are involved in this network of local economic development offices. The extent of advisor services differs among organizations ranging from the answering of basic inquiries to referral services to full-scale consultancy.

**Small Business Information Websites**

The major federal government vehicles for improving access to information are Strategis (business-related Website), the new BusinessGateway.ca small business portal, one-stop business service centers, information fairs, and production of printed SME materials.

Strategis (http://strategis.gc.ca) is the largest business information website in Canada. It was launched by Industry Canada in 1996 as part of the government’s effort to shift its focus from

\textsuperscript{36} http://www.acced-ccade.com.

\textsuperscript{37} Check website at www.nscc.ns.ca/core/entrepreneurship for more information.
direct financial assistance to business to the provision of information and other ‘soft’ services that could benefit all SMEs. A number of Internet products have been developed for the site, including Export Source, a Canadian Companies Capability database, Interactive Business Planner, Sources of Financing, and links to other relevant websites and databases.

A new SME portal, http://BusinessGateway.ca, has recently been launched by Industry Canada. This has a number of sub-portals, including one on Entrepreneurship with links to related information in each of the relevant government departments. There is a Business Start-up Assistant portal that includes gateways to Getting Started, Finding Financing, Writing a Business Plan and Employer Information. The Financing sub-portal provides SMEs with single window access to comprehensive information on types and sources of financing. BusinessGateway.ca links to all provincial government departments, business associations, small business magazines and small business support organizations.

GosoloCanada.com is a site for new businesses which includes forms, tips on getting started and finding money, information on incubators and e-commerce and business registration detail.

One-Stop Shops and Business Service Centres

Canada Business Service Centers (CBSC), a network of 10 regional ‘one-stop shops’, were established in 1995 in an effort to make it easier for SMEs to access information about government programs and services. CBSC offices contain reference libraries, information officers, and provide access to representatives from federal and provincial governments and other local agents (both public and private) that serve the SME market. The majority of CBSC clients access its services through a toll-free 1-800 phone line, email and fax-back system. CBSC officers provide information, third-party referrals, and general business advice. The CBSC website can be accessed at www.cbsc.org.

Counselling and Advisory Services

There is a dense network of government departments, agencies and non-government organizations that offer advisory services to SMEs. The CBSCs act as a main point of entry to this network and refer clients to various network members depending on their needs. Often the counselling and advisory support is linked to direct financial assistance; that is, clients are coached through a business planning process with the ultimate goal of receiving financial assistance from the agency, based on a fundable business plan. The major networks are:

- Regional Development Agencies – there are four regional agencies in Canada, the Atlantic Canada Opportunities Agency, Community Economic Development for the Quebec Regions, Federal Economic Development for Northern Ontario Region and Western Economic Diversification.

- The Canada Business Development Corporations (CBDCs) – there is a network of over 200 federal government funded, community-based, non-profit organizations

http://bsa.cbsc.org/scdt/startup.
located in rural communities across Canada whose mandate is to stimulate job creation and economic growth through the development of new and small businesses. These CBDCs are managed by the Regional Development Agencies and deal primarily with start-ups and very small firms. They provide a financial assistance program (i.e., repayable loans of less than $125,000), counselling and business planning services and, in some cases, self-employment and entrepreneurship training programs. Most of their loan clients would have difficulty accessing capital from traditional lenders and be unable to meet the credit standards of conventional lending institutions.

- Economic development offices – most provincial governments co-operate in the funding of economic development or small business offices in towns and cities throughout their provinces. These offices provide advisory services and financial assistance, although each province has its own policy about SME support, for example, not all of them provide financial assistance programs. The mandate of these offices is to stimulate local job creation through SME development and investment promotion activities.

- Aboriginal Business Development Centres – a network of enterprise centres which provide loans and advisory services to Canada’s indigenous people, both on and off reserves.

- University-based small business/enterprise centers – there are over 35 university-based small business or enterprise centers across Canada. These centers often offer counselling services to SME clients and deliver self-employment training programs and seminars. The funding for these centers has been variable in the past and survival continues to be a key challenge.

- Women’s Enterprise Centres (WECs) – in Western Canada, the regional development agency has funded the establishment of WECs in each of the four Western provinces to serve the women’s market and to stimulate an increase in the number of women-owned businesses. These centers provide training, counselling, seminars, networking, mentoring, and loan services. In other parts of Canada, less formal centres exist, for example the Center for Women in Business at Mount Saint University in Halifax.

- Industrial Research Assistance Program (IRAP) – over 250 IRAP officers provide technical advice to SMEs who are in the process of developing new products, technologies or processes.

- The Canadian Youth Business Foundation (CBYF) – a network of offices that provide advice, mentoring and micro-loans to at-risk youth who want to start their own businesses (modelled after the Prince’s Youth Business Trust in the UK).

**Mentoring**

Mentoring is becoming very popular in Canada. Youth Business Mentoring programs have been established by some of the Business Development Corporations, by the Canadian Youth Business Foundation, and the Business Development Bank. Mentoring programs are also very
popular in programs targeted at women entrepreneurs. There is no consistent approach to the provision of mentoring services and there is a need to share ‘best-practices’ in this area of business support. Another need is orientation approaches to ensure mentors are qualified and equipped to fulfil their mentoring responsibilities.

**Professional Development of Small Business Counsellors**

In 1996, with the help of ACOA, a group of business counselling practitioners formed the non-profit Canadian Institute of Small Business Counsellors Inc. (CISBC). The purpose was to develop standards for the occupation and to design a professional development program that would enable people involved in small business counselling to enhance their knowledge and ability in providing advisory services to the growing number of new entrepreneurs. In 1999, the Institute launched the *National Occupational Analysis for the Occupation of Small Business Counselling* which describes the skills, knowledge and abilities required to perform duties in the workplace. These standards can be used as the basis for training, curriculum development, accreditation of training programs and certification of practitioners.  

The CISBC offers professional development opportunities to practicing business advisers by way of a self-directed learning program. The objective is to enhance their business knowledge in all areas of business development as well as their counselling skills. Delivery of the program is managed on behalf of the CISBC by licensed delivery agents in the region, commonly university based small business centres. Each practitioner follows an individualized learning plan depending on their previous knowledge, skills, and ability in the key competency areas. After completing the learning program and preparing a portfolio of evidence supporting their ability to meet the CISBCI’s standards for performance in these key areas, the CISBC issues a Certificate in Small Business Counselling and the learner is admitted as a full member of the professional Institute. Although the program was developed in consultation with small business counsellors across the region, expertise was sought from the UK – the Durham University Certificate Program in Small Business Counselling and the UK Institute for Business Advisors (IBA). The CISBC has certified over 50 counsellors so far and has over 200 Associate members pursuing the accreditation program.

Another innovative initiative is the University-based Business Counselling Internship Pilot Program, led by Acadia University in Nova Scotia. The rationale for this internship program is to meet the growing demand for competently trained small business counsellors. Its mission was to introduce small business counselling as a viable career option to recent university graduates by exposing them to business counselling interventions and to help them develop the knowledge, skills and attitudes required to be successful in this career within a private, quasi-government or government organization. The program has three components, 1) curriculum which allows interns to acquire business counselling knowledge, skill and attitudes, 2) a year long practicum/internship which enables them to apply their skills in actual counselling situations, 3) the development of university-based academic programming relative to small business interventions. The evaluation of the pilot program recommended

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that it be continued and broadened to incorporate three areas of specialization – small business counselling, small business consulting, and small business facilitation/training. This is an innovative program and worthy of examination by other universities both inside Canada and in other countries (http://acsbe.acadiau.ca).

Identification of Target Groups

Several groups receive targeted attention vis-à-vis entrepreneurship programs and services – women, youth, aboriginals, immigrants, and persons with disabilities. Apart from the immigrant population, these groups are under-represented as entrepreneurs. Special efforts are deemed necessary to ensure they have access to the resources they need to start and grow businesses and thereby participate more equally in the pursuit of economic opportunity.

Women Entrepreneurs

In 1976, only 24% of the self-employed were women; by 2000 this had increased to 36%. The growth rate among women starting businesses accelerated rapidly during the 1980s when about 70% of new entrants into the labour force were women. The labour force participation rate of women increased from almost 50% in 1980 to 58% in 1999.41 During the 1980s, the start-up rate among women was four-times that of men. In the late 1990s this slowed to about twice the rate of men. Although the growth rate among women entrepreneurs has been high, women are still underrepresented as business owners. While 21% of the male labour force is self-employed, this is only 13.9% for the female labour force.42 Self-employment statistics reveal that women are responsible for just less than half of the net increase in the number of businesses on an annual basis.43 Women-owned businesses are smaller than those owned by men, they grow more slowly, are less likely to be debt financed, less likely to be incorporated, less likely to employ others and more likely to be run on a part-time basis and from the home.

There are many initiatives specifically tailored to meeting the needs of women entrepreneurs:

- financing programs, e.g., the Women Entrepreneurs Loan Program in Western Canada,
- training programs, e.g., the Step-Up and Step-Ahead training and mentoring programs for women entrepreneurs developed by the Business Development Bank of Canada and licensed to Solutions for Women Business Owners, Inc.,
- awards programs, e.g., the Canadian Woman of the Year Award,
- associations and networking activity, e.g., Women Business Owners of Canada, and

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• promotional activity, e.g., conferences, documentaries, videos, success story publications, etc.

All of this activity has served to raise the profile of women entrepreneurs in Canada and accelerate their ability to obtain financing, access information, gain skills and confidence and develop management skills.

The most comprehensive program of support for women entrepreneurs is in Western Canada. Western Diversification, the regional development agency for the four Western Provinces, funded the establishment of Women’s Enterprise Centres (WECs) in each of the four provinces in 1994. The objective was to help women start and grow their own businesses. These centres offer counselling, mentoring support and business-to-business links, organize conferences and business awards for women entrepreneurs, and raise the profile of women’s contribution to business and job creation. WECs also provide loans of up to $100,000 for the start-up, expansion or purchase of a business with flexible equity and collateral security requirements, five-year terms and business planning assistance. Since 1995, the Manitoba WEC alone has loaned $3 million which has helped lever an additional $3.6 million from banks and credit unions and created 360 jobs. Almost 50,000 women have been reached with business information.44

Aboriginal Entrepreneurs

The 1996, the unemployment rate for Aboriginal people was 24% and the labour force participation rate was 58.9%, about 90% of the rate for Canada. The self-employment rate among Aboriginals is well below the 16% average for the country;45 they make up about 2.8% of the population, but only 0.8% of self-employed people. It is noted that Aboriginals do not have equal access to the resources necessary to start businesses and thus there are several organizations and initiatives in place to encourage and support their development.

The principal responsibility for Aboriginal entrepreneurship rests with the Aboriginal Business Corporation (ABC) in Industry Canada. One of the primary goals of ABC is to increase the number of new-economy Aboriginal businesses. It does this by providing entrepreneurship tools, access to training, promotional efforts, and research. ABC provides non-repayable funding to individuals for the start-up and expansion of Aboriginal-owned enterprises (75% of eligible costs for planning and 60% of capital costs, to a maximum of $75,000).

There are Aboriginal Economic Development organizations whose mandate it is to explore entrepreneurial opportunities within Aboriginal communities. Several education, training, financing and promotional activities are underway. In 1999 the Aboriginal Business Development Institute was set up with a $21 million package to improve business development opportunities and access to capital for Aboriginal peoples. The Aboriginal Business Services Network was formed to enhance the delivery of existing business support programs to Aboriginal entrepreneurs and organizations. The government also has a

44 www.womentcen.mb.ca.
procurement set-aside allotment for Aboriginal businesses to improve their access to government contracts.

Of particular importance in Aboriginal communities is youth entrepreneurship, since 68% of this population is under 30 years of age. An Aboriginal Youth Business Initiative was launched in 1996 with $10 million of funding to encourage youth entrepreneurship. Training videos (The Spirit Lives) have been developed for use in the schools, an Internet website has been established (Spirit of Aboriginal Entrepreneurship at http://sae.ca), and training/counselling programs and financial assistance have been developed. This initiative also funds 75% of the costs of projects (to a maximum of $75,000) that promote entrepreneurship as a career choice, provide mentoring, develop youth entrepreneur role-models, develop institutional arrangements to support financing, and facilitate access to government procurement. To obtain funding for a new business, Aboriginal youth only need to provide 10% of the equity; ABC offers a grant for 60% of the capital costs and 75% of the costs of business advice or training.

There are now over 20,000 Aboriginal-owned businesses in Canada. From 1981 to 1996, the Aboriginal population increased by 63% but the number of self-employed increased by 170% (compared to 17% population growth and 65% growth in self-employment for Canada as a whole). Further development will require sustained effort.

Young Entrepreneurs

The Canadian government has placed a priority on the entrepreneurship development of the youth population as part of its Youth Employment Strategy. This has been driven by a changing labour market, an increasing level of youth unemployment and a growing interest among young people to create their own jobs through self-employment. In 1998, total employment for youth in the 15-29 age bracket reached 3.8 million; of this group, 8%, or 317,000, were considered self-employed. Of these, 56% were male (9.1% of employed male youth) and 44% female (7.7% of employed female youth). Only about 60% of self-employed youth (15-29 years of age) operate their businesses on a full-time basis; 90% of this group are in the over-20 age group. Only 16.7% of young entrepreneurs are employers, although this is twice as high for young male entrepreneurs as it is for young women (21.2% versus 10.9%). Over 75% of youth businesses are in the services sector.

Focus groups to examine the attitudes of young people towards entrepreneurship and to identify their perceived barriers to start-up reveal that, while almost all youth would like to start their own business someday, only about half think they will. The biggest barriers are fear of financial failure, lack of a strong identity with the entrepreneurial role and lack of knowledge about the first steps to take, i.e., what to do first. One of the interesting insights from the focus groups is that starting a business is something a lot of youth want to do – they do not have to be convinced that it is a good thing, but they may have to be convinced that it is a realistic thing! The choice of self-employment is influenced by the existence of family members or friends who have run a business, entrepreneurship teachers, and knowing

46 Ibid.
48 Youth Entrepreneurship Focus Groups, prepared by Omnifacts Research for ACOA, January 2000.
people in the community who have successful businesses. In other words, exposure is an important factor.

In 1999, the Prime Minister of Canada commissioned a Youth Entrepreneurship Caucus Task Force chaired by a Member of Parliament and consisting of 15 parliamentarians and a youth representative, to report on the current situation of youth entrepreneurship. Consultations and meetings were held with youth and youth-focused organizations across the country and their report, ‘Canada’s Youth: Job Makers, A report to the Prime Minister of Canada concerning youth entrepreneurship (November 1999)’ has been released. The report made a set of five major recommendations to more effectively promote entrepreneurship to youth and improve the delivery of programs and services to this future SME population:

- develop a strategy that promotes and markets entrepreneurship to youth;
- reduce duplication of youth entrepreneurship programs by consolidating business programs and services under one department;
- review all programs and services at the community level to ensure they support young entrepreneurs regardless of gender or ethnic origin, through all stages of the entrepreneurial process, including the post-startup phase (mentoring was recommended as an option for this);
- improve the ability of young entrepreneurs to access capital;
- facilitate and foster international relationships and partnerships to integrate young entrepreneurs with the global marketplace.

The government supports the development of youth entrepreneurship through education programs, entrepreneurship training materials and programs, financing, conferences and broadcast and print promotion. There are several young entrepreneur-financing programs in place. At a national level, the Business Development Bank provides loans up to $25,000 for a new business start-up to entrepreneurs 18-34 years old.59 The loan program also provides for up to 50 hours of counselling support, the cost for which is built into the loan amount. The regional agencies fund a youth entrepreneur micro-loan program through the Canada Business Development Corporations. The private sector is also involved; the biggest initiative of which is the Canadian Youth Business Foundation (CYBF), set up through a partnership between several of Canada’s major banks. The CYBF model was influenced by the Prince’s Youth Business Trust in the UK and provides start-up financing for ‘at-risk’ youth (18-30) who want to start a business. It also provides information and referral services to its youth clients (www.cbyf.org).

There is considerable promotion activity to raise the profile of youth entrepreneurship and to encourage more young people to consider entrepreneurship as an option. A 1/2-hour documentary, Young Entrepreneurs: Making It Happen, was produced in 1999 and aired on the Global Television Network.50 A study guide and CD-ROM were developed to accompany this program. This is only illustrative of a number of other such video productions in the...
country. ACOA has published several print publications profiling examples of young entrepreneurs and student entrepreneurs – *Making It Happen: Share the Experience of Young Business Owners in Atlantic Canada; Profiles of Entrepreneurial Opportunity and Success; The Dream Catchers, Student Entrepreneurs of Atlantic Canada*, etc. 51

The number of conferences and event targeted towards youth entrepreneurship are increasing. These events fulfill many purposes – promotion, awareness, education, exposure, and networking. These conferences might be for high school students taking entrepreneurship courses, university students, participants in student venture programs and often include awards to recognize the entrepreneurial achievements of youth.

There are several associations and peer networks for young entrepreneurs, e.g., the Association of Collegiate Entrepreneurs, the Young Entrepreneurs Association and the Young President’s Organization. Young people have strongly indicated their preference for networking with their like-minded peers and also feel it is difficult for them to be taken seriously and accepted by the mainstream business associations. Thus, their own networking activity is encouraged and supported.

The promotion of entrepreneurship among student-aged youth is also a priority. For the past 10 years, a number of student or youth venture programs have been offered across Canada. These include the *I Want to be a Millionaire* program for 8-14 years olds, the *Youth Venture Program* for post-secondary students, the *Youth Entrepreneurial Skills Program* for high school and university students, etc. Each of these programs is based on the idea of encouraging students to start their own businesses in the summer time or as part-time ventures during the school year. Thousands of young people have participated, thereby learning entrepreneurial skills by ‘doing’ and gaining venturing experience. Research shows that this earlier exposure helps demystify the process and increases the probability that the young person will start a business upon graduation. These programs are all supported by the efforts of community-based organizations and often provide small start-up loans, ranging anywhere from $100 to $5,000. An evaluation of the Nova Scotia Youth Entrepreneurial Skills (YES) program revealed that a third or YES students over the past 17 years are now running their own full-time businesses. 52

An innovative concept to provide entry services to youth is the Open for Business enterprise centre being rolled-out across Atlantic Canada (www.ofbnetwork.com). The objective of Open for Business is ‘to nurture people along the entrepreneurship continuum and provide an option for determining the economic component of their life, to provide an environment that leads to the values, attitudes, personal qualities and skills to be successful and to help communities mobilize entrepreneurial energy’. Eight Open for Business sites are operational in Nova Scotia and there are four licensed sites in Sweden.

An innovative effort in British Columbia is the B.C. Youth Entrepreneurship Development Committee (YED) whose aim is to co-ordinate targeted and seamless delivery of youth entrepreneurship programs. YED has developed a manual to assist local community organizations in the process of animating workshops to plan strategies and actions in their own regions (*Supporting Youth Entrepreneurships in Your Community; an action-planning handbook* at www.cybf.ca).

51 These publications can be viewed at www.acoa.ca/e/business/entrepreneurship.shtml.
Junior Achievement is very active in Canada and offers the Company Program and the Student Venture Program to high school age students and Project Business, as an in-class program, to Grade 6 students (www.jacan.ca). In 1999/00, more than 200,000 students were involved in JA programs.

The Unemployed

The Self-Employment Assistance Program is a program of Human Resources Development Canada to provide entrepreneurship training and yearlong income support to social assistance or unemployment insurance recipients who decide to create employment for themselves by starting a small business. These programs provide technical and management support, counselling and advice, and diagnostic assessments. Qualified applicants can include people who have been unemployed in the past three years or who, after taking parental leave within the past five years, have remained out of the work force. They are provided with 52 weeks of income support while developing a new business (78 weeks for unemployed persons with disabilities). This option has been taken up by about 1% of the officially unemployed.

Immigrant and Ethnic Entrepreneurs

There is a higher self-employment rate among the overall immigrant population of Canada than the average for the country but this varies by ethnic group. However, not much is known about the characteristics of ethnic entrepreneurs and they are under-represented as clients of government supported small business centres and financing programs. Research is currently underway at the University of British Columbia and the University of Montreal Business School to examine the characteristics of Canadian Chinese entrepreneurs and other ethnic groups. This is expected to lead to better meeting of their needs.

The Department of Immigration has sponsored an Immigrant Entrepreneurs Program for several years. Under this program immigrants may be granted permission to enter the country if they plan to establish their own business and create jobs for others. Several immigrant entrepreneur business associations provide services geared to assisting new immigrants establish businesses and networks in Canada.

Entrepreneurs with Disabilities

Canada has been doing national research on the opportunities for people with disabilities to become entrepreneurs. The Network for Entrepreneurs with Disabilities (NEWD) offers tailored counselling services to this target group and undertakes promotional activities – newsletter, research initiatives, public consultations, and self-employment training programs.53 This program, initiated in Nova Scotia, now has over 400 members, and is attempting to achieve national support.

Networks

Several SME membership associations exist. The largest of these is the Canadian Federation of Independent Business (CFIB), however, its major purpose is lobbying government on behalf of SME interests. It has over 100,000 members. There is lots of networking activity among Boards of Trade, Chambers of Commerce and entrepreneur associations. Membership associations exist for women entrepreneurs, young entrepreneurs, student entrepreneurs, home based business owners, micro-businesses, entrepreneurs with disabilities, family enterprises, high-tech entrepreneurs and entrepreneurship researchers, among others. Horizontal networks, such as First Tuesday are starting to form as a way to bridge information gaps among new economy entrepreneurs, venture capitalists, technologists, management service providers and e-business suppliers. Many of these networks can be accessed through http://Businessgateway.ca.

ACOA and the Province of Ontario are two of the only governments to include entrepreneur networking as a strategic priority. ACOA has as one its Entrepreneurship Development objectives to increase networking, interaction and mentoring among entrepreneurs, intermediaries and policymakers. The Province of Ontario focuses more on networks for high-growth entrepreneurs and has funded the Innovators Alliance as a way of formalizing roundtables for growth-oriented Ontario firms and hosting an annual Wisdom Exchange (www.innovators.org). Almost $2 million has been invested by the Ontario government in the building of this network and the research behind it.

Access to Financing and Seed Capital

The Canadian government is involved in a wide range of programs that provide financial support or improve access to financing for new and young small businesses. These include loan guarantees, loans for rural businesses, Aboriginals, women, young entrepreneurs, and technology businesses, venture capital programs, and support for local ‘angel’ networks. The four regional development agencies offer various kinds of SME financing support for expansion, R&D activity, export development, modernization, technological upgrading and human resource development. Restrictions often apply regarding eligible sector, with priority placed on manufacturing and goods producing industries. Over the past few years, the focus has shifted to ‘repayable’ loans and cost-recovery, improving the information flow between SMEs and private investors, increasing the amount of venture capital available for mezzanine financing, and enhancing the ability of SMEs to obtain financing from traditional banks and private investors. An important tool for addressing the small business information gap is the Sources of Financing and Sources of Micro-Credit (under $25,000) search engines where the different sources of small business financing available in the country are listed. (http://strategis.ic.gc.ca/sources).

54 www.hite.org.
Business Development Bank of Canada (BDC)

The BDC was established in 1975 as a government-owned crown corporation although it existed as the Industrial Development Bank in the late 1940s. It is mandated to provide financing to the SME market and offers a number of financial products, including micro-loans, working capital loans, patient capital and venture capital (www.bdc.ca) to supplement private sources of financing. Some of their loans target sectors (information technology), activity (exporting, productivity enhancement, commercialization of technology) or groups (Young Entrepreneur Financing Program). In 1999-2000, the network of 84 branches had a loan portfolio totalling $5.6 billion in outstanding loans, 11% more than the previous year. New loan financing of $1.4 billion was done in 1999-2000.

Among the variety of loans it offers are:

- **Micro-Business Loan** – offers up to $50,000 for existing SMEs for expansion activity: up to $25,000 for new start-ups. Two years worth of follow-up mentoring and management support are built into the loan amount.

- **Productivity Plus Loan** – for manufacturing and processing companies that want to improve productivity and need equipment. Loans for between $100,000 and $5 million are available.

- **Innovation Loans** – for SMEs that want to develop new technologies or new markets.

- **Working Capital Loans** – loans of up to $100,000 to support growth by topping up conventional sources of short-term financing; up to $250,000 to cover the costs of initiating and developing a new market.

- **Young Entrepreneur Financing Program** – up to $25,000 is available to people from the ages of 18-34 for a new business. Fifty hours of customized management support is included in the loan agreement.

- **Growth Capital for Aboriginal Business** – loans for on or off reserve Aboriginals who want to start or expand a business.

- **Seed-capital** – Three seed fund pools, totalling about $40 million, have been funded to back businesses in the early stages of commercialization of a new technology (communications and electronics, biotechnology, energy and environment, industrial products, and computer-related businesses). Amounts of $100,000 - $750,000 are available, but more than one round of financing can be accessed.

- **Venture Loans** – quasi-equity financing of $100,000 - $1 million for expansion and market development for high-growth firms. Loan payments are flexible and provisions can be made for a combination of interest payments and royalties.

- **Venture Capital** – Since 1975, the BDC has made venture capital investments of $300 million in 270 firms in leading-edge industries with strategic market positions and dynamic management.
The BDC also offers consultancy to help clients assess, plan and implement integrated management solutions to growth firms through its cadre of 500 trained professional advisers. In fact, it often ties counselling to the lending decision.

**Small Business Loan Guarantee**

Canada’s Small Business Loan Guarantee program has been in place since 1961. Renamed the Canadian Small Business Financing Act (CSBFA) in 1999, the program offers 85% government-backed guarantees to approved lenders for small business loans of under $250,000. These loans can be given for the establishment of new businesses or the expansion or modernization of existing small firms with sales of under $5 million a year and can be used for fixed assets and leasehold improvements. The lending bank can take security against the assets and a personal guarantee of up to 25%. Interest rates are 3% over bank-lending prime and lenders can charge a 2% one-time registration fee. In 2000, 17,667 small businesses obtained CSBFA-backed loans valued at $1.351 billion, an average loan size of $76,493. These guarantees generated 3.1 net new jobs per loan resulting in 55,238 new jobs in 2000. Over 50% of these loans were to new businesses; more than half of firms had revenues of less than $500,000 and the majority of clients were in accommodation, food and beverage or retail trade sectors. Most sectors are eligible for CSBFA loan guarantees but they are limited to asset financing (i.e., plant, equipment, and leasehold improvements). Unlike the loan guarantee programs in Taiwan and the United States, working capital loans are not eligible.

**Micro-Loans**

- The BDC offers a general Micro-Loan Program and a micro-loan program for young entrepreneurs, as described above.

- Canada Business Development Corporations (described above) provide several loan products to new entrepreneurs –
  - the Young Entrepreneurs ConneXion Seed Capital Loans – loans of up to $15,000 for a new or existing business owned by a person under 30 (Atlantic Canada). All sectors are eligible. The objective was to address the difficulty young people were having accessing capital for their business ideas and to respond to their expressed desire to have financing accompanied with business counselling, mentoring or training support. In fact, this is one of the unique features of the loan program – the young client is provided with up to 40 hours of free business counselling or training in a business-related area where his/her knowledge deficiency is greatest. By 1999, over 1,500 young entrepreneurs had accessed a Seed ConneXion loan. An evaluation report in late 1999 reported an average loan size of $10,840, an average of 1.8 jobs created per firm, a calculated cost per job of $7,685 and a 92% survival rate after 13 months. The seed capital program played an important role

55 http://strategis.ic.ca/SSG.
56 www.acoa.ca/e/financial/capital.shtml.
57 A Review of ACOA’s Seed Capital ConneXion Program for Young Entrepreneurs; Final Report, prepared by Collins management Consulting & Research Ltd., for ACOA, October 26, 1999.
in leveraging additional funds from financial institutions, including banks and credit unions.

- Western Youth Entrepreneur Loan Program – loans of up to $25,000 for 18-29 year olds. The goal is to tackle youth unemployment by providing increased access to capital and ‘to give youth valuable experience that will serve to develop an entrepreneurial culture and pave the way for future small businesses’.58

- Micro-Loan for people with financial needs of less than $5,000;

- Regular loans of up to $125,000 for new or existing small firm owners who would have difficulty accessing bank financing.

- The Canadian Youth Business Foundation offers $15,000 last-resort micro-loans to at-risk youth who want to start businesses if they have a business plan and agree to work with a mentor. This support enables them to access financing when they cannot get it anywhere else and eases them through the transition to more conventional financing and banking practices.59 Loans are based on merit. The CYBF was formed as a non-profit foundation with funding by two of Canada’s national banks.

- Women Entrepreneurs Loan Fund – in Western Canada, the regional development agency has funded a network of Women’s Enterprise Centres, which also administer a loan fund (described above).

- Loans are available to Aboriginal entrepreneurs as described above.

- In parts of Western Canada, entrepreneurs with long-term disabilities can access loans up to $75,000 and help with developing a business plan (Advice and Business Loan for Entrepreneurs with Disabilities60).

**Venture Capital**

Canada has a rapidly growing venture capital industry. The amount of venture capital invested more than doubled in 2000 over 1999, increasing from new investments of $2.7 billion to $6.3 billion. The number of deals increased from 989 to 1,141 in 2000. Sixty percent (60%) went to follow-on financing and 40% to first-time deals. Early stage transactions took a 45% share of overall activity, up from 35% in 1999.61 Start-up financing increased by 310% over 1999 (to $1.1 billion; 16% of total) and seed deals rose by 199%. The average venture capital deal was about $4.4 million, up from $2.7 million. Almost 90% of deals were in technology sectors (e.g., communications, life sciences, internet/computer products, electronics, fibre-optics and photonics).

However, there is constant concern about the lack of private sector professional venture capital firms. The majority of the $18.8 billion of venture capital under management in Canada is managed by Labour Sponsored Venture Capital Funds, which are not prone to

59 [www.cbyf.ca](http://www.cbyf.ca) and [www.youthbusiness.com](http://www.youthbusiness.com).
60 [www.wd.gc.ca/eng/finance](http://www.wd.gc.ca/eng/finance).
61 Venture capital industry shatters all records in 2000, Macdonald & Associates, Toronto ([www.cvca.org](http://www.cvca.org)).
making the riskier investments. There is also regional disparity in the distribution of available venture capital, with a particular scarcity of it in Atlantic Canada. Almost half of the $6.3 billion disbursed in 2000 went to Ontario firms and 43% to Quebec firms.\(^{62}\) About $4.5 billion of venture capital is still available, equivalent to less than a year’s supply based on last year’s activity levels. In terms of the economic impact of venture capital activity from 1995-99, investments resulted in 23,052 jobs, $14.2 billion in sales, $5.37 billion in exports and $792 million in R&D.\(^{63}\)

In the past, the government has wrestled with the issue of how to increase the supply of venture capital. Various approaches were tried – providing tax credits to venture capitalists for investments were the predominant form of incentive. In some cases, the government launched Venture Capital Corporations with third party partners.

**Business Angel Programs**

The vast majority of start-up equity is funded by private, non-formal, non-angel money.\(^{64}\) The actual amount of formal angel investment in Canada is unclear. Estimates of the Global Entrepreneurship Monitor research team in Canada are that the ratio of angel investment to total new formal venture capital is 2.5:1.\(^{65}\) Increasing government attention is being paid to stimulating the angel investment community.

In 1996, the federal government announced funding in excess of $66 million for a five-year pilot demonstration project, the Canada Community Investment Program (CCIP), to facilitate access to risk capital by small firms and provide incentives for increased ‘angel’ investments at the local community level. The objective was to identify successful investment facilitation approaches and to develop policies that foster access to equity financing by growth-oriented firms. Twenty-two pilot non-urban communities were funded to experiment with different approaches. CCIP provides these communities with the information and tools to start and operate an Investment Facilitation Service. Best practices and lessons learned from these individual experiences are documented in The Winning Formula website at [www.ccip.gc.ca](http://www.ccip.gc.ca). In its final year of operation, CCIP has produced extensive material on the effectiveness of different approaches to making SMEs ‘investor-ready’ and to matching firms with private investors. As part of this program, online training modules have been developed to increase the knowledge and competence of both groups (Steps to Growth Capital training modules). This training material can also be delivered in seminar/workshop format in local communities. The Winning Formula website serves to promote exchange of experience among the 22 pilot communities and includes a wide range of material outlining best practices in all aspects of mobilizing a community-based venture capital/angel resource at the local level.

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62 Ibid.
63 www.bdc.ca.
64 Peterson, Rein, 1999, p. 17.
65 Ibid, p. 17.
Research: Entrepreneurship/SME Issues

SME Statistics and Reporting

Canada excels in the quality of its statistical data on the SME sector. Statistics Canada has been applauded by the OECD and others for its efforts to collect data on the SME sector – births, deaths, job creation by size and type of firm, etc – and to track trends and development through longitudinal databases. These longitudinal data bases exist for the self-employed category of the Labour Force and for employer firms. StatsCan has had a Small Business Data Program for several years and has been refining its ability to link data files and to report more accurately on the state of SMEs. However, Canada does not publish an annual State of Small Business Report so it is difficult at times for the public to be presented with a picture of the dynamic of the SME sector and its role in the Canadian economy. Certain regions of Canada produce their own State of Small Business Reports – Atlantic Canada (ACOA), Western Canada (WED), Quebec (CEDQR) and Northern Ontario (FEDNOR) – but none of these present the complete national picture. This deficiency may be rectified in 2001-02.

In 1998, the Small Business Policy Branch established an advisory committee on entrepreneurship research (RACE) to build linkages between the academic community, business associations, and government policymakers, to identify gaps in the body of knowledge and to develop a strategic research agenda for the future. RACE has met several times and is still developing its strategy. In the meantime, an inventory of Canadian small business and entrepreneurship research, along with a list of researchers, has been compiled and is about to be listed on the BusinessGateway.ca website for public access. The objective of this initiative was to bridge the gap between the intelligence that exists in academia and the policymaking environment. Over 1500 pieces of research have been indexed and categorized.

Academic Research

The Canadian academic community has been interested in the small business area for decades. The Canadian affiliate of the International Council for Small Business started in 1979 as a membership organization for SME researchers, policy makers and others interested in development of the SME sector. SME focused research has evolved over time and many new academics have joined the field of study. Several universities have established Entrepreneurship Chairs and the Social Sciences and Humanities Research Council has funded a five-year Entrepreneurship Research Program led by the University of British Columbia.

SECTION 2: EXPERIENCES/EVALUATION OF IMPACT

Evaluating the Effect of Programs and Policy Orientation

There have been few efforts to evaluate the effect of the different policy orientations in Canada. Program review is more common. In fact, the federal government now mandates departments to prepare annual evaluations of their programs and activities and report directly to Parliament with the results. The Atlantic Canada Opportunities Agency has been cited as a best-practice department in its approach to program evaluation. It uses a variety of evaluation approaches and has been able to link quantifiable outputs with investment inputs. To measure impact of direct assistance on client firms ACOA does client surveys and also does a type of control group evaluation using Statistics Canada researchers to measure economic performance of ACOA-assisted clients compared to a set of non-assisted SMEs.

In general, ACOA uses three sets of performance indicators to measure small business development:

<table>
<thead>
<tr>
<th>I. Overall development of SMEs, businesses, jobs, growth(^{67})</th>
<th>II. Performance of ACOA-assisted clients (directly impacted by ACOA assistance)(^{68})</th>
<th>III. Assisted clients’ reports of impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increases in the level of self-employment</td>
<td>• Incremental direct actual jobs created and maintained as a result of the ACOA assistance;</td>
<td>• Did ACOA support help firm meet its objectives?</td>
</tr>
<tr>
<td>• Business start-up rate</td>
<td>• Incremental impact of projects on investment expenditures, sales, wages, salaries, exports and new SMEs;</td>
<td>• Would project have gone ahead without ACOA support (incrementality)?</td>
</tr>
<tr>
<td>• Increases in the number of businesses</td>
<td>• Incremental value added by sector, by province adjusted for project failure rate after three years of age and displacement effect;</td>
<td>• Did the SME increase, sales, increase employment, increase exports, improve productivity or profitability?</td>
</tr>
<tr>
<td>• Job creation by new businesses and by existing businesses</td>
<td>• Survival rate of ACOA clients compared to the average for all SMEs in the region;</td>
<td>• Did client identify new potential markets as a result of ACOA assistance?</td>
</tr>
<tr>
<td>• Net employment growth in private sector</td>
<td>• Increase in R&amp;D investments by Atlantic firms</td>
<td>• Was client satisfied with level of service from ACOA and its officers?</td>
</tr>
<tr>
<td>• Survival rates of businesses</td>
<td>• Increases in tourism revenue.</td>
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<tr>
<td>• Percentage of growing businesses</td>
<td>• Increase in number of exporters and export volume</td>
<td></td>
</tr>
<tr>
<td>• Increase in number of exporters and export volume</td>
<td>• Increase in R&amp;D investments by Atlantic firms</td>
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</tr>
<tr>
<td>• Increase in R&amp;D investments by Atlantic firms</td>
<td>• Rate of return to Canadian taxpayer from each dollar of ACOA investment (measured to be 5:1).</td>
<td></td>
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</tbody>
</table>

\(^{67}\) Although it would be impossible to directly link ACOA expenditures to these overall changes.

Of course, it is easier to evaluate the impact of programs which involve direct financial assistance to businesses than it is to evaluate the impact of non-financial assistance to business, i.e., the impact of business counselling and advisory services, of entrepreneurship education programs, and of entrepreneurship promotion and networking activity. ACOA’s Entrepreneurship Development Directorate did some early work to identify performance indicators for the Entrepreneurship Development Program. These were presented in OECD/ACOA (1996). Performance indicators were developed to measure increases in awareness of entrepreneurship, intent to start a business within the general population, impact of entrepreneurship education initiatives, and outputs of research agenda, as examples.

SECTION 3: OBSERVATIONS AND CONCLUSIONS

A: General View

In 1999, the GEM research team conducted interviews with a number of Canadian experts to solicit their views on the state of entrepreneurship in Canada. The view of these experts was that Canadians place a relatively high value on entrepreneurship and respect for start-ups (Canadians gave the highest scores of any GEM country on the question ‘would you approve if a son or daughter of yours was trying to start a new business?’), but that Canadians lack motivation and incentives to grow these start-ups into significant firms (lots of micro-enterprises; very few growing firms). They also agreed that compared to the US, Canadians have an extensive social safety net, which leads them to be less risk-oriented and more dependent on government. The SME policy making process was seen to be politically driven rather than research driven, with a bias towards ‘bigger issues’ and larger firms – the ‘bigger bang’ approach.

According to the experts, access to equity capital is becoming the single most critical barrier to business start-up and growth. The rise in profit-insensitive taxes in Canada over recent years has left less retained earnings for reinvestment in growing firms. The financing gap for equity exists for amounts less than $750,000; the lending gap for amounts less than $100,000.

The education system is a major player in the advancement of an entrepreneurial culture. The GEM Key Informant Panel asserted that educators at all levels lack a practical understanding of the entrepreneurial process and of the business community and that there is a need for entrepreneurship education at all levels to prepare new entrepreneurs.

As general areas which need attention, GEM concluded that:

- Canada needs to close the gender gap between men and women entrepreneurs.
- Entrepreneurship education must be made available in all public schools at all levels.

- All students including engineering and technology graduates need to be exposed to entrepreneurship courses.

- Government policies must focus on ‘growing businesses’ and enhancing the environment for growth of existing small firms, rather than trying to ‘pick winners’.

- Canada needs to reduce taxes and increase incentives to take risks.

- Canada needs to celebrate successful entrepreneurs and encourage the ones who fail the first time. Although there a number of awards programs in Canada, the view is that entrepreneurs in Canada do not receive as much positive societal support as they do in the US. As well, Canadians are more risk-averse and conservative so need more support and encouragement to pursue entrepreneurship.

B: Assessment of Entrepreneurship Policy Emphasis

In terms of the Motivation, Opportunities, and Skills framework being applied in this study, it seems that Canada as a whole places priority on the Opportunities circle – i.e., access to information, expertise, capital, markets, and technology. There are few barriers to business entry and the government has taken several steps to reduce administrative, regulatory and tax burdens for small businesses. There are a multiplicity of business support programs and services and financial products to meet the needs of new, young, and rapidly growing firms.

Once upon a time there were many efforts to improve the management skills of SMEs and some programs are still evident but less is said about this in policy statements than in the past. Current research on the link between small business management skills and increased innovation activity by the SBPB may lead to new initiatives to meet identified needs. Self-employment training programs exist but funding is sporadic and they are not consistently offered in communities across Canada. Entrepreneurship education programs exist, but because of jurisdictional issues, barriers exist to the development of a national strategy that would be agreed to by all departments of education.

Nationally, the major promotional efforts are the existence of awards programs, although there is a lot of exposure to entrepreneurship in the media, both of Canadian and American origin. Since the National Entrepreneurship Awareness program ended in 1993, there has been no national campaign to promote entrepreneurship as a viable employment option per se. The one exception may be in the area of youth entrepreneurship where a number of organizations, private sector corporations and government agencies are involved in promotion, education, training and financing of youth entrepreneurs.

Canada is very active in support for target groups including women, youth, Aboriginals, the unemployed and immigrants. Targeted programs to increase entrepreneurial activity among these groups are reasonable well developed. They include financing, promotion, network building, entrepreneurship education and training components, and counselling and advisory services.
C: Insights, Observations and Lessons Learned

- Canada was the first country in the developed world to adopt a National Policy on Entrepreneurship (1989).

- Canada began exploring policy issues in entrepreneurship/small business in the early 1980s.

- According to GEM, 1999, Canada was the second most entrepreneurial of the 10 nations in the study. 6.9% of the adult population was actively trying to start a business, behind the US at 8.4%. This translates into about 500,000 people a year trying to start a business.

- According to available data, Canada has the highest business start-up rate of the 10 countries in this study – 15.7% entry rate for employer-firms and 24% entry rate for people becoming self-employed. Exit rates seem to be about 14.5% and 19-20% respectively leading to net increases in the population of firms and a high turbulence rate (30%-40%).

- Interesting research on firm exits and what happens to the owners of exiting firms reveals that exits may be over reported in statistical reports, and that 43% of the entrepreneurs had closed the business to retire or were operating a new business; 37.8% were employed elsewhere.

- Over 80% of the net growth in employment has been coming from the entry of own-account self-employed. Thus self-employment is very important to increased job creation in Canada.

- Statistics Canada wins high marks for the quality of its SME data – can track developments longitudinally – births, deaths, growing and declining firms, job creation by size of firm, self-employment trends, SME success and failure factors, etc. This may be the best in the world. However, the lack of publication in a national State of Small Business report impedes widespread awareness of trends among stakeholder groups.

- SME policy at the national level seems to be focused on the innovation and ‘growth’ agenda; entrepreneurship policy is more evident at the regional level. There is no evidence that Industry Canada has set an objective for increasing the rate of new business entry.

- There has been a trend for federal SME policy to move away from direct assistance to business to the provision of information (one-stop shops, business website) and creation of a ‘favourable environment’ (reduction of paper burden).

- Canada is quite mature in the SME financing area – small business loan guarantee program, a Business Development Bank for SME financing, regional agencies which directly or indirectly finance higher risk businesses, community-based business development corporations which provide access to financing for local business
development (including micro-loans), and several loan programs for marginal groups – women, aboriginals, blacks, etc. Canada has had lots of experimentation in this area. However, the major funding programs often have sector, size and use eligibility criteria that exclude the majority of SMEs (the loan guarantee program, the regional agencies, etc.).

- Several groups are targeted for entrepreneurship activity – women, youth, blacks, immigrants, people with disabilities, aboriginals. This has led to the existence of targeted initiatives and enterprise centres that manage loan funds, counselling and advisory services, entrepreneurship training programs, the building of networks, and promotional efforts. These organizations tend to be micro-systems for entrepreneurship development within these markets.

- There is an abundance of start-up information and ease of access through one-stop shops and websites.

- Atlantic Canada has a comprehensive, strategic framework for the development of student and young entrepreneurs and for the integration of entrepreneurship education in the school system.

- There seem to be two ways to go on entrepreneurship education - work with the departments of education or go around the classroom. For the Atlantic region of Canada, working with the four departments of education through an umbrella organization was an effective strategy. It provided a framework for pursuing an entrepreneurship education strategy and a cost-effective strategy for developing entrepreneurship-oriented teaching resources. It facilitated cross-regional networks of teachers, curriculum directors, and senior education bureaucrats for the exchange of information, ideas and eventually multi-lateral and bi-lateral projects and initiatives. When the project began in 1992, there were few resources for the teaching of entrepreneurship in the K-12 system and very little support. The situation has changed dramatically, with many age and grade appropriate entrepreneurship resources now available and thousands of teachers oriented in the delivery of these resources in the classroom.

- Evaluation of the impact of entrepreneurship education efforts is important, not only for the purpose of measuring change in attitudes, knowledge and ability of students, but to demonstrate outputs to department of education officials and reinforce the appropriateness of entrepreneurship education in meeting broader learning objectives for students.

- Bridging the gap between academic researchers and policymakers is a need. The formation of RACE (Research Advisory Committee on Entrepreneurship) and the contract to compile a data base of all research on the Canadian SME/entrepreneurship sector were steps in that direction but the process is moving slowly. Models of how other countries are pursuing this issue would be helpful.

- National occupational standards for small business counsellor have been developed in Canada. However, unlike in the UK, the government has not adopted these standards
as a mechanism for improving the quality of counselling service to clients. A professional institute exists, the CISBC, but it is operational only in Atlantic Canada to certify qualified small business counsellors. The intent is to expand across Canada. The need for professional development has been recognized but efforts are way behind the UK in this area.

- There is quite a bit of entrepreneurship promotion – awards, profiles, media, events, and target group activity.
- Canada’s entrepreneurship policy-in-practice is very much wrapped around target groups. There is virtually no mention of ‘entrepreneurship’ in the government’s ‘innovation’ documents.
ANNEX: OVERVIEW OF THE SME SECTOR

Definition of Small Business/SME

According to Statistics Canada, a small business is defined as one with fewer than 100 employees; a medium-sized firm as one with 100 – 499 employees and a large firm as one with more than 500 employees. However, the Small Business Policy Branch reports its SME statistics for firms with less than 300 employees (SMEs) and over 300 employees (large enterprises). Different government departments may use other definitions when setting criteria for access to their SME assistance programs.

Number of SMEs and SME Employment

There are 2.36 million self-employed Canadians and 1,833,005 registered businesses in Canada. Firms with annual revenues of less than $30,000 a year do not have to register for GST which means a number of micro-businesses are excluded from the Business Register.

Of registered businesses, 44.6% have no employees, 77.6% have fewer than 5 employees, 87% have fewer than 10 employees, 99% have fewer than 100 employees and 99.9% have fewer than 500 employees (Table 1).

Table 1 –Number and Share of Businesses by Employment Size, June 1999

<table>
<thead>
<tr>
<th>Firm Size Category</th>
<th>Number of Firms</th>
<th>Share of Firms (%)</th>
<th>Share of Employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 employees</td>
<td>818,785</td>
<td>44.6</td>
<td>10.7</td>
</tr>
<tr>
<td>1-4 employees</td>
<td>602,996</td>
<td>33.0</td>
<td></td>
</tr>
<tr>
<td>5-9 employees</td>
<td>170,353</td>
<td>9.3</td>
<td>14.3</td>
</tr>
<tr>
<td>10-19 employees</td>
<td>115,475</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>20-49 employees</td>
<td>81,050</td>
<td>4.4</td>
<td>10.9</td>
</tr>
<tr>
<td>50-99 employees</td>
<td>25,456</td>
<td>1.4</td>
<td>7.4</td>
</tr>
<tr>
<td>Sub-total</td>
<td>1,814,115</td>
<td>99.0</td>
<td>43.3</td>
</tr>
<tr>
<td>100-499 employees</td>
<td>16,553</td>
<td>0.9</td>
<td>14.2</td>
</tr>
<tr>
<td>Subtotal</td>
<td>99.9</td>
<td></td>
<td>57.5</td>
</tr>
<tr>
<td>500 + employees</td>
<td>2,337</td>
<td>0.1</td>
<td>42.0</td>
</tr>
<tr>
<td>Total</td>
<td>1,833,005</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Statistics Canada, Publication No. 61F0040XDB. The Business Register excludes firms that are not required to register for GST and which do not have payroll numbers, thus the percentage of firms with no employees is likely underestimated.

SMEs employ 57.5% of the labour force, however, the bulk of employment share is in firms with over 20 employees. The 93% of firms with under 20 employees only employ 25% of overall employment. The average employment size of an employer firm is getting smaller. In 1989, on average, a Canadian firm had 12.8 employees; by 1996 this had decreased to 12.5
(a 2% decline). However, this decline was due to a shrinking of large firms. The average firm size of businesses with over 500 employees decreased by almost 10% between 1989-96 while the average firm size of smaller firms increased.

Over half of self-employed entrepreneurs (53%) operate home-based businesses; 82% of which have no employees except the owner. 70

**Sector Distribution of Enterprises**

The majority of Canadian enterprises are in the Services sectors, Wholesale and Retail Trade sector and Construction (Table 2). Small firms are more predominant in Construction and Primary Industries while large firms are more predominant in Manufacturing, Transportation and Communications, and Finance, Insurance and Real Estate. Sector employment share also varies by size of firm. SME share of sector employment is highest in Construction (90%), Services (74%), Wholesale and Retail Trade (65.5%) and Primary Industries (66%).

**Table 2 - Distribution of SMEs by Sector and Number of Employees, 1999**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Distribution of Enterprises (%)</th>
<th>Distribution of Employment (%)</th>
<th>SME* Share of Sector Employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Industries</td>
<td>9.7</td>
<td>3.85</td>
<td>66.0</td>
</tr>
<tr>
<td>Mining</td>
<td>0.7</td>
<td>1.27</td>
<td>37.3</td>
</tr>
<tr>
<td>Construction</td>
<td>11.4</td>
<td>5.36</td>
<td>90.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>5.4</td>
<td>15.54</td>
<td>49.9</td>
</tr>
<tr>
<td>Transportation &amp; public utilities</td>
<td>5.1</td>
<td>7.44</td>
<td>32.6</td>
</tr>
<tr>
<td>Wholesale and retail trade</td>
<td>19.5</td>
<td>17.12</td>
<td>65.5</td>
</tr>
<tr>
<td>Finance, insurance &amp; real estate</td>
<td>14.5</td>
<td>5.70</td>
<td>42.8</td>
</tr>
<tr>
<td>Services</td>
<td>33.6</td>
<td>43.71</td>
<td>74.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Business Register Division, Statistics Canada. * A SME is defined as a firm with under 300 employees in this case.

**Self-Employment Trends**

There were 2.36 million self-employed persons in Canada in December 2000 (including persons who own businesses with employees and self-employed persons who do not have any paid employees), representing almost 16% of the labour force. 71 The self-employment rate has been steadily increasing at annual rate of 3.6% since 1975, except for a dip during the 1991-92 recessionary period. From 1989-1998, the self-employment rate increased from 13.8% to 17.6%, an overall increase of 39.5%. 72 Total employment grew at about 1% per year while self-employment grew by an average of 4.4% per year. The largest increase in the ranks of the

self-employed came from the self-employed with no paid help, a group referred to in Canada as the Own-Account Self-Employed (OASE). This group increased by almost 65% during the 1989-98 period. However, self-employment decreased by 4% from 1999 to 2000.73

Between 1990-1999, self-employment accounted for about 75% of the net employment gain in Canada (and very little in the US). Almost 75% of the net new self-employed jobs came from increases in the OASE category.74 During the 1980s, self-employment had contributed only 17% of the net new jobs, revealing a big difference in the self-employment trend in the 1990s. Not only is most of the employment growth coming from SMEs, the majority of it is due to the rise in OASE (whereas in the US, employment growth is coming mostly from employer SMEs).

**Growth Rates in the SME Sector**

The number of small business employer-firms (with under 100 employees) increased by 0.38% per year from 1989-96, a total of 2.6%. The number of large firms increased by 1.3%, half the annual rate of growth of SMEs. Only firms with under 20 employees exceeded the average increase for all firms (increased by 3%); the number of medium-sized firms actually decreased by 4.1%. When one considers the situation for employer firms, it is evident that the smallest firms have experienced the highest growth in numbers of firms and employment over the 1989-96 time period.

Overall, private sector employment grew by 0.4% from 1989-96 but employment in the small business sector has been increasing at about 1.6% per year. Employment in the under-5 employee firm category grew by 28.9% while employment in medium and large firms both decreased from 1989 to 1996. In fact, large firm employment declined by 8.4%.

**SME Start-up, Survival and Exit Rates**

Data reveals that dynamism in the SME sector, measured by the entry and exit rate of firms on an annual basis, is higher in Canada than any other country in this study. Statistics Canada has found a way to measure annual entry and exit rates both for new employer businesses and for people entering and exiting self-employment on an annual basis. The annual entry rate for businesses with employees between 1989 and 1996 was 15.7%, 18.9% for employer firms with 1-5 employees but as low as 1.8% for large firms with over 500 employees (Table 3).

<table>
<thead>
<tr>
<th>Year</th>
<th>1 - &lt; 5 employees</th>
<th>5 - &lt;20 employees</th>
<th>20 - &lt;50 employees</th>
<th>50 - &lt;100 employees</th>
<th>100 - 499 employees</th>
<th>500+ employees</th>
<th>All Sizes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>20.7</td>
<td>4.3</td>
<td>2.7</td>
<td>1.9</td>
<td>1.5</td>
<td>0.5</td>
<td>16.7</td>
</tr>
<tr>
<td>1990</td>
<td>20.5</td>
<td>4.3</td>
<td>2.7</td>
<td>2.2</td>
<td>1.5</td>
<td>0.7</td>
<td>16.5</td>
</tr>
</tbody>
</table>

75 Insights on… Vol. 3, No.3, Statistics Canada.
<table>
<thead>
<tr>
<th>Year</th>
<th>Survival rate (% of firms which survived after each year)</th>
<th>Probability of failure in a given year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year 1</td>
<td>0.77</td>
<td>0.23</td>
</tr>
<tr>
<td>Year 2</td>
<td>0.61</td>
<td>0.22</td>
</tr>
</tbody>
</table>


Exit rates are an average of 14.5%, resulting in a net increase in firms of 1.2% and a turbulence rate of 30.2%, the highest in this study.

For self-employment the average annual entry rate between 1989 and 1995 was 23.3% and for exits 19.9%.^6^ Annual flows into and out of self-employment are very large, involving over 40% of the self-employed in any given year, large gross flows that overwhelm the relatively small net annual increase of 3.4% since 1989.^7^ Zhenghi et al. (1998) found that self-employment entry rates are not affected by cyclical fluctuations in the labour market, but that exit rates are counter cyclical. A rise in the unemployment rate of 1% is associated with a 0.14% decrease in the overall self-employment exit rate and a 1% rise in the paid-employment rate is associated with a 0.985% increase in the self-employment exit rate. In other words, there may be tendency for self-employed persons to leave self-employment in times of increasing paid employment and to stay in self-employment activity in times of higher unemployment.

It appears from longitudinal analysis of firm dynamics that less than 20% of Canadian start-ups survive their first ten years in business.^7^ However, this is twice the percentage assumed by the popular adage ‘four out of five fail within the first five years’. The larger the firm at start-up, the better its chances are for survival. While only 19% of businesses with under 10 employees survived their first ten years in business, this increased to 50% for firms with 10-100 employees and to 60% for firms with over 100 employees. Also once a firm has survived its first 3 years in business (survival rate of about 50%), its survivability increases. Roughly half of the new start-ups in 1984 were gone by 1987, but it took another 5 years for half of these to exit from the statistics.^7^ Table 4 illustrates the survival and hazard rates for the cohort of firms that started in 1984. The probability of failure decreases substantially with time.

Table 4 – 10-Year Survival and Hazards Rates for Employer Businesses Started in 1984

77 Ibid, p. 6.
79 Ibid.
The average age of Canadian firms in 1994 was about 5 years. Seventy percent (70%) of the firms that existed in 1994 were started during the 1984-1994 decade. By 1994, only 30% of the businesses that existed in 1983 still existed (however, they accounted for 70% of total employment in 1994).\(^80\) Obviously the dynamism of the business sector, i.e., the increasingly rapid displacement of firms has serious policy implications for the Canadian government. It raises issues of firm growth and sustainability, as well as employment stability. It reflects a change in the structure of the economy, which needs to be better understood.

Only about 10% of Canadian SME exits are the result of bankruptcy. The majority are voluntary closures where all creditors are paid. One of the big questions about SME exits is, what happens to the owners of these firms? Canada is one of the very few countries which has tried to gain more information on this. In 1998, the Entrepreneurship and Small Business with the Small Business and Special Surveys Division of Statistics Canada conducted a pilot study of business terminations.\(^81\) First of all, the pilot survey results indicated that of a set of firms considered ‘exits’, 37% were, in fact, still in business – but they had actually changed the company name, changed the company ownership structure, or were ‘temporarily inactive. This suggests that exits may be considerably over-reported in aggregate statistical reports. Of the actual exits, 32.5% sold the business, 7.5% merged with another business, 37.5% closed it voluntarily without debt, and 12.5% went into receivership.

Reasons for ceasing operations were ‘not making enough money (41.7%), difficulty obtaining financing (27.8%), too much competition (19.4%), too much work for profitability (16.7%), unable to reach customers (16.7%), family obligations/injury, government burden, retired’. What happened to the owners? More than a quarter (27%) were operating another business, 16% were retired, and 38% were employed somewhere else. Research of this nature is definitely worth doing more of!

**Job Gains and Losses in Canadian SMEs**

Small firms are responsible for a large share of both gross and net employment gains on an annual basis. For example, in 1997, small firms with under 100 employees accounted for almost 65% of gross job gains and over 80% of the net increase in employment (Table 5);
1.46 million jobs were created, 1 million jobs were lost resulting in an 8.5% net gain of 451,900 jobs. This is a considerable amount of volatility in the job market.
Table 5 – Employment Growth and Loss in Employer Firms by Firm Size in 1997

<table>
<thead>
<tr>
<th>Firm size (employees)</th>
<th>Share of jobs, 1996, %</th>
<th>Gross job gains, 1997</th>
<th>% Share of gross job gain</th>
<th>Gross job loss, 1997</th>
<th>% Share of gross job loss</th>
<th>Net job gain</th>
<th>% Share of net job gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 to 4</td>
<td>8.6</td>
<td>379,600</td>
<td>26.0</td>
<td>188,400</td>
<td>18.6</td>
<td>191,300</td>
<td>42.3</td>
</tr>
<tr>
<td>5 –19</td>
<td>13.1</td>
<td>289,100</td>
<td>19.8</td>
<td>166,900</td>
<td>16.5</td>
<td>122,100</td>
<td>27.0</td>
</tr>
<tr>
<td>20 – 49</td>
<td>10.5</td>
<td>166,600</td>
<td>11.4</td>
<td>127,000</td>
<td>12.6</td>
<td>39,600</td>
<td>8.7</td>
</tr>
<tr>
<td>50 – 99</td>
<td>7.4</td>
<td>110,000</td>
<td>7.5</td>
<td>86,400</td>
<td>8.5</td>
<td>23,500</td>
<td>5.2</td>
</tr>
<tr>
<td>Sub-total</td>
<td>39.6</td>
<td>945,300</td>
<td>64.7</td>
<td>568,700</td>
<td>56.2</td>
<td>376,500</td>
<td>83.2</td>
</tr>
<tr>
<td>100 – 499</td>
<td>14.9</td>
<td>206,500</td>
<td>14.1</td>
<td>169,600</td>
<td>16.8</td>
<td>36,900</td>
<td>8.1</td>
</tr>
<tr>
<td>500 +</td>
<td>45.5</td>
<td>308,700</td>
<td>21.3</td>
<td>270,000</td>
<td>26.8</td>
<td>38,700</td>
<td>8.5</td>
</tr>
<tr>
<td>All sizes</td>
<td>100.0</td>
<td>1,460,400</td>
<td>1,008,400</td>
<td>451,900</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Table 3 from Insights on… Vol.4, No.1 May 2000, Statistics Canada, p. 3.

Firms with under 20 employees generated 69% of the net increase in employment, which is significant since their share of employment in 1996 was less than 22%. Large firms with over 500 employees generated 8.5% of the new employment increase, although in 1996 they represented 45.5% of employment share. The bottom line is that even though small firms are responsible for almost 56% of gross job losses, the rate at which they are creating jobs is higher than the rate at which they are losing jobs. In addition, in recent years, small firms have increased their rates of job creation while decreasing their rates of job loss. However, from 1999-2000, the small business share of net new jobs was only 14%, while large firms produced 47% of the net gain.

Regional Variations

As in other countries, there is a great deal of variation in growth of the SME sector and self-employment over time. The self-employment rate ranges from 23% in Saskatchewan to 12% in New Brunswick (Table 6). The growth in self-employment from 1989 to 1998 also varied across regions, the highest in British Columbia (72%) and the lowest in Saskatchewan (5%). One of the reasons for such high growth rates in British Columbia may be increased in the population due to immigration, both from foreigners and migrants from other parts of Canada.

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<table>
<thead>
<tr>
<th>Province</th>
<th>Total Growth in Self-Employment, 1989-98 (%)</th>
<th>Average Annual Growth, 1989-98 (%)</th>
<th>Self-Employment Rate, 2000 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>72</td>
<td>8.0</td>
<td>18</td>
</tr>
<tr>
<td>Alberta</td>
<td>47</td>
<td>5.2</td>
<td>17</td>
</tr>
<tr>
<td>Ontario</td>
<td>43</td>
<td>4.7</td>
<td>15.5</td>
</tr>
<tr>
<td>Newfoundland</td>
<td>39</td>
<td>4.3</td>
<td>13</td>
</tr>
<tr>
<td>New Brunswick</td>
<td>36</td>
<td>4.0</td>
<td>12</td>
</tr>
<tr>
<td>Quebec</td>
<td>31</td>
<td>3.4</td>
<td>15</td>
</tr>
<tr>
<td>Nova Scotia</td>
<td>22</td>
<td>2.4</td>
<td>14</td>
</tr>
<tr>
<td>Prince Edward Island</td>
<td>20</td>
<td>2.2</td>
<td>17</td>
</tr>
<tr>
<td>Manitoba</td>
<td>11</td>
<td>1.2</td>
<td>16</td>
</tr>
<tr>
<td>Saskatchewan</td>
<td>5</td>
<td>0.55</td>
<td>23</td>
</tr>
<tr>
<td>Canada</td>
<td>39.5</td>
<td>4.4</td>
<td>16</td>
</tr>
</tbody>
</table>

ORGANIZATIONS CONSULTED

1. Policy and Research Branch, Atlantic Canada Opportunities Agency
2. Evaluation Branch, Atlantic Canada Opportunities Agency
3. Manager of Entrepreneurship Education, Atlantic Canada Opportunities Agency
4. Small Business Policy Branch, Industry Canada
5. Committee Members, Research Advisory Committee on Entrepreneurship
6. Statistics Canada
7. Atlantic Colleges Committee for Entrepreneurship Development
8. Centre for Entrepreneurship Education and Development
9. Schulich School of Business, York University

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CHAPTER FIVE

THE CASE OF FINLAND

INTRODUCTION

The population of Finland is an estimated 5.17 million, of which 2.5 million are in the labour (i.e., labour force participation rate among men is 66% and among women is 55%). The population is distributed among 15 provinces. GDP in 1999 was US$108.6 billion, producing a GDP per capita of US$21,000. GDP grew by 3.5% in 1999 while the population increased by 0.17%. The public sector portion of GDP was 47% in 1999, the second highest of the countries in this study, next to Ireland at 53%. However, this is projected to decrease to 44% in 2000 and to 35% by 2004. The unemployment rate in September 2000 was 8.3%, higher than for the other countries in this study with the exception of Spain. There is widespread agreement that the economic situation of Finland will improve during the next few years although the rate of growth may slow down, maintaining an annual GDP growth of 3.5% until 2003. Under the scenarios created to achieve this growth in GDP, the employment rate is expected to increase to 68.5% by 2004 (from the 1999 level of 66%). Agricultural output to GDP is 5%, on par with Ireland; manufacturing output to GDP is 32% and service sector output to GDP is 63%.

Finland is a welfare state based on the principle of equality of access to services by its citizens and thus has a liberal social insurance system but a high level of taxation (on an international scale). For the past five years (since 1995) the Finnish government has been a ‘rainbow coalition’ led by a Social Democrat Prime Minister and a National Coalition Chairman. This government has been praised by the Wall Street Journal for its consistent economic policies because growth figures, employment, competitiveness and the balance in the economy have been going relatively well for Finland – ‘unemployment has dipped to 10 percent, below the EU average… a growing proportion of the working-age population is in job… However, there is still a lot to be put right in the aftermath of the recession’.

About 9% of the labour force are self-employed and there are approximately 200,000 SMEs. Ninety-nine point eight (99.8%) of Finnish enterprises are SMEs and they employ

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2 Ibid.
7 Reference made in ‘Finland under the rainbow’ in Economics and Politics (www.publiscan.fi/ec10e-0.htm).
8 Ibid.
60% of the private sector workforce. However, the Finnish economy is still heavily driven by the public sector and large firms. The public sector is almost 50% of GDP and NOKIA, one of Finland’s largest private sector enterprises, along with its immediate suppliers, has been responsible for over a third of Finland’s growth in GDP.

Finland ranked 15 of 21 countries on Total Entrepreneurial Activity (TEA) in the 2000 Global Entrepreneurship Monitor. Three point nine percent (3.9%) of adults were either involved in a new firm of less than 42 months (2.5%) or were currently involved in the starting of a firm (1.9%). This placed Finland in the group of ‘low entrepreneurial activity countries’ for 2000.

Although Finland does have a history of SME support, a specific policy on the development of SMEs was first adopted in 1993 (The SME Policy Programme). Integrated within the Ministry of Trade and Industry, SME policy is considered an integral part of Finland’s industrial policy. The main responsibility for SME policy matters rests with the Ministry of Trade and Industry but these ministry implements the policy in close co-operation with other relevant ministries and organizations. The main objective of Finland’s SME policy is encouraging new Start-ups and the growth of existing enterprises. This will lead to employment growth. In 2000, Finland made significant strides in moving from SME to Entrepreneurship policy. The Entrepreneurship Project for 2000-2001 includes Finnish SME policy statements and recommendations for the future. All policy references today are to enterprise or entrepreneurship policy, rather than to SME policy. SME support in Finland is delivered through a network of organizations represented by 15 Employment and Economic Development Centers, Finnvera Plc, SITRA (the Finnish National Fund for Research and Development) and municipalities and universities (business incubators and science parks). The Entrepreneurship Project is jointly managed by the Ministry of Trade and Industry in co-operation with nine ministries and the Association of Finnish Local and Regional Authorities.

SECTION 1: DEVELOPMENT & EVOLUTION OF SME POLICIES AND PROGRAMS

A: Finland’s Industrial Development Policy

In its effort to adjust to structural changes in the global economy, Finland has been examining its industrial strategy with a view towards ‘renewal’ since the early 1990s.

The Finnish Government’s White Paper on Industrial Policy, 1997 describes structural changes in the Finnish economy over the past decade, which resulted in a decrease in employment of 300,000 in the manufacturing and services sectors. It points to deficiencies in the development of personal services in Finland, where unlike many other countries, personal
services employ very few people. This White Paper called for changes to industrial policy which embraced changes to education and training policy, employment policy, and policies relating to competition, taxation, state enterprises, technology, energy, environmental issues, regional development and financial markets. It also addressed the need to improve conditions for the development of the SME sector and growth of the services sector to create new jobs in the economy. It advocated for a change in the role of the State in industrial policy in the following areas:

- Shift from using extensive industrial projects and state enterprises and subsidization of large, but uncompetitive industries to create jobs to directing its resources to the reduction of market failures (due to lack of competition, insufficient investments in infrastructure, education and R&D, environmental problems, inefficiency of capital markets, the inadequate exploitation of economies of scale and learning);
- Shift from promoting specific industry clusters to horizontal policy measures, such as developing cluster-specific skills and networking;
- Shift from the view of industrial policy as an independent area to ‘policy interdependency’ where links are made between industrial policy and macro-economy policy and regional policy;
- Shift from protection of existing businesses and industries to promoting and supporting entrepreneurial activity and ensuring favourable conditions for entrepreneurship, i.e., changes in legislation, education and taxation that promote entrepreneurship;
- Refocus job creation efforts from the manufacturing sector to the services sector which accounts for two-thirds of both GDP and employment and where future growth is likely to be greatest.

Further changes were advocated in the following areas:

- Reducing corporate subsidies;
- Increasing subsidies for technical R&D;
- Increasing subsidies for SME internationalization and exporting activities;
- Harmonization of subsidy programs;
- Selling state enterprises and reinvesting resources in reduction of market failures (increase R&D spending, improve conditions for industry, improve the training system, enhance the marketing and internationalization of enterprises and strengthen capital markets);
- Reducing the tax burden on entrepreneurs;
- Improving the availability of financing for SMEs;

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12 Ibid, p. 5.
• Reducing the administrative burden and cost of compliance for new and young firms;
• Increasing the flow of information between start-up companies and their financiers;
• Cutting the sectorial restrictions on public support programs like the State Guarantee Board;
• Implementing a National Rural Program to improve the functioning of services and rural communities to strengthen their attractiveness as places to live and carry out business activities;
• Improving the competitiveness of the agricultural, fishery and forestry industries;
• Adapting a specific policy on the development of SMEs,\textsuperscript{13}

\textbf{B: SME Policy Development}

According to the Ministry of Trade and Industry, a special policy focus on SMEs has existed in Finland since the 1970s. However, a specific SME policy was not introduced until 1993 followed by another SME policy program in 1996 and finally an Entrepreneurship policy focus in 2000.

In 1993, an Advisory Committee for Small and Medium-sized Enterprise (the ‘SME Committee’) was set up to advise the Ministry of Trade and Industry on ways to develop the SME sector. Its membership consisted of representatives of all the main business and employee organizations, entrepreneurs, political parties, and the Ministry of Industry. Its first report, outlining proposals for objectives and short and long-term priorities for a SME Policy Programme, was published in 1993. The main objective at that time was job creation. Two years later, the Finnish Government asked the SME Committee to reconsider the objectives and priorities for SME policy and to develop a new plan for improving the operating

\textsuperscript{13} The SME Policy Programme 1996 in Finland, Ministry of Trade and Industry, Finland, Standing Committee Reports 3/1996.
\textsuperscript{14} Ibid, 1997, p. 54.
\textsuperscript{15} www.vn.fi/ktm/eng/1/1.htm.
environment for SMEs and promoting a stronger spirit of enterprise. The working sub-committee for this exercise was interministerial and included representatives of the Ministry of Finance, Ministry of Labour, Ministry of Social Affairs and Health and the Ministry of Education, plus labour market organizations. The mandate of the SME Committee was to examine forms of financing for SMEs, deal with issues related to SME management and SME access to the activities of the EU, co-ordination of SME promotion within the administration and to make proposals for action on matters crucial for the operating conditions of SMEs. The SME Committee (1996) made a series of recommendations for practical actions to address SME barriers. These included:

- Simplifying administrative procedures and mandatory legislation and agreements affecting SMEs (e.g., frequency of tax reporting and payment, pruning of permit procedures, assessing the impact of new regulations on SMEs, improved access of SMEs to procurement contracts);

- A fairer tax system (e.g., payment of tax on profits of self-employed persons; VAT exemption for very small enterprises; simplification of VAT procedures); the aim of the government is to reduce taxation on employment by 10-11 billion FIMs during this period in office – 1.5% of GDP;

- Lower labour costs (reduce the ‘tax wedge’ by lowering employers’ and employees’ tax and payment burden; alleviating indirect labour costs by reducing unemployment insurance contributions, national pension contributions and health insurance premiums);

- A stronger standing for SMEs on the financial market (improving information flow between SMEs and the private investor market; applying tax measures to promote capital investment in unlisted SMEs; introducing more flexibility in the start-up loan guarantee program; improving equity between entrepreneurs and other forms of company structures in borrowing and taxation);

- Networking and business development services (improving information and contact services for SMEs, increased networking opportunities for SMEs who want to export, enhanced co-operation between SMEs and large companies in the development of technology; improving customer service at regional Business Service Centers; development of ‘business hatcheries’ and technology centers to incubate new firms with financial, technical and advisory support).

The recommended SME Policy Programme was approved by the government in 1996. It had as its objective to improve the operating environment for SMEs, to provide the best conditions for them to start-up, grow and operate successfully and to ensure equal opportunities to compete in the EU internal market. Concerted policy and program efforts took off in 1997. Measures were adopted to simplify administrative procedures, to simplify legislation and agreements with which SMEs had to comply, to make tax treatment of various

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16 See summary of objectives, recommendations and possible actions in *The SME Policy Programme 1996* in Finland, pp. 48-56.

forms of enterprise fairer, to cut labour costs, to promote diverse forms of financing and to expand the range of services to support growth businesses in production and services.\textsuperscript{18} Regional offices (77 in total) of three ministries – Trade and Industry, Labour and Agriculture – merged together at the regional level in the form of 15 Employment and Economic Development Centers (EECs) acting as ‘one-stop’ shops for SMEs in their regions. The government immediately sought ways to stimulate entrepreneurship and capitalize on new start-ups in the underdeveloped service sector. Law 839, 1997 allowed households to claim a tax deduction against the costs of purchasing household services.\textsuperscript{19} Over 1,600 domestic service companies registered for the business aid experiment and over 23,000 households participated in the project for which they received a temporary tax relief.\textsuperscript{20}

In 1998, barriers to free competition in the services sector were studied further (the biggest problem was found to be the effect of public sector organizations carrying out service functions in competition with the private sector). The government set up a Working Group to develop a plan for the implementation of a proposal for assessment of the impact of new legislation on the activities of enterprises and in 1999 issued a decision-in-principle containing instructions for the assessment of the impact of new legislative proposals on small enterprises and use of an assessment instrument.\textsuperscript{21} The government also tackled the SME financing issue. A Government Proposal on the subsidization of businesses was developed and The Act on Aid to Businesses was revised. The aim of the Act was to simplify the system of direct business aid to increase its effectiveness and to introduce more efficient follow-up to aid granted. Combining aid programs, adopting uniform procedures for awarding subsidies and delivering them through regional capital investment funds were seen as ways to harmonize programs and increase accountability.\textsuperscript{22} Sectorial limitations of aid programs were eliminated.\textsuperscript{23} To improve SME access to financing, Kera, the regional development agency, and the Finnish Guarantee Board were merged into a new State financing company known as ‘Finnvera Plc.’ The government further launched a project to investigate technology transfer and models for business incubation and capital investments\textsuperscript{24} and expanded the two regional support test projects designed to create opportunities for new businesses in the underdeveloped personal services sector.

In mid 1990s several people from the region of Vaasa and other parts of the country started a movement towards the promotion of entrepreneurship in Finland. The framework for this initiative was the Decade of Entrepreneurship 1995-2005 Project.\textsuperscript{25} The vision of the Decade of Entrepreneurship Initiative is ‘an Entrepreneurial Finland by 2006’. Its aims were to further strengthen positive attitudes towards entrepreneurship, promote intensification and diversification of entrepreneurship and enterprise, advance more positive attitudes of society towards entrepreneurship and enterprise, bring up a more active and enterprising generation in

\textsuperscript{18} The SME Policy Programme 1996 in Finland, in Foreword.
\textsuperscript{19} Finnish SME Report 1999, English Summary, Studies and Reports, Industries Department, Ministry of Trade and Industry, p. 15.
\textsuperscript{20} Implementation of the 1999 National Action Plan, Section 1.3.8.
\textsuperscript{22} Annual Report 1999, Ministry of Trade and Industry Finland, p. 15.
\textsuperscript{23} Section 1.3.7, Implementation of the 1999 National Action Plan and its Main Results, Ministry of Labour.
\textsuperscript{24} Ibid, p. 8.
Finland and form an umbrella for the existing entrepreneurship projects, organizing them into more effective entities. The work of this group caught the attention of the Ministry of Labour which later formed a Working Committee of the Decade of Entrepreneurship (chaired by the Ministry) to pursue a government-wide Entrepreneurship strategy. This committee oversaw the conduct of several research studies and the development of an Action Plan. It was an attempt to create a more strategic framework for a number of existing, but inconsistent and poorly co-ordinated development projects around Finland and to enable a more comprehensive and informed approach to entrepreneurship development in the country and its regions.

In 1999 (under the new Finnish government), a two-year Entrepreneurship Project was accepted by all major ministries and launched under the auspices of the Ministry of Trade and Industry in 2000.

The Enterprise Policy Division

The Industries Department of the Ministry of Trade and Industry is responsible for preparing and implementing Enterprise Policy. The Enterprise Policy Division has responsibility for the Entrepreneurship Project. This division has a Project Leader, three fulltime officers and a Communication Officer from the Permanent Secretary. The Project Leader also works with 10-15 officials in other divisions or ministries who are contact persons responsible for implementing entrepreneurship measures.

Implementation of the Entrepreneurship Project is led by the Enterprise Policy Division but jointly managed by nine ministries including the Ministry of Trade and Industry, the Ministry of Finance, the Ministry of Labour, the Ministry of Education, the Ministry of Social Affairs and Health, the Ministry of the Interior, the Ministry of Transport and Communications, the Ministry of Agriculture and Forestry and the Minister of Justice along with the Association of Finnish Local and Regional Authorities. The Employment and Economic Development Centers (EECs), entrepreneurial sector organizations, the labour market organizations and other partners play a key role in the project and develop their own entrepreneurship projects. This is a horizontal approach, which involves several ministries, state and regional governments, labour organizations and the private sector.

A contact network has been set up between the various administrative sectors of government. Its task is to co-ordinate, together with parliamentary secretaries, the measures falling under the competence of the different administrative sectors and promoting entrepreneurship. Important proposals for action are handled by the Cabinet Committee on Economic Policy. The ‘SME Committee’, chaired by the Minister of Trade and Industry, serves as a discussion forum for the Entrepreneurship Project.

The co-ordination committee is chaired by the Entrepreneurship Project Leader. The Project Leader:

- holds meetings with MTI Responsibility Centers to monitor an agreed-to Work Program and to report on progress;
- holds meetings with the network of responsible officials of other ministries;
• conducts bi-lateral meetings with other ministries, for example the Minister of Finance, for the purpose of negotiating project approvals and resources;
• organizes regional forums;
• holds meetings individually and collectively with the EECs to discuss entrepreneurship initiatives and work plans;
• represents the MTI in international fora, e.g., the European Union and the OECD.

Of the 100 initiatives outlined in the 2-year Entrepreneurship Project, about half are those of the Ministry of Trade and Industry and half are those of other ministries and the local and regional authorities.

C: Current SME and Entrepreneurship Policies, Programs and Structures

The SME Policy

The statement of objectives for enterprise policy in the 1999 Annual Report of the Ministry of Industry reads as follows: ‘to ensure that the business environment offers the best possible opportunities for enhancing the number, output and employment rate of competitively viable SMEs, to take active measures for developing SMEs, to make the Employment and Economic Development Centers the key players in implementing regional industrial policy’ (p. 12).

A number of key organizations or agencies exist to promote and finance particular SME activities. TEKES, the National Technology Agency for Finland, is the main agency for supporting applied and industrial R&D activities within the business sector. The corporate financing to TEKES in 1999 was 1.5 billion FIM, of which 53% was channelled to SMEs. FINPRO, the Finnish Business Trade Promotion Organization, is a consulting and service organization whose goal is to accelerate the internationalization process for Finnish companies, particularly SMEs. SME and start-up support is delivered through the network of organizations represented by 15 Employment and Economic Development Centers, Finnvera Plc, SITRA (the Finnish National Fund for Research and Development) and municipalities and universities (business incubators and science parks).

The Entrepreneurship Policy

The Government made provision for an Entrepreneurship Project in its 1999 Government Programme. The aim of this Project is to promote the establishment of new businesses and increase the growth and competitiveness of companies. The National Action Plan statement with respect to this Project read as follows:

‘Obstacles to entrepreneurship will be eliminated and all administrative sectors will be encouraged to take action to promote the founding of new companies and the growth of existing companies. Actions will target the critical stages for success in the life-cycle of an

enterprise: starting out as an entrepreneur, the first years of a company’s life, and the stage of growth. Entrepreneurship will be promoted as a career alternative. Measures will be taken to make it easier for enterprises to enter the market.  

Over 100 different measures have been designed by different ministries to target the five areas of action and stages of enterprise development outlined in Figure 1. Every measure has a timetable and a responsible Ministry in charge of its implementation. Although a budget allocation was not initially allocated for the Entrepreneurship Project, it was expected that special funds for implementation would be assigned in the 2001 budget as appropriate and necessary. Eight priority areas have been selected as specific targets of study.  

- the role of the education system in promoting entrepreneurship,  
- transfer of a business,  
- new technology and knowledge intensive enterprises,  
- issues concerning entrepreneur’s social security,  
- administrative and other burdens connected with business activities,  
- utilization of information technology and other technology in businesses,  
- opening of the public service production for competition, including social and health care services,  
- availability of professional personnel.

In the meantime, the Decade of Entrepreneurship 1995-2005 Initiative continues as a parallel, more private sector-led activity. It focuses primarily on entrepreneurship promotion, research and education issues, the specific outcomes of which are to:  

- Improve the employment situation to be among the best in Europe (i.e., reduce unemployment),  
- Increase the proportion of entrepreneurs in the labour force (i.e., increase self-employment),  
- Increase the level of business start-up activity in all parts of Finland,  
- Increase the number of enterprises in the new areas of entrepreneurship (new economy ventures),  
- Establish entrepreneurship education through teachers’ training and development of curriculum for different levels of the education system,

28 Government’s Entrepreneurship Project – General Description.
• Improve the general climate for entrepreneurship and intrapreneurship measured through improvements in ‘entrepreneurial potential’ observed through a series of different indicators.
CHAPTER SIX

THE CASE OF THE REPUBLIC OF IRELAND

INTRODUCTION

Ireland has a population of 3.8 million, the smallest country in this international case study. Fifty-five percent of the population lives in Dublin. The population was projected to grow by 1.16% in 2000; much of this due to increased immigration. This was expected to rise to 5.27 immigrants per 1000 population\(^1\), up from a negative immigration rate of -1.31 immigrants per 1000 in 1998.\(^2\) The purchasing power parity of its GDP in 1999 was US$73.7 billion, producing a GDP per capita of US$20,300.\(^3\) Ireland has been experiencing high levels of growth in GDP, averaging over 9% per year from 1994-99 and forecast to be 7.5% in 2000.\(^4\) A major part of Ireland’s growth has been driven by aggressive policies to attract foreign-owned firms, offering them marketing and tax incentives and a technically skilled labour force. It has positioned itself particularly well in the information and telecommunications sectors. This has led to superior export performance, significant employment creation in technology-related areas, a higher standard of living for Irish people, increased GDP per capita and a level of economic prosperity that is further driving demand for goods and services. Unemployment has decreased from over 15% in 1994 to just under 4% by 2000. In fact, a labour shortage is one of the critical challenges facing the country in 2001. Its phenomenal economic turn-around over the past five years has won it the title of *Celtic Tiger*.\(^5\)

Ireland has a labour force of 1.77 million and a labour force participation rate of 61%, 73% among men and 49.4% among women\(^6\) (one of the lowest female labour force participation rates in this study and far below the EU average of 58%). If Ireland met the EU average for female labour force participation, there would be an additional 160,000 women in the work force, about 9% of the total work force. Over time, a shift in participation rates patterns is occurring but the lack of a national child care strategy and an insufficient number of day care

places remain barriers to women’s full participation in the economy. On average, nearly twice as many females are working part-time compared to the national average.

There are an estimated 170,000 small businesses, including agricultural businesses. SMEs employ about 68% of the private sector workforce and about 47% of the total workforce. Public sector employment in 2000 was 17.5% of total employment; the private sector share was 84.5%. According to the 2000 European Observatory, the percentage of female entrepreneurs in Ireland is approximately 28%. However, according to the OECD, women made up only 16% of all employers and own-account self-employed in 1998, up from 14% in 1994.

In 1999, agricultural output was 7% of GDP, although considerably lower than 50 years ago, still higher than in the other countries of this international study. Relative to other countries in this study, Ireland’s private service sector is relatively underdeveloped (service sector output is 54% of GDP compared to 62% in Taiwan, the second lowest in this study, and 80% in the US, which is the highest). This means that Ireland has the highest GDP contribution from its manufacturing output of the 10 countries (39%). Manufacturing has been the major driver of economic growth. Internationally traded services are experiencing rapid growth in employment, output, and exports.

Employment growth is expected to be relatively stable at 2% per year from 2000-2010 while GDP growth is expected to grow at an annual rate of 5%; this growth rate will require annual productivity growth of 3%. According to Forfas, in order to achieve that growth, the economy must shift to high-growth, high-technology, high-productivity activities. These activities need high investment in modern facilities, new technology and equipment, employee knowledge and skills, and new product development and innovation. Also essential are improvements to the business environment to support business development and growth and maintain competitiveness. Ten global growth sectors have been identified by PriceWaterhouse Coopers, from which Ireland has selected four for developing world-leadership – Informatics, E-business, Digital Media and Health Services. This sets the stage for overall government economic policy for the next 10 years.

Major weaknesses in the Irish economy are seen as lagging R&D investment compared to OECD and EU countries, a tightening labour market, inadequate transportation infrastructure and a lack of business accommodation facilities with Internet and broadband access, especially in regional areas. Thus, more investment in infrastructure and R&D capability, and aggressive immigration are warranted. Since industry is concentrated in Dublin (for example, 60% of all indigenous tradable services companies and 70% of employment in the sector are in Dublin), regional imbalance also needs to be addressed. Broadband telecommunication

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6 Ibid, Table 14.
7 The European Observatory for SMEs, Sixth Report, 2000, p. 395.
10 ‘Opportunities for Ireland’s High-technology Internationally Traded Services (ITS) Sector to 2007’, Enterprise Ireland, 2000, p. 5. The other seven growth sectors are International Education and Training, Logistics Management, Business Process Outsourcing (e.g., Call Centres), Agriculture & Marine Services, Service Supplier to Large Organizations, and Professional Services. For sector reports see.
roll-out across the country will provide the infrastructure to make regional development a possibility.\(^{11}\)

**SECTION 1: DEVELOPMENT & REVOLUTION OF SME POLICIES AND PROGRAMS**

**A: Ireland’s Industrial Development Policy**

Over the past 75 years, three distinct policy approaches have been used to stimulate economic development. In the 1920s and 30s, it was a non-interventionist approach during which time the country remained industrially underdeveloped and heavily dependent on agriculture. From 1932 to the early 1960s, a protectionist policy was pursued to build up native Irish industry (e.g., constraints placed on foreign ownership and control of the manufacturing industry; tariff barriers on imports). During the 1960s and 70s, an export policy was adopted in order to encourage export-oriented manufacturing and to obtain greater access to foreign markets.\(^{12}\) By the end of the 1970s, Ireland had become excessively dependent on foreign enterprise resulting in a fragile indigenous industry with only weak links between foreign companies and Irish firms and export dominance by foreign firms.

During the 1980s Ireland was experiencing GDP growth of less than 1% per year, high unemployment and rapid out-migration. With an industrial policy targeted on inward investment, indigenous Irish-owned industry was weak. The 1982 Telesis Report concluded that reliable growth would have to come from the domestic sector and that greater selectivity should be exercised in attracting foreign firms.\(^{13}\) The government responded with a range of programs to improve the competitiveness of indigenous firms (e.g., Company Development Programme and the National Linkage Programme).

By 1987 the economy had bottomed out – government expenditure had burgeoned, indigenous industry was going bust, interest rates were high and unemployment had cascaded to 18%. Youth unemployment was even higher and there was a huge national debt. Unions, government, employers and farmers entered into a Social Partnership to survive the crisis. Government expenditure was dramatically cut, wage controls were instituted and other adjustments were implemented. Underpinning the new strategy was an industrial policy focused on economic growth, SME policy and improving the situation of farmers. Structural funds played a role in the turnaround as they paid for better roads, telecom and investment in tertiary education. From 1987 – 1994, fiscal policies were put in place to reduce government borrowing, lower inflation and interest rates, and privatise some State-owned enterprises.

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\(^{11}\) Ibid.


A primary focus of industrial policy in recent years has been to win, in competition with other countries, the highest possible share of quality inward investment in targeted manufacturing and internationally traded services sectors.\textsuperscript{14} Ireland has been extremely successful in this pursuit, but the outcome has been the emergence of a dual manufacturing structure - high-tech, high valued-added industries are dominated by foreign ownership; low-tech, low productivity industries are largely of Irish ownership. While only 16\% of manufacturing units are foreign-owned, they produce two-thirds of the state’s manufacturing output, 96\% of which is exported. The equivalent percentage of exported domestic manufacturing output is 34\%.\textsuperscript{15} Foreign-owned plants are also much larger, employing an average of 146 employees compared to 31 employees per indigenous plant and are twice as productive in output per employee as indigenous firms. Thus, Irish-owned industry has some major structural deficiencies in terms of scale and low productivity due to a lack of accumulated experience, depth of infrastructure, and information at the firm level (i.e., R&D and design, knowledge of and access to markets, training and human development).\textsuperscript{16}

The major priorities of current industrial/economic policy are to stimulate further growth in the manufacturing and tradable services sectors through inward direct investment, to encourage foreign-owned firms to become more fully embedded in the Irish economic community and to distribute the benefits of inward investment more equally throughout Ireland’s regions. At the indigenous level, the priority is to generate higher levels of productivity and wealth creation by stimulating higher value-added activities in the manufacturing and tradable service sectors with a specific focus on the high-growth technology sectors. Significant government resources are being allocated to more applied R&D, advanced telecommunications infrastructure, incubation for new high potential start-ups and internationalisation of Irish firms. The National Development Plan for 2000-2006 reflects these priorities. Almost equal budget allocations have been made for the R&D Strategy and the Plan for Industry (IR£2.47 billion and IR£2.4 billion respectively). Of the Plan for Industry budget, IR£1.81 billion is designated for indigenous industries and 1.23 billion for Foreign Direct Investment activity.\textsuperscript{17}

**B: SME Policy Development**

Interest in new and small firms in Ireland developed partly in response to evidence of the job-creating potential of the SME sector and partly because of the trend towards growing industrial concentration and the desire to curb the power exerted by large corporations globally.\textsuperscript{18} As competition to attract a diminishing volume of internationally mobile investment increases among countries, the trend is for countries to rely more on the indigenous population to generate output and employment. This indigenous growth is driven by the small firm sector. Ireland has a couple of decades of history of SME policy support. The 1987 Task Force on Review of the Small Industry Programme concluded that the policy

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\textsuperscript{15} Ibid, p. 122.

\textsuperscript{16} Ibid, p. 123.

\textsuperscript{17} Ibid, p. 134.

\textsuperscript{18} *Entrepreneurship & Business Start-Ups in Ireland*, 1997.
was stimulating start-ups, but that few of these firms were growing to any extent.\footnote{Ibid, p. 22.} As a result major policy changes were made to the Small Industry Programme in 1988. For start-ups and firms with limited scope for employment growth, support was confined to employment grants of up to IR£5,000 per job created and management grants. For companies with employment growth potential (more than 15 jobs) a range of incentives including employment, capital, product development and management grants were offered.

A 1990 Review of Industrial Performance raised a number of small business issues including the point that the Small Business Programme was having a minimal impact on the aim of providing the seed-bed for major Irish companies (only 1% of companies grew to more than 50 employees). The expressed view was that there was too much emphasis on start-ups, too much dead weight and displacement risk, and that state support could distort the market and lead to a greater number of business failures.\footnote{Ibid, p. 23.} A policy reorientation involving more restrictive eligibility criteria for firm support and a major restructuring of agencies was proposed. All financial supports and company development activities were integrated under the new Industrial Development Authority (IDA).

In 1992, the Culliton Report\footnote{Culliton, J., \textit{A Time for Change: Industrial Policy in the 1990s}, Report of the Industrial Policy Review Group, The Stationary Office, Dublin as reported in \textit{Entrepreneurship & Business Start-Ups in Ireland}, 1997.} of the Industrial Policy Review Group concluded that the strategy of creating national champion firms as instruments for improving the economy as a whole and of embedding foreign mass producers had failed. The Report recommended radical changes in taxation, infrastructure, institutional structures, the direction of education and training and financing instruments (a move away from grants to equity). IDA Ireland, Forbairt and Forfas were the new agencies created as a result. The Department of Enterprise and Employment was set up at the same time. In 1993, the Minister for Enterprise and Employment set up County Enterprise Boards in each county to create jobs ‘from the bottom-up’ through an enterprise culture. The key objective was to deal with high levels of unemployment and persistent poverty. The same year, a Task Force was established to review the small business sector in detail and to develop recommendations for promotion of small business development. The Task Force produced its report in 1994. It identified the high job creating potential of the SME sector and placed small business at the centre of economic development in Ireland.\footnote{Task Force on Small Business, Government Publications Sales Office, Dublin, 1994.} This report made recommendations in the following areas:

- reducing tax burdens on small firms,
- reducing administrative burden,
- providing information and advice (e.g., mentor programs, education and training for SMEs, access to market opportunities),
- establishing a Small Business Division within the Department of Enterprise and Employment, setting up a SME Advisory Forum to advise the Minister on small business issues, and creating a Joint Government Committee on Small Business to review all legislation, and
improving access to financing.

Measures proposed by the Task Force were largely financial in nature, i.e., low-interest loans, provision of seed capital and start-up financing through the City and County Enterprise Boards, tax incentives, reductions in corporate and capital gains tax, etc. In response, the Department of Enterprise and Employment created a Small Business and Services Division in June 1994 and small business became the subject of an Operational Programme in the 1994-1999 round. The Small Business Operational Programme was funded with IR£53 million for a range of small business initiatives. It included measures for seed capital and venture capital programs, funding for the City and County Enterprise Boards and for small business loan schemes. The Small Firm Expansion Loan Scheme (1994-95) made IR£100M available to provide SMEs with long-term 6.75% fixed rate loans at a time when interest rates were over 11%. The Access to Finance Scheme (1995-96), a Small Business Operational Programme partnership fund with participating banks, the EU and the Irish government, directed IR£208M at the small business sector in the form of 7-year loans in the IR£20,000 – IR£500,000 range at 6.5% interest. Over 1,400 loans were made at an average loan size of IR£150,000. An estimated 9,054 jobs were created as a result of this Scheme.23

A Joint Committee on Small Business and Services was set up in 1995 to hear submissions from practitioners in small business and from their association representatives. It produced a number of reports on assistance to small business.24 Also in 1995, the Small Business & Services Forum was established to ensure implementation of the recommendations of the 1994 Task Force on Small Business. The Industrial Development Act was passed to provide for the permanent establishment of the network of 35 City and County Enterprise Boards (CEBs) to assist firms with fewer than 10 employees in local regions. They were allocated an annual budget of IR£20 million.

In 1996, Partnership 2000, an agreement between social partners for the promotion of inclusion, employment and opportunities, made an explicit reference to the importance of fostering an enterprise culture and the improvement of national economic competitiveness through an enterprise environment.25 Several initiatives took place in 1997. The government published the first Annual Report on Small Business; funding was provided for the Innovative Small Business Training project to improve the business know-how of small business owners and managers;26 Telecom Eireann and the Irish Small and Medium Enterprises Association launched a Business Awards program; the Shannon Development Corporation introduced a Seed Capital Investment Programme to assist potential campus-based companies to enter the commercial world; the CEBs introduced the National Enterprise Awards to promote general awareness of small business and create role models for entrepreneurship as a career path; the Enterprise 2000 Fund was established to fill the start-up financing gap identified in research of the Irish business support environment; and the Prompt Payment of Accounts Act was enacted to reduce payment in the public sector.

In 1998 the Small Business & Services Forum established a Review Group to examine the outstanding recommendations of the 1994 Task Force on Small Business and to identify new

24 Ibid, p. 38.
issues arising since 1994. The Review Group met six times during 1998 and 1999 and submitted a report to the Tanaiste in 1999. In 1998, the Central Statistics Office (CSO) updated its business register computer system to provide timely, on-going identification of new business enterprises and local branches of existing enterprises. A formal change in enterprise policy was seen again with the creation of Enterprise Island in 1998. The policy statement for Enterprise Island highlighted the need for sectoral repositioning of traditional firms towards higher value-added, niche and export-led markets of competitive advantage. CEBs were designated as the first point of contact for start-ups and micro-enterprise. This new structure was seen as the beginning of a more tailored approach to assisting small business in the manufacturing and internationally traded services sectors. Under the new three-year strategy, ‘Enterprise Ireland will simplify the number and range of programmes and rationalise its financial products…. the focus of attention has switched from that of building capacity within companies, to that of building capability’.  

Later that year, Start Your Own Business and How to Finance Your Business guides were made available through the CEBs and other government agencies. In 1999, 34 Community Enterprise Centres were funded to address the needs of the longer-term unemployed in local, disadvantaged regions through the creation of community enterprise projects. The Shell LiveWire Programme was introduced to encourage new business starts among young people; a Mentor Network was funded by Enterprise Ireland to help SMEs develop their management strengths; a ‘First-Stop Shop’ for business information was piloted at the Westmeath County Enterprise Board; a program of regulatory reform measures designed to ease administrative burden on SMEs was approved by the government, and an annual report on Seed and Venture Capital was released.

In 2000 six Business Innovation Centres (BICs) were set up to foster support for a regional focus on manufacturing and tradable service businesses and to provide additional seed capital for new innovative and technology firms. This was part of the strategy to more fully develop the economic potential of the regions outside Dublin. A web information resource, ETradeBusinessIreland.com, was launched and a consultative forum involving the Revenue Commissioner, the Department of Social, Community & Family Affairs, the CSO, and relevant departments and agencies was established to work with small business representatives to eliminate duplication and unnecessary reporting requirements. In 2001, Enterprise Ireland announced its new regional growth strategy designed to enhance the environment for business development in the Regions and to encourage new start-up companies with growth potential.

The Small Business and Local Enterprises Unit

The major responsibility for SMEs and Enterprise rests with the Department of Enterprise, Trade and Employment (DETE). Overall, DETE is responsible for promoting competitiveness in the economy and for creating a favourable climate for the creation of self-sustaining

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28 Reforms were based on the report of the Strategic Management Initiative Working Group on Regulatory Reform.
employment. It works to monitor and improve the environment for business by ensuring that the framework of law, regulation and government policy promotes effective company performance and that measures serve to improve and upgrade the motivation, the qualifications and the flexibility of the labour force. Its strategic goals are to:

- promote the ongoing development of an environment within which enterprise can flourish.
- foster a fair and effective business regulatory system which promotes and enforces competition and protects public and consumer interests.
- promote fairness and efficiency in the labour market thereby maximising employment, protecting the welfare of workers and promoting social inclusion.
- implement the business goals of the Department within a culture that promotes openness and transparency towards customers, and emphasizes high quality service delivery.
- further develop staff skills, support structures and systems to assist the Department in implementing a program of change.

The Small Business and Local Enterprises Unit of DETE formulates small business policy proposals and administers the CEB network. It services the work of the Small Business and Services Forum, liaises with other government departments and State agencies, represents Ireland with the EU and other international fora on small business matters, and manages the EU Programmes.

**Forfas**

Overall policy development and co-ordination is mandated to Forfas, the policy advisory and co-ordinating board for industrial development, enterprise development and science and technology in Ireland. It is a legislated agency of DETE and has legal powers for industrial promotion and technology development. In addition to Trade and Skills Policy and the Finance, Tax and Survey Department, there is an Infrastructure and Enterprise Policy Division responsible for economic infrastructure, regional development, communications technology, e-business, and biotechnology policy. Forfas also runs the National Competitiveness Council and the Irish Council for S&T and Innovation. Forfas’ work on SMEs was just beginning in 2000.\(^{30}\) One of its tasks is to decide how to develop an enterprise culture; research on how to do this in Ireland, including benchmarking Irish firms against eight other countries is part of this process.

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\(^{30}\) Evidence of the weak focus on SMEs in the past is the limited discussion of the SME sector in previous Forfas policy documents and reports. The 1999 *Annual Competitiveness Report* devotes 9 of the 197 pages to SMEs (pages 133-141) and *Enterprise 2010*, the strategy document for the Promotion of Enterprise in the 21st Century devotes about 4.5 out of 100 pages to discussing indigenous business (pages 57 – 61).
Small Business and Services Forum

A Small Business and Services Forum reports to and advises the Minister for Enterprise, Trade and Employment on issues impacting on the small business and services sector. Its membership consists of small business owners, representatives from small business associations, and other interest groups interacting with the small business sector. It recently identified the key emerging priorities for small business as availability of labour, adequacy of management skills to meet future business challenges, assessing and integrating new technology, competing in a more open market, and succession planning and exit strategies for those wishing to pass on their businesses. Based on these emerging issues, the Forum is engaged in mapping out a work program to define a new vision for small businesses, one in which enterprise and initiative will become the hallmarks of Irish commercial activity and where the SME sector will flourish. E-business will form a major part of that strategy. CEBs have developed a IR£3 M eBusiness Initiative to increase the use of the Internet by their clients and a IR£10 M eBusiness Fund has been set up by Enterprise Ireland to boost the number of companies doing business across electronic networks. In the fall of 2000, Enterprise Ireland also ran a series of e-Business Masterclasses around the country as a way of encouraging more small businesses to engage themselves in e-business.

C: Current SME Policies, Programs and Structures

In the early 1990s the major goal of enterprise policy was job creation; at the point of full employment, the objective changed to increasing productivity and higher-value enterprises (i.e., to increase wage rates and thus the standard of living). From the perspective of the Irish government, the major challenge facing SMEs is a lack of productivity compared to large Irish-owned and foreign-owned firms. This ultimately means a need to improve the competence of SMEs – building capability and human resource development. Scale is important so firms have to be encouraged to expand. Other important changes are to move into targeted high growth sectors, like biotechnology and IT, focus on innovation to improve productivity per worker (e.g., adopting e-business), and improve access to a range of financing products and other services tailored around emerging needs and opportunities.

Although Ireland currently has a low level of unemployment, there is still a longer-term need to encourage new business start-ups. In the GEM 2000 report, Ireland ranked lowest among 21 countries in the level of nascent entrepreneurship – less than 1% of the adult population in Ireland is currently trying to start a business. However, the government’s primary focus is the creation of high-growth, technology-oriented start-ups in the manufacturing and tradable services sectors.

The SME Agenda

Present Irish SME policy follows general European policy – a move towards non-financial aid to business (rather than cash grants), greater emphasis on reducing bureaucratic constraints to SME development, improving access to finance, and replacing financial assistance with quality advice and technical assistance. Specific SME policy measures are consistent with the recommendations of the 1994 Task Force on Small Business. SME programs and services include fiscal and regulatory measures, information services, financing, business development support, internationalization efforts, and R&D, technology and innovation support. Ireland’s strategy for improving access to financing has evolved from grants and subsidies to loans and equity programs. Enterprise Ireland provides financial and other assistance for export, cooperation, networking and information services to encourage both existing and new small firms to become involved in exporting activities (e.g., New Exporter Programme, International Business Linkages section of Enterprise Ireland, overseas trade offices, ‘Eur:Opp 2003’). A major priority in 2000 was to increase the amount of venture capital available to Irish firms.

The government will be investing very heavily in research, technology and innovation over the next six years. The National Development Plan has earmarked nearly IR£2 billion for related activities across all areas of State activity. The funding will be delivered through a range of schemes to embed a culture of continuous technological innovation in companies, businesses, and academic institutions and to build the infrastructure that will underpin future industrial competitiveness. Through Enterprise Ireland’s ITS 2007 (Internationally Traded Services) strategy, a series of technology hubs will be established in the major towns and cities outside Dublin. These will provide the infrastructure and development context for new and existing businesses in the sector. The roll out of high bandwidth telecommunications infrastructure will provide high capacity communications in the regions. Enterprise Ireland has also launched a campaign (using media, hard copy information guides, a helpline and a website) to motivate Irish businesses to recognize the potential of E-work to address their needs.

Enterprise Policy

In February 2001, the government announced its new regional growth strategy. The four pillars of this strategy are:

- Developing and sustaining existing businesses in each Region,
- Enhancing the environment for business in each Region,
- Identifying and encouraging new start-up companies with strong growth potential,

34 ‘Enterprise Ireland initiative to double the number of clients selling more than IR£5 million annually into Europe’ (Developing Business in Europe, www.entemp.ie/pressrel/281100b.htm).
36 Address by Mr. Noel Treacy, T.D., Minister for Science, Technology and Commerce at the Smurfit Graduate School of Business UCD, Dublin, Thursday, June 8, 2000.
37 Driving Growth in Regional Enterprise, Enterprise Ireland, Dublin, February 2001.
• Identifying new opportunities for economic development in the regions, including investments by expansion-minded Dublin-based companies.

Strategies falling within these four pillars, but specific to each region, have been developed and will be implemented by Enterprise Ireland in concert with local enterprise development agencies. The foundation behind the new policy approach is to distribute wealth creation activity more evenly across Ireland. According to a recent press release, ‘the development of new vibrant technology start-up companies in regional locations is critical to the success of this strategy in the next three years’. The strategy includes building regional seed and venture capital programs, refining existing support mechanisms for viable Community Enterprise Centres with a particular focus on providing incubator space for young businesses with exporting potential, developing stronger links between industry and the higher education sector with increased funding for applied R&D, heightening awareness among entrepreneurs about new opportunities and activities undertaken by companies that will enhance capability and competitiveness (e.g., strategy development, R&D, human resources and marketing).

Components of this enhanced strategy for the development of new high-growth start-ups, which looks a lot like a ‘technology entrepreneurship policy’, are:

• Enterprise Platform Programme - comprehensive business development and financial assistance to employed graduates who want to start their own high-potential businesses,

• the Campus Incubator Programme - up to IR£2 million funding for the establishment of campus-based incubator space at universities and Institutes of Technology,

• the Community Enterprise Centres Programme – development of 42 additional facilities to provide local incubator space for high-potential start-ups in manufacturing and ITS (completely wired with broad-band and fibre-optic cabling),

• Campus Company Programme – support to academics who wish to take their research results into commercial reality. Through this program advice is offered on business development, intellectual property management, sources of funds and business planning. The Commercialization of R&D grants (CORD) will stimulate the development of prototypes.

• Campus-Based Companies Programme – support for evaluation of the commercial viability of innovative technologies arising from university research,

• Campus Venture Capital Fund – a IR£6 million venture capital fund to seed businesses promoted by staff and graduates of Irish universities,

• Graduates Overseas – initiative whereby third level educational institutions invite alumni graduates back to Ireland to establish a business,

• Further support for development of seed and venture capital funds in each region.

Several government departments and agencies are involved in delivering parts of the Enterprise Policy agenda. The Industrial Development Authority (IDA), Enterprise Ireland and the City and County Enterprise Boards (CEBs) are each responsible for different segments of the business population, depending on the size and growth-orientation of the firm. The current structure reflects a division between three groups – local enterprises with fewer than 10 employees, Irish-owned enterprises with 10-50 employees, Irish-owned enterprises with over 50 employees and foreign-owned enterprises. The IDA promotes foreign investment and works with large scale enterprises; Enterprise Ireland promotes the growth of larger small-enterprises with 10-50 employees in the manufacturing and tradable services sectors; and CEBs work at the local level to foster indigenous enterprises with under 10 employees.

**Enterprise Ireland**

Enterprise Ireland, established in 1998, is an agency of the Department of Enterprise, Trade and Employment. As the single agency for SMEs, its mission statement is 'to help client companies develop a sustainable competitive advantage leading to increased profitable sales, exports and employment'. Enterprise Ireland works with Irish-owned growth-oriented firms with over 10 employees (of which there are estimated 3,100 in the country) and emerging high-growth start-ups. The major objective is to encourage companies up the value-added path by building scale and productivity resulting in better jobs and higher incomes. Start-up firms are only assisted if they have the probability of employing 15-20 people within the first three years of business; if this is not the case, the entrepreneur is referred to one of the CEBs for assistance.

Over the next three years (from 2000), Enterprise Ireland projects to assist in the creation of 12,000 jobs in client firms and incremental sales of IR£3.9 billion and IR£2.1 billion in increased exports. Through use of financial incentives and client services, it plans to create 60 new high-growth firms and 240 first-time exporters, increase the number of client firms with overseas presence by 20%, R&D performers by 20%, and training firms by 35%. Targeted sectors are food & consumer products, industrial products and international services. Enterprise Ireland has set very specific growth targets:

- Double the number of companies with sales of IR£20 million from 130 to 260 in ten years;
- Double the annual number of high potential start-ups;
- Increase productivity from the bottom one-third of the EU-15 to the top 5 in the EU;
- Double high performers in R&D;
- Increase the venture capital financing of growth firms;
- Develop excellent business systems;
- Increase highly effective innovation processes.

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City and County Enterprise Boards

The purpose of the network of 35 CEBs is to stimulate local economic activity by providing financial and technical support for the development of small enterprises. The primary objectives are to offer grant-aid for small-scale enterprise projects and economic infrastructure to assist in the creation of sustainable jobs, and to invest in the development of knowledge, skills and entrepreneurial ability of the local population. Funding for the CEBs totalled IR£81.77 over the 1994-99 period with contributions from both the EU and Ireland. Since 1994, the CEBs have assisted in the creation of over 20,000 manufacturing, service and tourism jobs at a total cost of just over IR£72 million, with an average grant cost per job of IR£3,600.

Promoting an enterprise culture, business information, advice, counselling, mentoring and management development are the soft-support measures, but CEBs also provide financial assistance for feasibility studies, employment and capital. The Operational Programme for Local Urban and Rural Development outlines the main grounds for the establishment of CEBs as a means of eliminating the support gap at the level of micro-enterprise:

- 'in general, Ireland adopts a relatively interventionist industrial and enterprise development policy. This policy is supported by many elements of the EU Structural Funds. It is now accepted that the principle of such integrated support should be extended to micro enterprise development,
- the potential for employment growth in the services sector warrants an extension of some level of public support beyond the traditional manufacturing and internationally traded services sectors. Notwithstanding the genuine concerns about dead-weight and displacement, the challenge of combating high unemployment showed the need for assistance in a controlled way to the services sector,
- the micro business sector, on which the CEB initiative is focused, is an important source of economic activity and employment. It is estimated that employers with less than ten employees account for nearly 210,000 registered employees, or about 21% of all registered private-sector employment in the State. Micro enterprises account for 60% of employment in retailing, 40% in wholesaling and 36% in construction. Although the employment numbers are less significant in manufacturing there is considerable potential for developing sub-supply linkages in this sector leading to employment growth'.

In 2000, the focus for CEBs moved more to manufacturing and tradable services businesses like that of Enterprise Ireland.

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40 From Entrepreneurship & Business Start-Ups in Ireland, 1997, p. 20.
41 Address by Mr. Noel Treacy, T.D., Minister for Science, Technology and Commerce at the Smurfit Graduate School of Business UCD, Dublin, Thursday, June 8, 2000.
42 Operational Programme for Local Urban and Rural Development.
D: Description of Existing Programs and Services in Support of Entrepreneurship

The Regulatory Environment for Start-Ups

*Regulation of Entry*

According to the recent analysis of start-up procedures in 75 countries, it is relatively easy to start a business in Ireland.\(^{43}\) It only requires four procedures, a total of 25 days and a cost of 0.1145 per capita GDP to meet government requirements for the starting of a normal business. The Companies Registration Office in Dublin now provides full details and documentation required from companies on its website. Using a scheme called CRODisk, a certificate of registration can be issued in five days. However, because of restrictions that apply in certain industry sectors, it is not easy to start any kind of business. Domestically trading sectors such as business and professional services, wholesaling and retailing still need more competition and, in certain cases, specific regulation.\(^{44}\)

*Regulatory Reform*

The Irish government released the report of the Strategic Management Initiative Working Group on Regulatory Reform in 1999. One of its recommendations was that, in order to make a real contribution to competitive performance and economic development, better quality regulation must address issues such as licences and permits and aim at dismantling the burdens of market entry and exit, price controls and other restrictions on competition. It also recommended that a regulation checklist be implemented before any new regulations are introduced (Quality Regulation Checklist) and that a statement of impact assessment and compliance costs be prepared with each Memoranda to Government. Furthermore, it recommended that outstanding recommendations of the 1994 Task Force on Small Business relating to taxation, audit and improving the provision of state services be implemented. This list contained references to labour market regulations, building regulations, planning, enforcement, taxation/customs, forms and surveys, environmental controls and transport.

Since 1999, changes have been made to the basis of accounting for VAT and the statutory audit requirement for certain small companies has been removed. Other work on reducing regulatory burden is about to begin. The Taoiseach is planning to propose the preparation of a major policy statement on regulatory reform that will include provisions for a full regulatory impact analysis of proposed regulation, the use of e-Government to improve the quality of regulation, improved regulation of self-regulating sectors, removal of quantitative restrictions on entry to all sectors (e.g., professional services, liquor licensing and pharmacies) and better

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\(^{44}\) ‘Forfas Response to the OECD report on Regulatory Reform Requirements in Ireland,’ 2001.
co-ordination of regulatory processes in different government departments.\textsuperscript{45} Forfas will work closely with all government departments in order to further the interests of the enterprise sector in this area.

\textit{Labour Market Reform}

The Small Firms Association insists that excessive employment legislation is still a major problem for small firms resulting in a loss of flexibility and an increased cost.\textsuperscript{46} Small businesses must comply with 12 pieces of primary legislation when employing people, covering such areas as contracts, dismissals, equality, working time, parental leave, adoptive leave, employment of young people, etc.

\textit{Taxation}

\textbf{Reduction of Business Tax} - Several changes have recently been made to the tax system. Capital gains tax has been reduced from 40\% to 20\% and in 1999 the decision was made to phase-in a reduction in corporate income tax from 40\% to 12.5\% by 2003. This was done to rationalise the system of business taxation that gave preferential treatment to foreign-owned companies and indigenous export-oriented manufacturing firms. By 2003 all businesses will pay 12.5\% across the board. Effective January 2000, corporation tax rates were reduced to 24\% on trading income, 25\% on non-trading income and 12.5\% for SMEs where the trading income does not exceed IR£50,000.\textsuperscript{47}

\textbf{Tax Rebate for People who Leave Employment to Start a Business: Revenue Commissioners Seed Capital Scheme} – The Revenue Commissioner repays income tax to people who leave employment to start their own business; they can claim back the tax paid on up to IR£25,000 of income in each of the previous five tax years.

\textbf{Reduction of the Capital Acquisitions Tax} – business relief under the Capital Acquisitions Tax, which reduces the taxable value of business assets in the transfer of a family business, has been increased to 90\%.\textsuperscript{48}

\textbf{Promotion of Entrepreneurship}

The primary vehicle for promoting entrepreneurship is Enterprise Awards, of which there are a number. Government agencies, the media, banks, business associations and private sector companies all participate in the sponsorship and promotion of these awards and their winners.

- South Dublin Chamber of Commerce Business Awards – awards are given annually in eight categories: Retail, Human Resources, Environment, Export, Community Involvement, Business Growth, Start-Up, and Customer Service. These awards are

\textsuperscript{45} Ibid, pp. 6-8.
\textsuperscript{46} ‘Labour law is a major burden for small firms,’ Press Release, SFA, March 2, 2000.
\textsuperscript{48} Ibid, p. 40.
sponsored by the South Dublin Chamber of Commerce and the Dublin newspaper, The Echo, and winners are featured in The Echo’s business section. Chambers in other regions sponsor similar awards. For example, the Galway Chamber of Commerce and Industry and Ernst&Young jointly sponsor a Business Awards program that honours two types of companies – a company 2-10 years old with a very successful track record in its early stage of development and a company with a high level of potential yet to be realised.

- **The National Enterprise Awards** – introduced by the CEBs in 1997 to promote a greater awareness of the achievements of small business and to create role models helpful to highlighting entrepreneurship as a career path. These Awards are sponsored by the Bank of Ireland and the Sunday Business Post.

- **Shell Livewire Business Start-Up Award** – launched in Ireland in 1999, the Shell Live Wire program fosters start-ups by young people under 30 years of age. Their annual Business Start-Up Award is funded by the CEBs and the Bank of Ireland.

- **The Student Enterprise Award** – an awards program funded by Enterprise Ireland to recognise the best business plans developed by university/college students as part of a national business plan competition. From 1984 until 1997, more than 7000 students submitted business plans for new ventures.

- **Young Entrepreneurs Scheme Awards** – annual awards are given to young people who run their own businesses through the Young Entrepreneurs Scheme in which students, companies and teachers are involved.

- **National Innovation Awards** – annual award initiated by the Department of Science, Technology and Commerce under the Science, Technology and Innovation Awareness Programme; now also sponsored by PriceWaterhouseCoopers and the Irish Times. The objective is to enhance public awareness of science and technology and innovation by highlighting innovative companies and demonstrating that new products and processes can be successfully developed and commercialized in any part of Ireland.

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49 Tanaiste Presents South Dublin Chamber of Commerce Business Awards (www.entemp.ie/pressrel/201100a.htm).
50 Tanaiste Presents Galway Chamber of Commerce and Industry/Ernst&Young 2000 Business Awards (www.entemp.ie/pressrel/201000a.htm).
53 From address by Mr. Noel Treacy, Minister for Science, Technology and Commerce at the National Innovation Awards Ceremony, Dublin Castle, Thursday 14 September, 2000 (www.entemp.ie/pressrel/140900.htm).
Entrepreneurship Education

K–12

There is no evidence of national efforts to integrate entrepreneurship/enterprise education in the formal curriculum, however, efforts to promote youth enterprise are very active in Ireland. The Young Entrepreneurs Scheme (YES) was launched in 1991 by Forbairt (which was merged into Enterprise Island in 1998) to help stimulate enterprise and innovative activity among secondary school students and to develop their entrepreneurial skills by setting up and running a real business. The formation of student-run micro-enterprises is a central activity of the program. An annual competition selects the ‘best business’ within a school. This program is supported through the efforts of teachers, parents, CEB executives and corporate sponsors and co-ordinated by the Young Entrepreneurs Association, an informal group of parents and teachers working on a voluntary basis. Over 280 second-level schools participated in the 1999/2000 program and more than 9,200 students set up and operated over 2,800 mini-businesses (12-18 year olds). The maximum number of students in any venture is limited to five. Over 42,000 students have participated since 1992.

The objectives of YES are to: 1) assist in the development of entrepreneurial skills, self-confidence and self-reliance; 2) help create an enterprise culture and stimulate entrepreneurial activity; 3) help young people respond to the changing employment situation by encouraging initiative. A complete set of guidelines for each school is available on the website. This includes detail on ‘getting YES started’, ‘getting business ideas’, ‘running YES’, and ‘concluding YES’. Detailed notes for students on how to get a business idea, prepare a plan and start the business and a Teacher Guide and Detailed Notes can be downloaded from the website. This material is supplemented by the Complete Handbook for the Golden Vale Young Entrepreneurs Scheme, the introductory booklet, Golden Vale YES for Students & Parents, a Golden Vale Young Entrepreneurs Scheme video, and an occasional Golden Vale EntrepreneurNews newsletter. All student entrepreneurs compete in a ‘best business’ awards program that takes place at the local, regional and national level. National winners compete on the European stage in the European Awards for the Spirit of Enterprise in Paris.

The Young Entrepreneurs Association is interested in making the methodology and know-how for YES available to not-for-profit organizations in other countries with a view to internationalizing YES.

University level

To expose university students to entrepreneurship education, several Business Schools have developed courses in Enterprise or Small Business Management. These have been modelled after successful initiatives in the United States and influenced by American professors and researchers. Illustrative of this is the Diploma in Entrepreneurship offered by the University

54 www.yes.ie/about.htm#2.
55 www.yes.ie/ideas.htm.
56 www.yes.ie/press.htm#8th.
of Limerick. Recently, the Tony Ryan Foundation donated €3 million for the establishment of the Ryan Academy of Entrepreneurship at the University College of Dublin specifically for the education of new entrepreneurs. In addition, Enterprise Ireland sponsors an annual national business plan competition to recognise the best business plans developed by university/college students. In 1998-99, almost 8,500 students from 252 colleges and universities participated in the Scheme, with teams from every county in Ireland, 85% from business schools and 15% from other faculties.

What is innovative, in the case of Ireland, is the targeting of universities and Institutes of Technology for ‘high potential business start-ups’ in Ireland’s new Regional Growth Strategy. This includes government funding and support for the establishment of campus incubators, campus venture capital funds, graduate enterprise programs (Enterprise Platform Programme mentioned above) and support for campus companies.

Small Business Support

Business Information Services

The government of Ireland has taken many steps to reach the small business market with information. This includes print publications and ‘how-to’ guides, a phone-information service, and a web-based information service.

- **Enterprise Link**: Enterprise Link is a phone information service that provides information and answers questions relevant to starting and growing a business.

- **‘How-to’ guides**: As part of the Small Business Operational Programme started in 1995, measures were initiated to facilitate small business access to public sector markets and information. Two guides were published – ‘Starting Your Own Business’ and ‘Finance Your Business.’

- **Web-based database and information service**: Ireland now has a comprehensive SME-related website that provides information on government programs, useful ‘how-to’ information and links to SME organisations. DETE’s Starting Your Own Business Guide is a comprehensive web-based set of modules which will guide a potential entrepreneur through the whole process of exploring their potential, finding and assessing business ideas, doing a business plan and planning all aspects of the business start-up (www.entemp.ie/syob).

- **ETradeBusinessIreland.com**: a new web-network, launched in 2000, serves as a full service ‘first-stop shop’ for information on Ireland businesses. It is a central resource for businesses on the Internet, with the City and County Enterprise Boards acting as an e-mail box for companies who do not have an Internet presence. The objective is to make it easy for Irish and international users to create contacts and trade with Irish based companies and businesses on the Internet.

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57 Tony Ryan is a prominent Irish entrepreneur.  
58 ETradeBusinessIreland.com
Counselling and Advisory Services

City and County Enterprise Boards (CEBs) – The responsibility for provision of training and counselling for new entrepreneurs and micro-enterprises is located in the network of 35 CEBs. By 2000, over 20,000 jobs had been created with CEB assistance. These Boards are free to design and deliver programs tailored to meet the specific needs of their communities in four broad areas: 1) preparation/review of local enterprise plans/promoting enterprise culture, 2) business information/advice, counselling and mentoring support, 3) financial assistance, and 4) management development. A broad range of initiatives and programs are described in the 1993-95 review of CEB activity (DETE, 1996). With the implementation of the new Regional Operational Programmes, the focus of CEBs has moved to higher value-added jobs in the manufacturing and tradable services sector, to increasing competitiveness through access to e-business and the promotion of quality management and best practice. However, specially tailored packages will be designed to extend an enterprise culture to first level schools and to support the participation of women in business.

Community Enterprise Centre Initiative – announced in July 1999, this Enterprise Ireland program aims to address the needs of large, urban, disadvantaged regions by funding facilities that will lead to the creation of start-up businesses in local communities that may impact on long-term unemployed people. A total of IR£13.5 million was allocated for Community Enterprise Centres for 1999 and 2000; 34 were funded. In 2001, the government announced plans to fund additional 46 Centres in Ireland’s regions for the purpose of incubating high-potential start-up companies.

‘First-Stop Shop’ – Business Innovation Centres (BICs): a network of six BICs was funded in 2000 to assist maximize and mobilize human and financial resources at the regional level with a view to establishing new businesses. BICs disseminate information to small firms through the Web, offer access to research on the local economy and business support services, business information databases, online business training, technological and communications advice, and expert assistance in using the internet to access all kinds of business information. BICs also provide business planning support and business advice. A BIC Fund concentrates on providing early stage seed capital in amounts between IR£10,000 and IR£100,000 to innovative and technology-led companies in the regions. About 50 companies a year will be funded.

59 Address by Mr. Noel Treacy, Minister for Science, Technology and Commerce at the Opening of the Westmeath County Enterprise Board’s Business Information Centre & the Launch of their County Enterprise Plan 2000, 17; November, 2000 (www.entemp.ie/pressrel/171100b.htm).
61 ‘Tanaiste allocates 5.6 million punt to twelve new projects,’ Press Release 18th July 1999 (www.entemp.ie/pressrel/180700.htm).
62 Address by Mr. Noel Treacy, T.D., Minister for Science, Technology and Commerce at the Smurfit Graduate School of Business UCD, Dublin, Thursday, June 8, 2000.
63 Address by Mr. Noel Treacy, Minister for Science, Technology and Commerce at the Opening of the Westmeath County Enterprise Board’s Business Information Centre & the Launch of their County Enterprise Plan 2000, 17; November, 2000.
Mentoring Programs

A Mentor Network program, funded and operated by Enterprise Ireland, provides Irish companies with access to experienced business people (mentors) who help them identify and overcome barriers to growth. The Mentor Network aimed to mentor 600 companies in 2000, a 30% increase on the 450 companies assisted in 1999. A mentor is seen as a tool to help entrepreneurs develop their management skills and to achieve firm growth. In an independent evaluation of the program in 1999, 84% of assisted companies said they experienced significant growth since the mentor’s involvement and 75% said the Mentor’s influence had significant impact. There is a special panel of start-up mentors to help in the earliest stages of setting up a business.

Incubators

Ireland’s new Regional Growth Strategy puts heavy emphasis on the creation of new business incubators to house high-potential start-ups. These are to be located on university campuses and in Institutes of Technology and Community Enterprise Centres around the country. Funding of IR£2 million is being offered for the development of campus incubators and 46 new Community Enterprises Centres are being built to complement the 70 or so that currently exist. These incubators are intended to meet the need for attractively priced and well-laid out space with flexible leases and broadband access. In certain parts of Ireland, specialised incubators are also being supported – this may be in the area of software development or, as the case in Dublin, digital media production. The objective of the Digital Media Production project, which will have 50,000 square feet of space, is to grow a base of small firms that can generate the necessary critical mass and synergy to generate further start-ups. In October 2000, the government also announced AcceleratePLUS.com, a unique support package for eBusiness start-ups in the Shannon Region.

Business Development Model for Growth Firms

Enterprise Ireland has moved to a more proactive, comprehensive approach to working with high-potential clients in the manufacturing and ITS sectors. In the Business Development Model, an adviser, who manages a portfolio of cases, is assigned to each client company. The approach is a pro-active one where the adviser assists the company in a needs-assessment and development of an Agreed Development Plan using diagnostic and process tools developed specifically for these interventions. Funding is provided to implement the plan and to help companies achieve competitive benchmarks in marketing, production, HR, etc. The January 2000 change to a systems-approach to client service was based on client feedback that they wanted a customised, solutions-driven response to their needs, a sounding board for

development ideas, one central contact/champion as a liaison with Enterprise Ireland, and elimination of the ‘information black hole’.  

**Business Advisor Training**

Enterprise Ireland’s change to a more holistic counselling approach put pressure on them to train Development Advisers in a full range of skills and competencies – business consultancy skills, expertise in business strategy, financial analysis, marketing and exporting, diagnostic skills in all functional areas of business, and full knowledge of Enterprise Ireland’s offerings. Advisers participate in a one-day seminar and then obtain on-the-job training with clients. In 1998, an affiliate of the UK-based Institute of Business Advisers was established in Ireland to provide professional accreditation for business advisers in both the public and private sector.

**Identification of Target Groups**

The Irish government has targeted several groups for enterprise creation support. In line with their focus on new start-ups with high-growth potential in manufacturing, technology and internationally traded services, they have targeted university and college graduates, academics who are working on commercializable R&D projects and alumni and technologists who have left Ireland. This strategy is more developed in Ireland than in most other countries in this study. In addition, special efforts are focused on developing young entrepreneurs at different age levels.

**Young Entrepreneurs**

Young people are encouraged to explore entrepreneurship and enterprise development from the ages of 12 and up. The Young Entrepreneurs Scheme targets second level students between the ages of 12-18; young-biz.com targets 15-17 year olds, Shell LiveWIRE targets 16-30 year olds and the Graduate Enterprise Scheme targets university and college graduates.

- The Young Entrepreneurs Scheme (YES) was launched in 1991 to help stimulate enterprise and innovative activity among secondary school students and to develop entrepreneurial skills by setting up and running a real business (described under Entrepreneurship Education).

- Under the Science, Technology and Awareness Programme, the government, with support from the Training and Employment Agency in Northern Ireland, recently launched ‘young-ebiz.com’, a business plan competition aimed at 15-17 year olds in the Island of Ireland to come up with creative ideas and plans for a web-based business.  

  At the launch of the initiative, the Minister said, ‘This competition seeks to tap into the business creativity of our young people, and give them the opportunity to

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67 ‘The Role of the Development Adviser in Enterprise Ireland,’ Enterprise Ireland.
68 ‘From address by Mr. Noel Treacy, Minister for Science, Technology and Commerce at the launch of ’young-ebiz.com’, a web-business competition for second-level students, RDS, Dublin, Tuesday, 10th October 2000 (www.entemp.ie/pressrel/101000.htm).
establish themselves as entrepreneurs of the future at a very young age. Secondly, it aims to give young people an opportunity to combine a business idea, creativity, and the skills and resources necessary to create a web-site’. The intention is to run the whole competition over the Internet – no paper!

- Ireland introduced Shell LiveWire in April 1999 to encourage business starts among young people. The program offers advice to young people between the ages of 16-30 on how to set up and run a business successfully. CEBs play a key role in promoting and developing the program and provide the first point of contact to a full range of support services required by young entrepreneurs, including the Shell LiveWire Start-Up Awards sponsored by DETE and the Bank of Ireland. During its first year of operation over 500 16-30 year olds registered in the program to receive start-up assistance and over 50 entrepreneurs underwent free intensive management training courtesy of the Bank of Ireland.

**Graduate Entrepreneurs**: The South West Graduate Enterprise Initiative 2001 is the fourth year of funding for a full-time one year rapid incubation activity which provides training, business facilities, mentoring and financing to university/college graduates who want to start a business. Since the program started in 1998, 22 new businesses have started employing 120 people. During the launch of the project in 2000, the Minister of Enterprise, Trade and Employment stated, ‘this is a clear indication that there is a wealth of entrepreneurial talent within our Third Level educational system which, given the right support and direction, can lead to the creation of new enterprises with the potential to grow rapidly’. Each entrepreneur is assigned a mentor and undergoes an intensive training course on entrepreneurship and business management and development. This program has now been expanded to each of Ireland’s regions under the Enterprise Platform Programme. There is also a seed capital program for campus based businesses, the Campus Companies Venture Capital Fund.

**EBusiness Entrepreneurs**

Ireland has led the way in initiating new support programs tailored to meet the needs of the new breed of entrepreneur. This includes an Internet incubator with shared 2-megabit telecom access and a program called AcceleratePLUS.com to support a ‘new pool of entrepreneurs – dot-com entrepreneurs’. Supported dot.com entrepreneurs participate in the Innovation Centre Venture Development Process, receive project management, technological and software consultancy, bandwidth access through shared E1 connectivity, office facilities and shared services, access to a Sun/Oracle/Cisco test environment, venture capital linkages, business-incubator.com linkages and access to market intelligence and marketing expertise. Assistance will be offered as an integrated package of business development supports – this could be worth up to IR£70,000 over the first six months of development, a fraction of the

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69 ‘Graduates Key to New Company Start-ups,’ Press Release, Department of Enterprise, Trade and Employment, 20/10/00 (www.entemp.ie/pressrel_201000.htm).
70 www.campuscapital.com/
71 Tamaiste Launches AcceleratePLUS.com, A Leading Edge Initiative for Dot.Com Start-ups, Press Release, Department of Enterprise, Trade and Employment, 26/10/00 (www.entemp.ie/pressrel/201000b.htm).
market value. Partners in the project are e-BCS (the Irish eBusiness enabling company), Sun Microsystems, Oracle Corporation, Cisco, and the Wolfe Group (Irish host managed services company).

**Expatriate Entrepreneurs**

Ireland has had great success in attracting Irish technical specialists working in the United States back to Ireland to fill high technology jobs. Based on this experience, in 1998, the Tanaiste announced the IR£1 million Millennium Entrepreneur Fund to encourage US-based Irish technologists to return to Ireland to establish new enterprises. Each eligible person would be offered IR£100,000 in seed capital (in return for an equity stake), a company mentor and a patron company to offer advice and support.\(^{72}\) Ten new high-potential start-ups were expected to result over an 18-month period. By July 2000, 30 expatriates had returned to Ireland and started businesses. This program could have substantial payoffs.

**Targeting Irish Overseas**

Efforts are underway by several universities and Institutes of Technology to encourage alumni back to Ireland to set up their own business. This is a new initiative under the new Regional Enterprise strategy.

**Networks**

Although there are a number of SME business associations in Ireland, e.g., the Irish Small and Medium Enterprises Association, the Small Firms Association, The Irish Business and Employers Confederation (7,000 members) and the Young Entrepreneurs Association (parents and teachers who run the Young Entrepreneurs Scheme), the government has taken a more strategic approach to the development of networks for enterprise development. The National Development Plan 2000-2006 includes budget allocations for Research, Technology Development and Innovation (RTI) Networks to promote greater collaboration within and between the RTI supply and industry demand sides. Over IR£200 million has been allocated for the promotion of collaboration networks to further develop ‘state-of-the-art’ competence and critical masses. A further budget allocation of IR£85 million has been made for the development of regional networks and enterprise support systems that will foster the growth of clusters of companies and lead to shared learning and joint marketing of projects overseas as well as the development of generic RTI skills and capabilities.\(^{73}\) The development of incubators is also intended to support network links.

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Access to Financing and Seed Capital

A long history of government grants and subsidies came to an end with EU membership. Enterprise Ireland now offers a package of funding which includes loans and equity investments, and efforts are underway to increase the amount of venture capital and angel financing available to promising young firms.

**Loans**

The government small business loan guarantee program was abandoned in the 1990s and although Enterprise Ireland still has the authority to do loan guarantees, it has not re-exercised this. Currently only a few programs exist to provide start-up loans to small firms. CEBs provide start-up loan or grant assistance to start-ups and expanding small firms as long as the business will not displace or duplicate existing services and has fewer than 10 employees. Feasibility grants of up to IR£5,000 or a maximum of 75% of the cost of preparing the feasibility study are available, as are grants of up to 50% of the costs of capital and other investment to a maximum of IR£50,000. All sectors are eligible except primary agriculture production, retail outlets and mainstream professional services. Enterprise Loan Schemes have been put into place by all of the main Irish banks to assist start-ups and early stage companies.

**Venture Capital**

The venture capital industry in Ireland is not well developed, thus, a major government priority is to increase the amount of venture capital available to Irish firms. In 1995, the EU co-funded a Seed and Venture Capital Programme to inject equity capital into growth-oriented domestic firms. As a result, ECU 90 million was committed by the private sector in partnership with Enterprise Ireland. In 1999, there were a total of 15 fully operational funds with venture capital investment of IR£20.1 million, up from IR£11.85 million in 1998. Over 80% of the investment went to start-up and early-stage companies, indicating that venture capitalists are becoming more supportive of firms in the early stages of development. Seventy percent (70%) of projects were software and software related. Twenty-seven percent (27%) of the total venture capital investment from 1996-99 went to regional companies. More effort is required to build up the private sector venture capital market - the level of venture capital expertise is weak and scale is a problem. In 2001, the government announced another IR£226 million to supplement existing venture capital activity. Illustrative of venture capital type programs is:

- Enterprise 2000 Fund – IR£10M fund to seed early stage growth. This is a joint venture of Enterprise Ireland and the Bank of Ireland to invest in smaller firms.

74 [www.entemp.ie/ecd/busi_serv.htm](http://www.entemp.ie/ecd/busi_serv.htm).
75 ‘Enterprise Ireland reports Venture Funds Invested over IR 20 M in 51 projects,’ Press Release, Department of Enterprise, Trade and Employment, 09/08/00 ([www.entemp.ie/pressrel/090800.htm](http://www.entemp.ie/pressrel/090800.htm)).
• A Business Innovation Centre Fund concentrates on providing early stage seed capital in amounts between IR£10,000 and IR£100,000 to innovative and technology-led companies in the regions.

• Campus Companies Venture Capital Fund, of IR£6 million, provides seed capital to businesses promoted by staff and graduates of Irish universities. Investors include Forbairt, the Irish universities, Allied Irish Banks, Montgomery Oppenheim and private investors. Investments are long term in nature (up to 8-10 years) and come with strategic advice, a network of business contacts, and assistance with hiring, management development, fund-raising and marketing. Investments are generally less than IR£500,000.

• Developing Companies Market (1997) – enabled emerging growth firms to secure investment from the Irish Stock Exchange.

Business Angels

The government offers income tax relief to investors in companies in certain sectors as a way of stimulating the supply of equity capital available to Irish businesses. The maximum amount that can be raised under the Scheme in one year is IR£250,000. However, gaps are seen to exist in the informal investment market. To address this, Enterprise Ireland has established a database of more than 70 angels who collectively have more than IR£10 million to invest in SMEs seeking equity. This is organised into one central database for Ireland. Encouraging ‘business angel’ activity was one of the six major recommendations coming out of the 2000 Global Entrepreneurship Monitor report for Ireland.

Research: Entrepreneurship/SME Issues

Government Research and Statistics: Data on the SME sector in Ireland is weak. It is very difficult to obtain statistics on the number of firms by size and sector, the growth in number of firms on an annual basis, start-up and exit rates, the employment distribution of firms by size and sector, the job creation impact of firms of different sizes on an annual basis, etc. In 1997 and 1999, the government produced annual reports on small business in Ireland but these tended to be progress reports on government’s efforts to meet the needs of the sector rather than reports on the state of the sector itself. In fact, O’Gorman and Jones-Evans (2000) report that there has never been a large-scale survey of entrepreneurship or the small firm sector within Ireland and that the lack of availability of accurate data is a significant barrier to effective policy formulation.

The Department of Enterprise & Employment and the Industry Evaluation Unit have undertaken some evaluation research. For example, there was an evaluation of CEB activities...

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76 www.campuscapital.com/
in 1996\textsuperscript{80} and an evaluation of Micro Enterprises Support in 1999.\textsuperscript{81} The purpose of the latter study was to identify any gaps or overlaps in the provision of services to micro-enterprises and to consider whether support measures should be rationalised. This included a review of historical and current policies for micro-enterprises.

**Academic Research:** Prior to 1990, there had been few papers or articles in the fields of entrepreneurship and small business in Ireland, and this trend continued into the 1990s. As a result, entrepreneurship research lags behind the other countries of Europe in both quality and quantity and is at an early stage of development relative to other countries.\textsuperscript{82}

There has been very little empirical examination of the general population of small Irish firms. There have been studies where the situation in Ireland has been compared to other European countries, but these are quite rare. Very few economic studies of the performance of small firms in the Irish economy have been conducted. The Irish report of the international GEM study (Fitzsimons, O'Gorman and Roche, 2001) will help with creating a better understanding of the dynamics of business start-up.

The Centre for Entrepreneurial Studies was set up at the University of Limerick in 1993 and has the goal of undertaking long-term, leading edge research on entrepreneurship and the SME sector. Its research agenda focuses on understanding the entrepreneurial process, the characteristics of start-up businesses, the impact of intervention agencies on SMEs, entrepreneurship theory and graduate entrepreneurship.\textsuperscript{83} Research is also being done at the University College of Dublin.

**SECTION 2: EXPERIENCES/EVALUATION OF IMPACT**

**Evaluating the Effect of Programs and Policy Orientation**

Ireland has a history of program and policy evaluation. Several flights of this are described in *Evaluation of Micro Enterprise Support Across National & Local Development Agencies, Final Report* (1999). A 1987 Task Force on Review of the Small Industry Programme concluded that the government should be more selective with respect to its support to foreign firms and place more focus on development of indigenous firms. This led to policy changes in 1988. In 1990 a Review of Industrial Performance again resulted in another policy re-orientation, this time placing more restrictions on support for indigenous firms. In 1992, the Industry Policy Review Group (i.e., Culliton Report) concluded that the policy regarding

\textsuperscript{80} 'Report of City and County Enterprise Board Activities, 1993-95,' Department of Enterprise & Employment, Local Enterprise Section, November 1996.

\textsuperscript{81} Evaluation of Micro Enterprise Support Across National & Local Development Agencies, 1999.

\textsuperscript{82} This description of entrepreneurship research is a summing up report by Dylan Jones-Evans, University College Dublin.

\textsuperscript{83} www.ul.ie.
foreign mass producers had failed and called for more indigenous enterprise support. The authors of the micro-enterprise support evaluation suggest that state policy towards small firms has come full circle. Certain policy themes continue to re-emerge – a focus on high potential start-ups as animators of the rest of the indigenous sector and rationalization of agency and state supports to the small business sector are two examples.\(^8\) The current Irish policy objectives for providing state support to the micro-enterprise sector include job creation, the development of entrepreneurship, and the promotion of local development and social inclusion. The policy rational for supporting the small and micro-enterprise sector rests on evidence that these sectors are responsible for a disproportionate amount of job creation. The bulk of new jobs created seem to be created by a small number of fast growth firms.

**Evaluation of Policy Orientation:** The government of Ireland has done a lot of research and analysis to make estimates of what is likely to happen by 2007 if current policies to support internationally traded services are maintained and what is likely to happen with recommended policy changes. In 2000, the sector employed 12,500 people and generated annual sales of IR£1.1 billion, of which 62% was exported. Under recommended policies (now in place), it was estimated that the sector would grow substantially by 2007, reaching sales of IR£2.38 billion, of which 50% will be exported. The incremental impact of recommended policies and strategies is estimated to be an additional IR£1.6 million in sales from the sector, an increase of IR£1.8 billion in exports, and 8,500 more jobs.\(^5\)

**Program Evaluation:** The EU drives policy and program evaluation issues. Enterprise Ireland uses several program evaluation methods, including client feedback mechanisms, monthly and quarterly client reports (increases in sales, employment, etc.), monitoring of productivity changes through an Annual Business Survey and a program review of R&D grants.\(^6\) At the present time, cohort analysis are not undertaken (comparisons of the performance of assisted firms versus non-assisted firms) but the agency is starting to look at more diverse evaluation processes, such as those undertaken in Canada as part of the reporting to Parliament requirement.

**International Benchmarking of the SME Sector**

Being a very outward-looking country, Ireland is committed to monitoring the performance of its SME sector against international benchmarks. Among performance indicators are:

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\(^8\) Evaluation of Micro Enterprise Support Across National & Local Development Agencies, 1999, p. 27.

\(^5\) ‘Opportunities for Ireland’s High-technology Internationally Traded Services (ITS) Sector to 2007,’ Enterprise Ireland, 2000, pp. 5-6.

\(^6\) Based on interviews with Enterprise Ireland officials in Dublin, July 2000.
**Performance of SMEs**

- Rates of growth in sales, productivity, profitability, employment
- R&D as a percentage of sales
- R&D/GDP and R&D per capita
- Level of SME exports

**Performance of the SME sector**

- SME share versus large firm share of employment
- Share of employment by sector (manufacturing versus services)
- SMEs per capita
- Annual growth in number of firms
- Business start-up rates
- Business closure rates
- Cost of starting a business

*A shortage of good data on the SME sector impedes this aspect of the benchmarking process.

Since productivity improvement is a major priority of the Irish government, efforts are made to benchmark the performance of Irish firms against international best practice on various aspects of productivity. An Annual Business Survey collects data on SMEs to calculate productivity levels and this data is fed back to companies so they are aware of where gaps exist.

**SECTION 3: OBSERVATIONS AND CONCLUSION**

**A: General View**

The climate in Ireland is favourable and ‘enterprising’ for large multinational firms, but the question for some Irish experts is how enterprising the environment is for local entrepreneurs. The Irish research team commented in the GEM 2000 report that Ireland has created a business environment that is highly supportive of inward foreign direct investment in high technology sectors, but that historically, cultural barriers and limited economic opportunities have mitigated against indigenous entrepreneurship.\(^{(87)}\) Although Ireland has built a strong physical infrastructure for business development (e.g., telecommunications), is investing significant funds in the development of R&D and innovation, and has prioritised the higher education and skills development of its population, there has been no broad-based entrepreneurship culture. This was partly because of the lack of opportunity; until recently, Ireland was one of the poorest countries in the EU, had a relatively low per capita income, a small market size and several heavily regulated markets that were difficult to enter. Opportunities in the service sector were limited by the lack of disposable income – people could not generally afford many of the personal services that were seeing high growth in the US, for example. The ‘good

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economic times’ have only started in Ireland – perhaps there is a lag time before increased prosperity translates into increased growth within the indigenous SME sector. Another explanation for the low level of entrepreneurial activity at the present time could possibly have to do with the extremely low level of unemployment (low ‘push’ incentive for people to become self-employed). In the 2000 Gallop Europe survey of entrepreneurial attitudes in different countries, Irish respondents indicated very positive attitudes towards small business owners and owners of rapidly growing firms; 63% stated they would prefer to be self-employed than ‘to be employed’. But O’Gorman and Dylan-Jones (2000) suggest that more could be done to promote entrepreneurship in Ireland and to integrate enterprise education at all levels of the education system.

In the 2000 Irish GEM Report, Fitzsimons, O’Gorman and Roche (2001) conclude that Ireland is well positioned on most of the critical factors important to stimulating entrepreneurial activity. To make Ireland more entrepreneurial, the research team made six recommendations:

1. A champion for entrepreneurs and for entrepreneurship must be identified.
2. Competition policy must be vigorously enforced to maximise the number of potential entrepreneurs.
3. Business angel activity must be encouraged.
4. A greater involvement of women in entrepreneurial activity must be encouraged and supported.
5. Research, Technological Development and Innovation (RTDI) investment must be leveraged to encourage greater entrepreneurial activity.
6. Government supports must focus on high growth, value added, new enterprises.

They suggest that government-sponsored initiatives to support entrepreneurship are spread among a range of development agencies with overlap and confusion at the local level. Because of fragmentation, no one organisation has taken the mantle of entrepreneurship with the necessary passion and commitment to effect the desired change (Fitzsimons et al., 2001, p. 52). According to them, entrepreneurship deserves the same kind of single-minded focus given to attracting and developing companies from overseas. O’Gorman and Dylan-Jones (2000) also suggest that policymakers have to adopt a broader based understanding of entrepreneurship in Ireland. They recommend a study of the range of factors that influence entrepreneurship and the impact of key institutional factors on the emergence of a dynamic entrepreneurial economy in order to guide more effective policy development.

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B: Key Success Factors

What factors have led to Ireland’s economic success? A recent speech by the Minister for Science, Technology and Commerce enumerated a number of factors:

- Recognition that because of their small size, they could not generate growth just from within the country, therefore the Foreign Direct Investment strategy has been critical;
- Support from the EU Structural Funds to upgrade public infrastructure and third level education;
- Emphasis on increasing the education and skill level of the population (83% of Irish youth now complete the high school leaving certificate; the objective is to reach 90%; primary degree courses at university/colleges are offered free to students to encourage post-secondary education);
- Development of an industrial relations infrastructure to reinforce competitiveness (national social partnerships between unions, employers, farmers, the unemployed, etc., to reach a consensus on programs that underpin competitiveness, job creation and social inclusion);
- Investment in telecommunications and modernisation of the infrastructure for sophisticated high-technology companies (fibre-optic cable, broadband, incubators, R&D facilities, etc.);
- A business friendly legal and tax environment for global players (12.5% corporate tax rate);
- A focus on start-up companies and indigenous services through the City and County Enterprise Board network.

C: Assessment of Entrepreneurship Policy Emphasis

The major focus in terms of the Motivation, Skills and Opportunity (MOS) framework is more on Opportunity Factors with the greatest emphasis on a favourable tax environment and increasing access to capital, business support services and information. In terms of business sectors, the government is promoting opportunities in the information technology areas and building the infrastructure to encourage venture development (young-ebiz.com; business-incubator.com, regional incubators and enterprise centres, venture and seed capital). The formation of learning networks and small firm clusters built around business incubators and R&D and innovation is part of the enterprise development strategy. This aids in creating a more munificent environment to ‘pull’ people into

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89 Address by Mr. Noel Treacy, Minister for Science, Technology and Commerce, September 20, 2000.
entrepreneurial activity. Recently there has been more of a focus on entrepreneurship skills, however, there does not seem to be much evidence of extensive formal entrepreneurship education within the schools, colleges and universities.

There is limited activity to create widespread promotion of entrepreneurship – Forfas is just starting to look at how this might be done. Having said that, there is considerable reach in the youth market with entrepreneurship programs such as the Young Entrepreneurs Scheme, the university business plan competition, Shell LiveWIRE and the Graduate Enterprise Programme. Thousands of 12-30 year-olds are exposed to the practice of entrepreneurship on an annual basis. This is likely to have an impact in the longer-term. The fact that students are actually being supported in the starting and running of ventures is very positive. The focus of entrepreneurship is on high-potential ventures, therefore, the government is targeting technologists and university graduates as the most promising group from within which to identify new entrepreneurs. The group of ‘campus programmes’ is impressive, i.e., Campus Venture Capital, Graduate Enterprise, Campus Companies, Campus Incubators.

D: Insights, Observations and Lessons Learned

- It is very difficult to obtain good statistics on the SME sector in Ireland, even basic data on the number of businesses, number of businesses by employment size, distribution of employment by firm size, sector distribution of firms by size and employment, business start-ups and exit rates, etc. The last public report that tried to describe the sector was the 1994 Small Business Task Force Report. The Task Force recommended that a small business database would be critical to government policymaking in this area. However, it remains the case that good statistics are limited to a description of trends in the manufacturing and tradable services sectors.

- 99.55% of Irish firms are SMEs (under 250 employees): they employ 68% of private sector employees. Firms with under 10 employees make up 85% of businesses and account for 24% of employment. Ireland has a high level of self-employment relative to other countries in this study, except for Spain and Taiwan.

- There is a low level of entrepreneurship and innovation and a limited base of fast growing indigenous companies in many areas of Ireland.

- Ireland has structured its government agency business support according to size of the business. City and County Enterprise Boards provide assistance to start-ups and firms with under 10 employees; Enterprise Ireland works with manufacturing and tradable service firms with 10-50 employees; the Industrial Development Authority works with foreign firms and domestic firms with more than 50 employees, again in the manufacturing and tradable services sectors.

- The main development strategy for Ireland has been inward direct investment of foreign-owned firms, primarily in information and technology related areas.
Attracting foreign firms to invest in Ireland is still an important priority. In fact, Ireland tracks its businesses by ‘foreign-owned’ and ‘Irish-owned’. About half of industrial development expenditures are allocated to Irish firm development and foreign firm development (Enterprise 2010). In major government documents, however, here is limited discussion of small business and most major policies and programs are targeted at the ‘top of the pyramid’ – larger firms or firms which can be encouraged to export or undertake R&D in high technology sectors. *The 1999 Annual Competitiveness Report* devotes 9 of the 197 pages to SMEs, *Enterprise 2010*, the strategy document for the Promotion of Enterprise in the 21st century devotes about 4.5 out of 100 pages to discussing indigenous business. Enterprise Ireland’s regional growth strategy redresses this to some extent.

Ireland is using the tax system to gain comparative advantage and to stimulate a favourable business climate in the country. The business tax rate is being reduced to 12.5% (personal tax rates are 22% – 44%).

Targeted sector strategies are in place – manufacturing and tradable services are the priority. Even for start-up focus, agencies are directed to promote these two sectors as areas where there is greatest potential for creating incremental wealth and higher productivity.

The priority for enterprise development is not necessarily job creation. Ireland has a very low level of unemployment at present and must attract immigrants as a way to increase the labour force; the objective of enterprise development has become to *increase productivity in the SME sector to support higher wages and thus a higher standard of living*.

Because SME productivity is low compared to larger firms, the focus is on improving innovation capability through provision of counselling, advisory and technical support for to firms in the transition phases of early development and growth (*Enterprise 2010*, p. 61).

The Irish government seems to have a multifaceted approach to developing the SME sector. One aspect of it is to reduce regulatory burden, simplify administrative burden and to remove quantitative restrictions to entry to all sectors. Another is to improve access to financing, information and advisory services through the development of one-stop shops and tailored consultancy in all of Ireland’s regions.

In terms of entrepreneurship development or ‘enterprise policy’, the primary focus is on the development of new growth-oriented firms in the manufacturing and tradable services sectors based on increased R&D and innovation. Much higher value is attached to promoting and supporting a high level of new business start-ups in advanced areas of technology in high growth market segments.

Ireland has been good at examining successful enterprise development programs elsewhere and implementing them in Ireland – university entrepreneurship education

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90 ‘Forfas Response to the OECD report on Regulatory Reform Requirements in Ireland.’
models from the US, the Shell LiveWire Young Entrepreneurs program from Scotland, the Institute of Business Advisers from the UK, and the Business Networks Program from Canada/Denmark.

- The government has developed mechanisms for evaluating the impact of different government policies on economic outcomes. It also focuses a lot on program evaluation issues generally.

- There is very little widespread promotion of entrepreneurship except through entrepreneurship and business awards. More needs to be done to promote successful Irish entrepreneurs as role models.

- There is limited focus on enterprise/entrepreneurship education in the school system except through the Young Entrepreneurs Scheme in which over 9,000 12-18 year olds participate each year. They all run businesses and parents and teachers are also involved. The YES program is seen as ‘a regular feature in the establishment of an enterprise culture in Ireland’ according to the Minister for Enterprise, Trade and Employment. This is an excellent model. YES has a comprehensive website and lots of detailed notes and guidelines for teachers and students.

- What is innovative, in the case of Ireland, is the targeting of universities and Institutes of Technology for ‘high potential business start-ups’ in Ireland’s new Regional Growth Strategy. This includes government funding and support for the establishment of campus incubators, campus venture capital funds, graduate enterprise programs (Enterprise Platform Programme) and support for campus companies. This ties into and supports funding for university-based R&D and exploits the commercialisation potential of this research.

- The Campus Capital Venture Capital Fund (IR£6 million) is an innovative concept and has a good range of partners – the government, the universities, the bankers association, and private companies (Forbairt, the Irish universities, Allied Irish Banks, Montgomery Oppenheim and private investors). This is an excellent initiative to really make graduate entrepreneurship happen. This coupled with the graduate enterprise program and incubating facilities, the ‘young-ebiz.com’ initiative, etc, makes for an attractive package.

- Access to capital and use of financing schemes has been driving of lot of business growth over the past five years.

- The Revenue Commissioner repays income tax to people who leave employment to start their own business; they can claim back the tax paid on up to IR£25,000 of income in each of the previous five tax years (Tax Rebate for People who Leave Employment to Start a Business: Revenue Commissioners Seed Capital Scheme).

- The Irish government is aggressively promoting the use of e-business by the SME sector; providing incentives, advisory support services, and infrastructure; example is ETradeBusinessIreland.com web network.
• Both the Bank of Ireland and the Bank of Ulster have Small Business or Enterprise Advisers in their branches. These are officers who are trained to help entrepreneurs plan and to signpost them to other sources of assistance.

• Ireland is the only country which had a dedicated program to stimulate dot-com and internet-based business start-ups (fall of 2000). Internet incubators are an emerging policy/program focus. In fact, the government has an aggressive ‘networked’ incubator strategy to meet the need for affordable, flexible, and wired start-up space.

• The major focus in terms of the MOS framework is on Opportunity Factors with the greatest emphasis on increasing access to capital and infrastructure support for high-growth ventures. Recently there has been more focus on skills (Business Development Model, Mentor Network) but there is limited widespread promotion of entrepreneurship.

• Women are an underdeveloped segment of the entrepreneurial population and there do not seem to be any major efforts to promote self-employment among them.
ANNEX: OVERVIEW OF THE SME SECTOR

Definition of Small Business

The 1994 Task Force on Small Business defined a small enterprise as one that employs fewer than 50 employees and has annual revenues of less than IR£3 million. A medium-sized enterprise is one with 50-250 employees and large enterprises have more than 250 employees. A micro-enterprise is one with fewer than 10 employees. This is consistent with the recommended EU definition.

Number of SMEs and SME Employment

It is difficult to know exactly how many small businesses exist in Ireland because of the lack of an official register that captures data on all firms. Records of the Revenue Commissioner provide the most accurate source of information because businesses are required to register with, and make reports to, the Commissioner at regular intervals.91 Enterprise-Ireland estimates that there are currently about 170,000 firms (including agriculture).

The 2000 OECD Small and Medium Enterprise Outlook reports that 97.3% of Irish enterprises are small; if medium sized firms are added, the total SME share is 99.5% (Table 1). Small business share of private sector employment is 47.6% and the SME share is 68.4%.92 More than 80% of small businesses are in the services-producing sector.93

Table 1 - Percentage Share of Enterprises and Employment by Size Class

<table>
<thead>
<tr>
<th>Enterprise Size Category</th>
<th>Enterprises (%)</th>
<th>Employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very small (&lt;10 employees)</td>
<td>85.09</td>
<td>24.20</td>
</tr>
<tr>
<td>Small (10-49 employees)</td>
<td>12.28</td>
<td>23.46</td>
</tr>
<tr>
<td>Medium (50-249 employees)</td>
<td>2.18</td>
<td>20.78</td>
</tr>
<tr>
<td>SME total</td>
<td><strong>99.55</strong></td>
<td><strong>68.44</strong></td>
</tr>
<tr>
<td>Large (250 + employees)</td>
<td>0.45</td>
<td>31.56</td>
</tr>
<tr>
<td>Total (All Sizes)</td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


Sector Distribution of SMEs

A comprehensive breakdown of Irish enterprises by size and sector is not readily available. The distribution of employment by sector in 1998 revealed that less than 20% of employment

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91 Entrepreneurship & Business Start-Ups in Ireland, 1997, p. 16.
92 (Note: The European Observatory reports that over 51% of employment is in large firms compared to the 31% reported in the OECD Small and Medium Enterprise Outlook, 2000 Edition.
is in the Manufacturing Sector and that almost 60% is in Internationally-Traded and Local Services.

**Table 2 – Distribution of Enterprises and Employment by Sector, 1998**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Employment (000)</th>
<th>% Distribution of Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>136</td>
<td>8.9%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>264</td>
<td>17.4%</td>
</tr>
<tr>
<td>Internationally Traded Services</td>
<td>46</td>
<td>3.0%</td>
</tr>
<tr>
<td>Local Services</td>
<td>847</td>
<td>55.6%</td>
</tr>
<tr>
<td>Other Industries</td>
<td>229</td>
<td>15.1%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,522</strong></td>
<td><strong>100.0%</strong></td>
</tr>
</tbody>
</table>

Source: Taken from Figure 3, *Enterprise 2010*, Forfas, 2000, p. v.

**Self-Employment Trends**

According to the *European Observatory, Third Annual Report* there were 256,000 self-employed persons in 1990, 19% of total employment (including agriculture). The OECD estimates that the self-employment rate in Ireland is just below 19%.

**Growth Rates in the SME Sector**

The two indications of growth in the small business sector are overall growth in the number of firms and increases in employment in the SME sector. Both have been steadily rising in Ireland since 1994. In 1990, there were an estimated 130,000 enterprises, by 2000, the number was 170,000; this represents a growth of over 30% in 10 years (3% per annum). The European Observatory for SMEs reports that SME employment grew by 2.4% annually from 1988-98 while large firm employment increased by 2.1%.

**SME Start-up, Survival and Exit Rates**

According to data presented in *Entrepreneurship & Business Start-Ups in Ireland* and Annual Reports on Small Business in Ireland, the annual business start-up rate ranged between 10.7% and 14.3% during the early 1990s, depending on the year and which database was used – new VAT registrations or New Company Registrations. The number of new business registrations increased from 16,530 in 1995 to over 21,000 in 1998 (27% increase) and the number of new VAT registrations increased by two-thirds (Table 3).

94 The European Observatory for SMEs, Third Annual Report, European Network for SME Research, p. 88.
96 The European Observatory for SMEs, Second Annual Report, European Network for SME Research.
97 The European Observatory for SMEs, Fifth Annual Report, European Network for SME Research.
98 VAT is a general sales tax applied at all stages of production and distribution on taxable goods and services. The VAT registration threshold is £20,000 for persons supplying services and £40,000 for persons supplying goods.
Table 3 – New Business Start-Ups, 1990 – 1999

<table>
<thead>
<tr>
<th>Year</th>
<th>New VAT Registrations</th>
<th>Annual Increase in New VAT Registrations</th>
<th>New Company Registrations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>14,765</td>
<td>10.7%</td>
<td>16,530</td>
</tr>
<tr>
<td>1996</td>
<td>18,118</td>
<td>12.7%</td>
<td>16,072</td>
</tr>
<tr>
<td>1997</td>
<td>19,992</td>
<td>13.8%</td>
<td>19,005</td>
</tr>
<tr>
<td>1998</td>
<td>24,704</td>
<td>16.4%</td>
<td>21,095</td>
</tr>
</tbody>
</table>


The GEM 2000 report ranked Ireland as the lowest of 21 countries on the ‘new firm prevalence rate’ (measured by the percentage of adults involved in operating a business that is less than 42 months old), and 20th on the ‘nascent firm prevalence rate’ (proportion of the adult population actively engaged in trying to start a business).\(^{100}\) These rates for Ireland were 0.5% and 1% respectively. Ireland performed very poorly in relation to most of the countries on the ‘gender’ entrepreneurial activity index; 0.5% of adult women were engaged in entrepreneurial activity compared to just over 2% of men. Just for comparison purposes, in Brazil, almost 20% of men and 7% of women are engaged in entrepreneurial activity; in the UK, 7.5% and 4%.

Recent data on SME survival rates and exits are not readily available.

**Job Gains and Losses in Irish SMEs**

The number of jobs created by the small business sector from 1996-1999 was estimated to be about 234,500. According to the Small Firms Association, an estimated 84,000 new jobs would be created by small business in 1999, an increase of about 50% over 1998 (Table 4). The estimate for 2000 was an additional 64,200 jobs.\(^{101}\)

Table 4 – New Jobs in Small Enterprises, 1996 – 2000

<table>
<thead>
<tr>
<th>Year</th>
<th>New Jobs Created by Small Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>43,000</td>
</tr>
<tr>
<td>1997</td>
<td>51,000</td>
</tr>
<tr>
<td>1998</td>
<td>56,500</td>
</tr>
<tr>
<td>1999</td>
<td>84,000</td>
</tr>
<tr>
<td>2000</td>
<td>64,201</td>
</tr>
<tr>
<td>Total</td>
<td>298,700</td>
</tr>
</tbody>
</table>


The government places top priority on job creation in the manufacturing and tradable services sectors so it is much easier to find statistics on changes in net employment in these sectors than other parts of the economy. Between 1990-94, job losses exceeded job gains in these targeted sectors, resulting in net decreases in employment (Table 5). Since 1994, job gains have exceeded job losses by 3,000 – 4,000 per year. Data on the share of job creation from entries, exits, contractions and expansions by size of firm does not exist.

**Table 5 - Job Gains, Job Losses and Net Change in Employment - Irish Owned Manufacturing and Traded Services, 1994 – 1999**

<table>
<thead>
<tr>
<th>Year</th>
<th>Job Gains</th>
<th>Job Losses</th>
<th>Net Change in Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>9,997</td>
<td>- 8,996</td>
<td>1,001</td>
</tr>
<tr>
<td>1995</td>
<td>11,365</td>
<td>- 8,519</td>
<td>2,846</td>
</tr>
<tr>
<td>1996</td>
<td>11,778</td>
<td>- 7,805</td>
<td>3,973</td>
</tr>
<tr>
<td>1997</td>
<td>12,735</td>
<td>- 7,771</td>
<td>4,964</td>
</tr>
<tr>
<td>1998</td>
<td>12,454</td>
<td>- 8,397</td>
<td>4,057</td>
</tr>
<tr>
<td>1999</td>
<td>12,951</td>
<td>- 9,884</td>
<td>3,067</td>
</tr>
</tbody>
</table>


**Regional Variation**

Comparative data on the regional distribution of all SMEs and SME employment is not available. However, enterprises, employment and new start-ups are disproportionately located in Dublin.
ORGANIZATIONS CONSULTED

1. Enterprise Competitiveness Division, Department of Enterprise, Trade and Employment, Dublin
2. Policy and Planning Department, Enterprise Ireland, Dublin
3. Science, Technology & Innovation Division, Forfas (the Policy and Advisory Board for Industrial Development in Ireland), Dublin
4. Special Projects Department, Forfas, Dublin
5. Economic and Social Research Institute (ESRI), Dublin
6. Small Firms Association, Dublin
7. University College of Dublin
8. Young Entrepreneurs Association

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CHAPTER SEVEN

THE CASE OF THE NETHERLANDS

INTRODUCTION

The Netherlands has a population of 15.9 million, projected to grow by 0.57% in 2000.¹ About 7.0 million are in the labour force. The labour force participation rate is 65%.² GDP totalled US$365.1 billion in 1999; GDP per capita was US$23,100.³ Annual GDP growth for the 1995-99 period was 3.4%⁴ (higher than the European Union average of 2.5%). Agricultural output to GDP is 3.5%, manufacturing output to GDP is 26.8% and service sector output to GDP is 69.7%.⁵ Public expenditure to GDP was 47.2% in 1998⁶ and 30% of total employment was in the public sector (government and publicly-owned enterprises). Recent growth has been driven by strong export performance and rising consumption and investment.

Employment has been the major priority of government over the past few years, since unemployment was quite high in the 80s and increasing employment is seen to be the best way of ensuring economic growth. During the 1995-98 period of the first Kok government over half a million people found work.⁸ Although the unemployment rate in the Netherlands is low at 3.5% (2000), about 22% of the 15-64 population is dependent on some sort of benefit, and thus not in the active labour force.⁹ Although the female labour force participation rate is 59%, almost two-thirds of these women work part-time; the share of women who work full-time is roughly 25%.¹⁰ Thus there is high degree of under utilization in the Dutch labour market.

There were 487,600 SMEs in the Netherlands in 1999, accounting for 98.8% of all private sector enterprises. It is estimated that SMEs contribute 31.6% to national economy Domestic Product, large firms contribute 36% and other enterprises (public sector, agriculture and mining) contribute 33%.¹¹ However, in the private sector, SMEs generate more than 45% of Domestic Product.¹² The SME share of private sector employment is 55% but its share of total

⁴ Ibid.
⁸ ‘Developments of the Dutch Economy’.
⁹ Ibid.
¹⁰ Benchmarking the Netherlands 2000, p. 102.
¹¹ Dutch SMEs in European Perspective, 1999, p. 88.
¹² Ibid, p. 79.
employment is only 37% because of the large number of people employed in the public service and in large public-sector owned enterprises. About 11% of the labour force is self-employed; women make up about 31% of this group. The annual growth rate in the number of SMEs from 1992-97 was 5.2%, the highest of the cases in this study. There is a relatively large number of new companies in the Netherlands but the percentage of entrepreneurs in the working population lags behind several countries and the same is true of the entry rate of new firms, the percentage of fast-growing firms and the number of start-up companies with employees. Administrative redtape is seen as a major barrier to growth and to the hiring of employees.

Research in 1998 revealed that 2.5% of the Dutch population aged 18-65 were involved in setting up their own business, equivalent to over 200,000 people (or 3.8% of the workforce). These start-up activities were more prevalent among the 18-34 age group (42% of sample). While 2.5% of the population sounds like a lot of people, it is a much lower percentage than in the United States and some of the other countries participating in the Entrepreneurship Research Consortia project. A follow-up survey revealed that, by 2000, 47% of these people had actually started the business, 26% had given up and 27% were still in the process of trying to get started. The major barriers to getting started are a complicated regulatory system (legal obligations and public policy rules) and securing financing. The start-up rate has been growing in the past few years, spurred by government policy to create a stronger environment for entrepreneurship and to increase the number of start-up firms.

SECTION 1: DEVELOPMENT & EVOLUTION OF SME POLICIES AND PROGRAMS

A: The Netherlands’ Industrial Development Policy

For several decades, the Netherlands was, what has been referred to as, a ‘managed economy’. Post World War II and during the Cold War period, Audretsch explains how European countries benefited from a comparative advantage ‘generally attained through large-scale production which facilitated low-cost production through exploiting scale economies’ (p. 5). He asserts that the comparative advantage for the Netherlands was certainly large-scale production of moderate-technology products in traditional industries (e.g., machine tools, auto parts and metalworking). This drove the government’s industrial policy – targeting the creation of large industrial units to reap the rewards of economies of scale and

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13 Ibid, p. 29.
14 For fuller description of research findings see Entrepreneurship in the Netherlands: Opportunities and threats to nascent entrepreneurship, EIM and Ministry of Economic Affairs, January 2000.
16 The Entrepreneurial Society: More opportunities and fewer obstacles for entrepreneurship, Ministry of Economic Affairs, February 2000, p. 17.
scope and to compete with other global giants. Audretsch argues that when comparative advantage is based on large corporations exploiting scale economies in production and R&D, the major public policy emphasis becomes constraining the market power and excess profiteering of large corporations (p. 14). The comparative advantage of previous decades has been lost due to globalisation, information technology, and increased competition from low wage countries and the new competitive advantage comes from innovation, new ideas, and entrepreneurship. The knowledge-based economy, it is argued, requires different industrial structures from the past, as well as new economic values. To adjust to the new economy, Audretsch suggests that deregulation and privatisation must be complemented by policies oriented to enabling the development of new ideas and entrepreneurship (p. 15).

Reynolds describes the Netherlands as a distributive society as opposed to an enterprise economy like that of the United States.18 The Netherlands is a country which has sought in the past to develop collective solutions within the framework of a centralized decision-making structure to control resources and their allocations (i.e., a large public sector took responsibility for economic planning and the equitable distribution of wealth). Ensuring that all citizens have a minimum standard of living and that dramatic differences in economic well being are minimized has led to an economy where priorities are placed on protecting the job stability and social security of citizens. The result has been an inflexible labour market, the constraining of innovation in the knowledge-based economy, and legislation and regulations that impede and act as a disincentive to the emergence of entrepreneurship.

Changes in the competitive global environment, together with evidence that there is a relatively low level of business ownership in the Netherlands, have been the impetus for the Dutch government to rethink its industrial and economic policies and to embrace entrepreneurship as a policy objective.

B: SME Policy Development

The Dutch government produced its first White Paper on Small Business in 1954 and has had three White Papers since then. The first wave of entrepreneurship policy and program interest began in 1987 with the release of the White Paper on small business *Create Room for Entrepreneurs*. The objectives at that time were to stimulate growth of existing SMEs, to prevent unfair competition to new entries, and to reduce the impacts of competition on existing SMEs. The paper made recommendations for 28 measures focused on introducing aspects of ‘scale’ to SMEs. Promotion efforts to stimulate entrepreneurship began: a television campaign, ‘*Start Your Own Business*’, was sponsored by the Dutch government to encourage people to take the steps to start their own business. Since then there has been a gradual shift in focus and emphasis away from SME policy to entrepreneurship policy, a shift that accelerated in 1994 when a Left-Liberal coalition government and a new Cabinet replaced the Christian Democrats who had been in power for years. This was the time when deregulation really started.

Jobs Through Enterprise was released as a policy paper in 1995. It underscored the importance of new business entries for structural employment growth and led to policies to reduce start-up barriers, improve the quality of entrepreneurship and improve access to financing for techno-starters and new growth firms. These included fiscal measures to improve the tax environment for all SMEs, to reduce regulatory burden and to create more flexible labour markets. The Ministerial Commission for Market Function, Deregulation and Quality Legislation was installed to investigate ways to reduce the costs of regulations, to abolish unnecessary constraints to competition and to improve the quality of legislation. Reform to the Establishment Act, which had prohibited the unlicensed formation of new businesses in more than 80 sectors and was actually acting as a barrier to business start-ups, resulted in a reduction of licensing requirements by about 90%. Measures were put into place to improve the efficiency and the penetration of preliminary counselling for potential entrepreneurs and one-stop shop pilots were set up to achieve better co-ordination of support services. Seed financing programs were implemented for techno-starters and R&D initiatives, changes were made to the Small and Medium-Sized Enterprises Credit Guarantee Scheme and the government started to examine avenues for increasing access to informal investment capital. At the same time, measures were adopted to help firms pursue growth through exports, strategic management assistance, and research and development support.

A lot of work on entrepreneurship policy issues took shape in 1998 – numerous reviews, evaluations, research projects, and consultations were undertaken on many issues related to creating a more favourable environment for businesses to start in the Netherlands. This was a thoughtful process which started with the release of the discussion document, Get Set! A Discussion of new entrepreneurship, a paper which examined barriers that potential entrepreneurs encounter when trying to start their own businesses – administrative burden, legislation and regulations, inadequate financing and exit barriers. In 1998, the Competition Act came into effect, sweeping changes were made to the Bankruptcy Act and Cabinet set up the Administrative Burdens Commission to examine administrative obligations in hiring the first employee and other matters related to business starts. The government undertook a review of government subsidy programs and stimulation schemes (Non-Use of Ministry of Economic Affairs Schemes, Leiden) which revealed low awareness among entrepreneurs, a general lack of transparency, perceived complexity and evidence that some programs might not meet efficiency criterion. The report of the Evaluation and Review of Tax Breaks and Facilities for Businesses Working Group on tax reforms in favour of entrepreneurship was released and an evaluation of the Establishment Act recommended that it be abolished. In addition, a series of policy-oriented research reports were produced on high growth firms, new high tech firms, the economic performance of SMEs, etc. and the study of nascent entrepreneurship began.

In 1999, the OECD published The OECD Review of Regulatory Reform in the Netherlands and the Dutch government released its policy document Business Taxation in the 21st

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20 The aim of the Establishment Act was to improve the quality of entrepreneurship and thus the quality of management in new firms. People who wanted to start businesses in key sectors were required to pass an exam demonstrating their knowledge of business management; start-up training programs were readily available to help nascent entrepreneurs prepare for the exam.
21 The Entrepreneurial Society, p. 28.
Century: Towards Strong and Dynamic Entrepreneurship. An analysis of Dutch Bankruptcy Laws was reported in A New Opportunity for Individuals and Entrepreneurs: A Study of the Possibilities of Applying US Bankruptcy Legislation in the Netherlands and the Social and Economic Council of government made recommendations to Cabinet on ethnic entrepreneurship. Furthermore, an Interdepartmental-working group was established within the framework of the evaluation of the Competition Act to make recommendations on harmonizing the concepts of entrepreneurship and self-employment in the legislation and regulations. All of this work culminated in the release of the second White Paper, The Entrepreneurial Society: More opportunities and fewer obstacles for entrepreneurship (released in Dutch on 16 September 1999; English version published in February 2000). It affirmed the need for the Netherlands to adopt an entrepreneurship culture and outlined a major program to support an increased business start-up rate. The starting point for this new government action was the recognized need to remove barriers to entry for new entrepreneurs and barriers to growth for existing SME owners. Over the past two years, very serious efforts have been made to address the barriers to business start-ups and the development of new entrepreneurs.

In 2000 the Commission on Entrepreneurship and Education was established to implement a program of entrepreneurship education at all levels of the education system from primary to tertiary levels. The Advisory Council to Test Administrative Burden was formed by the Ministry of Economic Affairs to test all new regulations against an administrative burden measurement instrument prior to going to the Council of Ministers for adoption. A model was developed to calculate the effects of entrepreneurship policy and performance indicators were adopted to evaluate the impact of entrepreneurship policy measures.

The Entrepreneurship Policy Unit

Until 1994, there was both a Secretary of State for Small Business and a SME Division within the Ministry of Economic Affairs. The focus was on solving problems of individual firms. The tools used for solving these problems were fiscal policy measures and an advisory services infrastructure. Today, there is no Secretary of State for Small Business, the SME Division has been replaced with a smaller SME and entrepreneurship policy unit, SME programs are gone, and the Ministry no longer deals with the problem-solving of individual firms. Policy has shifted more in favour of entrepreneurship and there has been a fundamental change of economic policy in legislation. Every division and Ministry is required to have focus groups, which include SME members, to vet SME policy and program issues. The Department of Finance, Labour and others must take into consideration the impact on SMEs of any new initiative; this includes the impact on the start-up and growth of new businesses.

The current SME and entrepreneurship policy unit resides in the Ministry of Economic Affairs. It is staffed with 14 people, who work on the Entrepreneurship Education file, overall project implementation and communication, women entrepreneurs, high-growth SMEs, local/regional policy, administrative burdens, labour market and social affairs issues, fiscal affairs and economic analysis. The Unit produces research and policy analysis, oversees

evaluation measures and participates in international policy forums. The major area of policy examination is entry and exit barriers (e.g., Establishment Law and Bankruptcy Law). The biggest challenge for the unit is to have its policy measures implemented through other departments.

In April 2001, the Ministry reorganized; this lead to the splitting-up of the SME policy unit. One half went into the cluster ‘capital markets and enterprise law’ (more general policy and contacts concerning SMEs, finance and tax instruments) and the other half into the cluster ‘innovative entrepreneurship and start-ups’ (entrepreneurship & education, techno start-ups, high growth companies).

C: Current Entrepreneurship/SME Policies, Programs and Structures

The Entrepreneurship/SME Agenda

The explicit and stated goal of the Dutch government is to increase the business start-up rate by 25% by 2001, from 40,000 to 50,000 new businesses. This objective dominates the current entrepreneurship policy agenda, which is set out in The Entrepreneurial Society. The three main areas of entrepreneurship policy actions are outlined in Figure 1. These policy measures were supported with NLG 1.120 million, NLG 220 million for projects in the ‘soft’ economy and NLG 900 million for physical economic infrastructure. In addition, NLG 40.75 million was allocated for such activities as the establishment of one-stop business counters, entrepreneurship education projects, encouraging SME exports and implementing policy measures for fast-growing and high-technology firms. (Almost half of the NLG 40.75 million was allocated to the New Businesses in Foreign Markets Programme to encourage new entrepreneurs to begin exporting).

One of the most critical priorities is to reduce the barriers to entry for new firms. Until recently, the business start-up process was difficult, time-consuming and costly. Lots of permits, legal hurdles and other requirements were involved and there were many controls over start-ups in the service sector ranging from professional services to taxi-operators. However, even with reduced regulation, the opinion of Dutch officials and researchers is that the entrepreneurship culture is not sufficiently entrenched in the mind-set of the population to produce the level of entrepreneurship desired in the economy in the future.

Thus, the second priority is to imbed entrepreneurship in the education system in order to generate a higher appreciation of entrepreneurship as a career aspiration. A Commission on Entrepreneurship and Education has been formed, with representatives from all education sectors, societal organizations (employees, ethnic minorities), entrepreneurs and business, to implement a full program of entrepreneurship education curricula and resource materials across all levels of the education system.

The third priority is to organize the network of small business support organizations to meet the needs of new start-ups – all of this assistance is being provided at the local level. The Chambers of Commerce are heavily involved in giving advice on ‘keeping your company

23 The Entrepreneurial Society, p. 9.
going’; the MEA, a Dutch bank and Shell are partnering in a Mentor Program to assist new entrepreneurs who are having operational problems; and Regional Innovation Centres provide advice on technology.

There are no targeted sectors in the government’s strategy. ‘We don’t care what kinds of businesses people start. Our focus is to broaden the base of enterprises – it doesn’t matter in what sector’ (Head of SME Policy Unit, MEA). However, the development of technology-oriented entrepreneurship and rapid-growth firms is a priority as well. The Entrepreneurial Society policy includes measures to support the development of information technology and life sciences ventures through R&D measures, seed capital programs, Innovation Centers and university-based incubators. It also includes measures to stimulate increased export activity (New Businesses in Foreign Markets Programme).

Possible themes for entrepreneurship policy in the coming years have been identified as follows:24

- Reduction of obstacles to the start and restarting of companies,
- Coaching of entrepreneurs in financial difficulties,
- Reduction of the costs of setting up a private limited liability company,
- Encouraging serial entrepreneurship,
- Facilitating the transition from employment to self-employment through review of existing collective agreements,
- Reduction of institutional obstacles to entry in markets for personal services (now being studied to examine opportunities and obstacles and assess government’s role in service providing),
- Measuring the impacts of entrepreneurship policy, for example, the impact of repeal of the Establishment Act, changes in Bankruptcy Law, lowering the stigma of failure and lowering the administrative burden involved in hiring the first employee. Initial analysis of these impacts suggests that they could result in 67,000 extra jobs from 2001-2005 (17% increase) and NLG 46 billion in value-added (20% increase).

Other areas that need further examination include rationalization of the tax laws with respect to employed and self-employed persons and social security for entrepreneurs.

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24 Baljé and Waasdorp, pp. 45-47.
<table>
<thead>
<tr>
<th>Area of Attention</th>
<th>Policy Objectives</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market Structure</strong></td>
<td>• Level the playing field for new and expanding firms by:</td>
<td>• repeal the Establishment Act in January 2001</td>
</tr>
<tr>
<td></td>
<td>• eliminating barriers to entry for new entrepreneurs</td>
<td>• amend the Bankruptcy Act to allow better arrangements so firms in difficulty can successfully reorganize and relaunch</td>
</tr>
<tr>
<td></td>
<td>• easing the burden for firms in financial difficulty</td>
<td></td>
</tr>
<tr>
<td><strong>Regulations and Public Service</strong></td>
<td>• ease administrative burden for entrepreneurs</td>
<td>• make amendments to the framework of Market Forces and the Deregulation and Quality Legislation project II; make it easier to hire the first employee</td>
</tr>
<tr>
<td>Businesses</td>
<td>• provide comprehensive information and integrated services to entrepreneurs</td>
<td>• pilot the one-stop shop in Groningen and Drenthe provinces and the Northwest Holland region</td>
</tr>
<tr>
<td></td>
<td>• simplify and improve accessibility of subsidy schemes so more entrepreneurs can use them</td>
<td></td>
</tr>
<tr>
<td><strong>Productive Economic Climate</strong></td>
<td>• stimulate entrepreneurship through:</td>
<td>• implement 'Entrepreneurs Tax Package for the 21st Century' to introduce a reinvestment reserve, lower the capital tax, and reduce corporate tax rate on small profits</td>
</tr>
<tr>
<td>for the Creation of New Opportunities</td>
<td>• changes to taxation facility to sustain, strengthen and increase the dynamism of entrepreneurial activity</td>
<td>• increase budget for Small and Medium-Sized Enterprises Credit Guarantee Scheme (BBMKB); evaluate risks and returns more effectively</td>
</tr>
<tr>
<td></td>
<td>• financing</td>
<td>• anchor entrepreneurship in the education system to prepare young people for entrepreneurship</td>
</tr>
<tr>
<td></td>
<td>• education</td>
<td>• provide advice, funds and information to help entrepreneurs capture foreign markets;</td>
</tr>
<tr>
<td></td>
<td>• exports and growth</td>
<td>• establish network of fast-growth companies</td>
</tr>
<tr>
<td></td>
<td>• local and regional policy.</td>
<td>• address local problems concerning facilities and information for new entrepreneurs in ‘big-city’ areas</td>
</tr>
</tbody>
</table>
D: Description of Existing Programs and Services in Support of Entrepreneurship

The Regulatory Environment for Start-Ups

In terms of overhauling government regulations to provide more opportunities for new and existing private enterprises, three major Acts were reviewed, the Establishment of Businesses Act, the Competition Act and the Bankruptcy Act. Apart from these, there are other areas of business establishment that need to be addressed.

Barriers to Setting Up a Company

An international study of the regulation of entry in 75 countries ranked the Netherlands as 26th based on the number of procedures that need to be completed in order to start a business. In spite of the efforts by the Dutch government to reduce administrative burdens associated with starting a business, it still requires eight procedures, takes 68 days to obtain all the approvals and costs 0.1902 of per capita GDP (the measure used in the study to equalize start-up costs). Incorporation of a limited liability company in the Netherlands requires a mandatory minimum of NLG 40,000 in share capital. In Australia, Ireland and the UK, only symbolic amounts are required and no minimum capital is required in Canada and the US. Setting up a limited liability company still takes 3-4 times longer than it does in the UK or the US; this is a barrier for entrepreneurs who want to start a new company.

Establishment Act

The purpose of the Establishment Act was to foster the quality of entrepreneurship. Based on evidence that the Act was actually acting as a deterrent to business starts, requirements were relaxed in 1996 under an implementation order (Establishment of Businesses Decree). This reduced the basic requirements to cover aspects of general business skills. For persons starting businesses in certain sectors, additional business management skills were required (e.g., construction, installation, transport, and food and drink) and additional technical skills were required for bakers, butchers and electricians. As a consequence of changes to the Act, the business start ratio increased by 30%; but, in sectors where regulation tightened, the business start ratio decreased by 50%. Overall, the simplification of the Act led to a 10% increase in the business start ratio but had only a limited effect on the number of business closures and virtually no effect on the number of bankruptcies. In other words, the Act did not achieve its goal of ‘quality’ start-ups and actually had the adverse effect of inhibiting potential business starters.

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27 The Entrepreneurial Society, p. 21.
The Establishment Act was evaluated in 1998 and deemed to be both inefficient and ineffective in fostering the quality of entrepreneurship, in fact, it was found to be a barrier to entry for potential new businesses.\textsuperscript{28} A third of potential entrepreneurs who sat for the general business skills examination were not able to pass it the first time and 30\% did not retake the exam. Over 80\% of ethnic minority entrepreneurs could not pass the examination and thus this law presented a major obstacle to ethnic entrepreneurship. These results prompted the government to abolish the general business skills and technical skills requirements that do not relate to health, safety and environmental aspects, beginning January 1, 2001. This will certainly lower the barriers to entry for Dutch entrepreneurs!

It is interesting to note that prior to 1993, violations to the Establishment Act were subject to criminal prosecution.\textsuperscript{29}

\textbf{Competition Act}

The Competition Act was introduced in 1998 in response to the need to introduce more competition in the Dutch economy. Because increased competition in the market place may force businesses to be more competitive to survive, it was anticipated that the bankruptcy rate of Dutch enterprises would increase. This led to an assessment of the outdated Bankruptcy Act and insolvency legislation, which dated back to 1893.\textsuperscript{30}

\textbf{Bankruptcy Act}

A review of the outdated Bankruptcy Law started in 1998. This included a study of US bankruptcy law.\textsuperscript{31} A meeting of experts on business discontinuation and bankruptcy was held in November 1998 to discuss the functioning of the Bankruptcy Act in relation to companies. Changes to the Act were recommended, including: 1) ending the principle of unlimited personal liability for debts incurred by single-person businesses and general partnerships (law passed in December 1998); 2) extending the time for troubled businesses to restructure (under the old Act, 73\% of insolvent businesses ended up in failure because they did not have sufficient time under the suspension of payments scheme to reorganize the business); and 3) a better balance of the law in protecting debtor’s and creditor’s rights in bankruptcy proceedings. Changes were considered within the framework of the Market Forces, Deregulation and Quality Legislation Project (MDW) and presented to Parliament in 2000. This project consisted of two phases. The first phase was completed in July 2000, with the submission of Bill 27 244 to the Second Chamber of Parliament. This Bill proposed that a provisional moratorium should be granted only on the basis of a reorganization plan. Preferential claims are also subject to the moratorium. The ‘cooling-off’ period is extended to a maximum of four months. Within this period, goods can be consumed or sold with compensation charged to the estate. The ‘cooling-off’ period also applies to the beneficiary, in

\textsuperscript{28} Evaluation of the Establishment Act, Main Report, Diemen, 1999 as reported in \textit{The Entrepreneurial Society}, p. 21.

\textsuperscript{29} \textit{The Entrepreneurial Society}, Footnote 29, p. 24.

\textsuperscript{30} Ibid, p. 23.

the sense that it may not sell goods that have been attached. The administrator may issue instructions to the debtor. An agreement requires an ordinary majority of creditors representing at least half of the value of unsecured receivables. A compulsory agreement may be imposed. Energy suppliers may not discontinue service to enforce payment. 32

In the second phase of the MDW project, the Working Group based its activities on comments, suggestions and scientific research. The Working Group interviewed experts, judges, lawyers, accountants and banking professionals. In this way, potential points for improvement were identified. The main ones were: the stigmatizing effect of bankruptcy, confusion regarding the objectives of the Act, the blurring of the distinction between compulsory winding up (aimed at liquidation) and the moratorium (aimed at recovery), the lack of clear rules for ‘restarts’, late applications for winding up and moratoria, the lack of incentives and clear measures for prompt applications, poor insight about the run-up to insolvency, the lack of norms for out-of-court settlements, limited opportunities for out-of-court or compulsory agreements, long settlement periods, limited opportunities for restructuring of personnel costs, confusion regarding the definition of estate costs, preferential treatment for the tax authorities, the position of counter-parties in perpetual agreements (continual financing and supply), insolvency of groups and professionalism of the courts.

The above issues are included in a discussion paper published on a special website in March 2001 (http://www.ez.nl/faillisementswet). The website offers everyone the opportunity to take part in the public debate on further reform to the law. After public reactions have been analyzed, the Working Group will draw up a final report on potential amendments to the Bankruptcy Act. In addition, in May 2001, an international conference on Business Failure was organized in Noordwijk, the Netherlands. The purpose of this conference was to examine ‘best-practices’ in the field of bankruptcy law reform. The results have been published on a special website (http://www.businessfailure.ez.nl). This website also serves as an international platform for expertise on bankruptcy reform. The first part of the new bankruptcy legislation will go into effect in the autumn of 2001.

**Regulatory Framework**

Administrative obligations are known to act as barriers to the growth of a firm. EIM found that administrative costs for private sector enterprises had risen to 2.2% of GDP by 1998. 33 It is believed that the authorities do not sufficiently consider the impact on SMEs of procedures for issuing licenses and subsidies or for collecting taxes and social security contributions. 34 In the more regulated sectors, like construction, it is estimated to cost up to NLG 6000 and take up to two months of time to meet administrative and regulatory requirements to establish a new business. In the least regulated areas, like computer services, it is estimated to cost no more than NLG 1200 and take less than five hours of time. 35 The administrative cost to comply with a range of obligations including labour agreements, employee insurance schemes, payroll deductions, and identification duty to hire the first employee is estimated to

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32 Baljé and Waasdorp, p. 44.
33 Benchmarking the Netherlands 2000, p. 197.
34 The Entrepreneurial Society, p. 25.
be NLG 3,300; payroll reporting alone is estimated to take 17 hours per year per employee.\(^{36}\) Obviously this is acting as a disincentive for new firms to hire employees and thus is a barrier to growth.

To deal with the issue of the impact of regulatory burden on business starters and small firms the Cabinet set up an Administrative Burdens Commission in 1998. The Minister of Economic Affairs was driving the project. The Commission sponsored a project to harmonize the concept of entrepreneur and self-employed and standardize definitions for acceptance by both the tax and social security authorities.\(^{37}\) It was also closely involved in the development of one-stop business counters and in the examination of the administrative burden associated with hiring the ‘first employee’. The Commission was relieved in 1999, after presenting its recommendations. On 16 February 2000 the Cabinet decided on new policy directions. First of all, every ministry has to prepare an annual action program on administrative burden. Secondly, the Advisory Council to Test Administrative Burden (ACTAL) has been created to advise the government concerning new regulations, to give advice concerning action programs of the ministries, and to stimulate the use of ICT to reduce administrative burden. As of May 1, 2000 all new regulations are subjected to a business impact assessment test before going to Cabinet for approval.

By the end of this Cabinet period, the government’s goal is to reduce administrative burden by 25%. The business impact assessment instrument, based on the MISTRAL model developed by EIM, will prove to be very important in assessing whether the goal is met. ‘Before this instrument was available, we knew administrative burden was a problem but departments themselves didn’t think it was that bad. Now, we know how big the problem is and where the problems exist!’ (comment from the Council on Entrepreneurship, August 2000).

**Tax Reform**

In 1999 the government set up a Working Group of relevant ministries and business associations to formulate a comprehensive package of tax reforms for the 21st century.\(^{38}\) The total package of adopted tax reforms has been costed at more than NLG 800 million. The largest reform measures reduce the corporate tax rate on the first NLG 50,000 of profits from 35% to 30% and reduce the rate of incorporation tax by 0.3 percentage points (cost of NLG 300 million for both measures). Other reforms are intended to stimulate R&D investment by SMEs and facilitate the transfer of business ownership to non-family members. In January 2001, the tax on capital was lowered to 0.7% (most other countries do not have a tax on accumulated capital).\(^{39}\) The tax wedge on labour remains high.

The Dutch government provides a number of financial incentives for new starters within the taxation system. For example, the Self-Employer Person’s Allowance

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\(^{36}\) Ibid, p. 27.  
\(^{37}\) See EIM, ING, rZQ ‘Self-Employed Without Personnel: Entrepreneur or employee?’, 1999, for a discussion of the problems, issues, and possible solutions to a standardized definition of a self-employed person and an employee for purposes of tax and social security.  
\(^{39}\) *Benchmarking the Netherlands 2000*, p. 61.
(zelfstandigenaftrek) entitles starting entrepreneurs to a higher allowance for expansion and other investment reserves, and the Aunt Agatha facility provides tax breaks on loans to starting entrepreneurs.

The unequal tax treatment of self-employment income has still not been addressed. More than 60% of Dutch companies are operated as sole traders or partnerships. Corporations pay 35% on retained profits but the retained profits of sole traders are taxed at the same rate as distributed profits (on which the top tax rate is 52%).

Promotion of Entrepreneurship

There are no widespread media activities to promote entrepreneurship, although the Chambers of Commerce and the banks do some television advertising. In 1988, when the first wave of SME promotion started, there was a Start Your Own Business television campaign but little information on this program seems to exist. The major promotional tool is entrepreneurship awards. Local organizations and communities give lots of awards, like the Best New Start-Up, but the government is not directly involved.

Entrepreneurship Education

The view of the current national government is that entrepreneurship should be part of every level of education (from primary school to university) and that, in the context of the ‘entrepreneurial society’, paid employment and self-employment should converge. The qualities which are necessary for independent entrepreneurship are also those needed to foster employability in general – autonomy, self-confidence, drive, creativity, and talent, thus entrepreneurship education will benefit all students. In addition, because of the growth in new business starts every year, it is increasingly likely that entrepreneurship will be part of the career biography of Dutch youth. Consequently, entrepreneurship education is a major pillar of the government’s entrepreneurship policy formulation.

The initiative is proceeding under the basic premises that educational institutions are responsible for the content of programs and for anchoring entrepreneurial attitudes and skills, and that entrepreneurship education should be developed from the ’bottom-up. This requires a specific approach for every education segment, discipline and perhaps even institution. Therefore, the Ministry of Economic Affairs, in co-operation with the Ministry of Education, Culture and Science, has established a broad-based, consultative Commission on Entrepreneurship and Education consisting of 16 people from different fields of education, employer associations, entrepreneurs (male and female), multicultural organizations and the Dutch Association of SMEs. An independent chair heads the commission; the secretariat for the Commission rests within the Ministry of Economic Affairs. The commission has a threefold task.

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41 Interview with Fons Van Wieringen, Amsterdam, August 2000.
42 The Entrepreneurial Society, p. 41.
• To create support and awareness of entrepreneurship within the education community, and among students, teachers, parents, business and industry;

• To draft proposals for the development, piloting and implementation of promising activities to foster enterprise, entrepreneurial skills and awareness;

• To draft proposals to eliminate problems which impede the move from education into entrepreneurship and to introduce incentives to opt for entrepreneurship.

The National Entrepreneurship Education Program was launched in the fall of 2000. Within the next two years, the Commission is mandated to develop a portfolio of good practices/projects in entrepreneurship which will span all levels of education from primary school to university, including non-traditional courses like art, health and technical courses, and which can serve as examples that can be easily duplicated by other educational institutions. The ultimate objective is to develop a continual learning path from primary school to secondary school, vocational education and university. To reach this goal, a number of activities have been undertaken: 1) development of the learning path via a series of meetings with experts and the different education sectors, 2) completion of an inventory of existing good initiatives (good practices) that fit in this learning path and can serve as broad applicable examples for other education institutions, and 3) identification of the barriers faced by schools and universities. All of this information has been put on a special website (www.lerenondernemen.nl). In the near future, the Commission will organise a series of regional meetings with education officials, enterprises and business support organisations.

In terms of an entrepreneurship education framework, discussions with experts from education and business developed the 5-phase Dutch Pulchri model.

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1 *Phase 1 – Primary schools: First experiences with entrepreneurship*: students are introduced to the notion of entrepreneurship as an option – that one can not only become an employee, but also an entrepreneur or something between the two. At this stage students learn in a playful way to develop
their talents and develop some general skills, like working in groups/projects, orientation to production, care for the environment and research.

2 Phase 2 – Secondary schools: Consciousness of skills: students gain insight about what they know and what they do not know, in other words, they acquire an enhanced consciousness of their own skills and talents. Autonomous forms of learning are adopted to give them a chance for development of these skills.

3 Phase 3 - Creative applications and enrichment of experiences: students are introduced to a product-orientation, learning by experience, and elements of competition. This could include Project ‘Mini-enterprises’ where students from secondary and higher vocational education run their own enterprise during a year (age to 16 years), supported by a teacher, mentor (often an entrepreneur) and an accountant.

4 Transition phase - preparation and real start-up: In this phase, interest in entrepreneurship should be raised. In higher education it can come to a real start-up, supported by education institutions and integrated in the regular program (curriculum).

5 Growth and innovation phase: In this phase support of education for the start-up becomes more important. Higher education can give supporting facilities (finance, personnel, knowledge). Co-operation with intermediaries, like the Chambers of Commerce and former students, can be very useful. In longer term projects students can get acquainted with innovation and the corresponding problems that appear in the phase of growth and innovation. Students who have finished their studies can be supported in the start of their own innovative enterprise. Transfer of knowledge on growth can be offered by public intermediaries (Regional Knowledge Centres, Syntens) and organizations like Growth Plus.

The phases of this model describe the process of becoming an entrepreneur and are viewed as more or less relevant to the different sectors of education. The Pulchri model and the matrix of good examples is intended to serve as a useful background for educational institutions that want to develop or start something on entrepreneurship.

In order to stimulate the broader application of entrepreneurship projects and to fill the white spots in the matrix of existing good examples, the Dutch government has approved a Subsidy Scheme on Entrepreneurship and set aside about 5 million Euro for the period 2000-2002. This subvention is directed to support small pilot projects with a maximum subsidy of about 10,000 Euro (e.g., seminars, training for teachers etc.), and bigger development projects with a subsidy covering 60% of total costs to a maximum of about 100,000 Euro (e.g., projects that develop learning instruments and methods with a positive effect on the awareness, knowledge and skills concerning entrepreneurship and making a concrete link to the curriculum). This link with the curriculum is vital because it safeguards the structural place of entrepreneurship in the education system and prevents the risk that projects will have only a temporary effect. The first tender that ended in December 2000 was a big success and largely oversubscribed (1 million Euro available, subscription of projects in the amount of 5 million Euro). The first results will be available in the latter part of March 2001. The Ministry claimed an extra amount for additional tenders in 2001 and 2002. The ultimate goal is to
spread these ‘good examples’ all over the country through the special website that all schools are linked to and by organizing sector-regional and national meetings and various media-activities (e.g., ads, articles, television).

According to Dutch officials ‘There are still some important barriers. Schools still have a big fear that entrepreneurial learning methods won’t fit in the objectives/end terms of the inspection. In practice this inspection appears to be quite flexible. So a lot of work has to be done in clarifying and elaborating the objectives. The culture of management and teachers towards entrepreneurship is often negative. Money and time is often limited, especially when the project is not built into the curriculum. Participation can be difficult and very much dependent on the enthusiasm of individuals. Furthermore, often teachers are not skilled enough to pass along the message. A lot of programs on entrepreneurship don’t pay enough attention to this very important aspect that is critical for effective implementation of a programme. Finally, local and regional participation of business and education varies widely’ (comments of Dutch official, February 2001). But there are also opportunities. General entrepreneurial skills fit perfectly with the discussion on employability/life long learning and, therefore, should be integrated in education goals. Developments are taking place towards more autonomous and practical learning methods (i.e., a system of ‘study-houses’ where students learn more independently, has been set up) and more and more people from the private sector/business will become involved in teaching (‘side influx’). The question is, what are the appropriate incentives for teachers, educational management and institutions to accelerate this long-term process all over the country. Besides some financial incentives, a strong signal/policy from the political level (in particular, minister of education) will be a necessary condition for starting an integrated change in the education system (i.e., education goals, learning methods, teacher training).

Youth Enterprise

In addition to formal activities in the schools, there are a number of externally driven entrepreneurship programs that target the involvement of youth. There are about 200 Mini-enterprise in the Schools projects operating at intermediate, secondary and higher vocational educational institutions. Borrowed from Sweden, Mini-enterprises allow students to gain experience in doing business on a small scale (www.miniondernemingen.nl). About 2,500 Dutch students were involved in the program in 1999. The ShellLiveWire program for young entrepreneurs is operational in the Netherlands (www.livewire.nl) and TOKO (the Dutch acronym for telecommunications, education, knowledge transfer and entrepreneurship) is a project to encourage students to explore entrepreneurship/business.

Post-secondary Level

Although 90% of Dutch people have favourable attitudes towards entrepreneurship, only 7% of Dutch university students have the ambition to start their own business within three years after completing their studies, and only 20% of new entrepreneurs say that the education
system prepared them for entrepreneurship.43 So there is a strong perceived need for entrepreneurship education at the university level. At this moment, six of the 15 Dutch universities have their own Chair in commercial enterprise. In higher vocational education 30 of the 72 courses pay more and more attention to entrepreneurship. A limited number of colleges for higher vocational training are offering a ‘how to draft a business plan’ course so students can find out what it is like to become an entrepreneur. A New Venture Business Plan competition, funded by the Ministry of Economic Affairs, is open to post–secondary students (www.new-venture.nl).

**Small Business Support**

The Dutch government operates under the premise that good preparation and good guidance for potential and new entrepreneurs will improve survival and growth rates. Their goal has been to improve the efficiency and penetration of preliminary counselling and to tailor services to persons who need more assistance, e.g., the unemployed, ethnic entrepreneurs and high-technology entrepreneurs. The Chambers of Commerce, with local presence and partly financed by businesses itself, have been given the statutory power to provide general information to businesses and to act as the registrar for the registration of new businesses and the self-employed. They produce brochures, organize information sessions for new entrepreneurs and have a website where entrepreneurs can ask questions (www.kvk.nl). Special centres have been set up to work with high-growth entrepreneurs and techno-starters and there are local advice points for new entrepreneurs targeted mainly to identified groups such as women (Mama Cash), ethnic minorities (Stason), and benefit recipients (Enterprise and IMK-intermediair).

But the national government is no longer directly involved in providing counselling, training, advice or business information to entrepreneurs. This role has been almost totally transferred to the regional and local level based on the understanding that many of the problems encountered by entrepreneurs relate to business locations, local market issues and a lack of networks. The Ministry of Economic Affairs has allocated budget to encourage municipalities and provinces (within the framework of the ‘big cities’ policy) to stimulate entrepreneurship in their regions by simplifying regulations, improving business services, eliminating impediments in the regulatory framework, and promoting a favourable local economic climate. This includes effective business location policy, co-ordination of information and advice and local initiatives in the areas of SME financing and entrepreneurship education. Through a December 1998 agreement, the central government agency, Syntens, and the Group of 25 cities (an association of the Netherlands’ 25 largest ‘big cities’) agreed to partner in a ‘municipal business climate’ benchmarking project to monitor improvements in dealing with SMEs, to strengthen the stock of business premises, and to formulate plans for mentors for ethnic entrepreneurs.44 Although cities may be doing different things, they will receive subsidies from the Ministry of Social Affairs to stimulate entrepreneurship and thus to retain entrepreneurial talent in their cities. Subsidies may be for


44 *The Entrepreneurial Society*, p. 44.
both soft and physical infrastructure ranging from the establishment of advisory services for start-up entrepreneurs to accounting and legal services to the improvement of premises for groups of companies to locate.

**One-stop Business Counters**

Expert meetings organized in 1998 indicated that most business information and advisory services were not very transparent to new entrepreneurs who were confused about the plethora of facilities. The government has recently taken action to improve the quality and accessibility of public services to business by introducing one-stop business counters where entrepreneurs can conclude all their dealings with the various authorities. These include the municipality, Chambers of Commerce, the Tax Department, water authorities, regional development agencies, Syntens, the Economic Information Service, the European Union, the Industrial Insurance Administration Office and the Land Registry. These business counters are being piloted in Groningen, Drenthe and the Northwest Holland area in 2000. Evaluation of the pilot sites will be considered by government ministries (Economic Affairs, Internal Affairs, Tax Department), municipalities and chambers of commerce with the view to introducing one-stop business counters voluntarily on a national basis from 2001 onwards.  

**Mentoring**

Mentoring is recognized as a viable way to transfer knowledge to new and existing entrepreneurs. There are no comprehensive programs in place at the present time, but the Entrepreneur Sounding Board Foundation, a private institution of mentors, engages experienced managers to advise entrepreneurs, and the BusinessLift project led by Syntens focuses on helping entrepreneurs with financially troubled companies to restart (www.zakenlift.nl).

**Incubators**

A number of Twinning Centres have been set up as start-up incubators which provide support to new firms in the areas of technology development, management, marketing, export development and accessing venture capital (including two special venture capital Twining Funds).

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Identification of Target Groups

There are limited targeting strategies in place in the Netherlands, however, four groups were mentioned during interviews with government officials: women, fast-growth entrepreneurs, ethnic entrepreneurs and the unemployed.

Women Entrepreneurs

The government wants to improve the participation rate of women in the labour force generally and is considering macro economic factors, which will enable this. The availability of day care is a key concern. About one-third of Dutch entrepreneurs are female but the percentage is increasing. Twenty-six percent of the EIM Business Starter panel in 1994 was female; by 1998 this had increased to 34%. On the other hand, since self-employed women constitute only 8% of the female labour force and more than half operate their businesses on a part-time basis, they represent a segment of the population with under-developed potential to contribute to the entrepreneurial dynamism of the Dutch economy.

Sectors attracting start-ups by women are business services (22% of start-ups in 1998) and personal services (41%). Sixty percent cite the possibility of combining work with family care as their major motive in starting a business. Three years after the initial start-up, female entrepreneurs employ an average of three (3) people. They tend to have smaller visions for their businesses than men, are less growth-oriented, and less likely than men to state barriers in the running of their businesses. They start with lower amounts of capital; about 34% apply for a bank loan and 80% are successful in borrowing the full amount requested. There are no gender differences here except that men are more likely to take a business loan and women more likely to take a personal loan. Women pursuing entrepreneurship on a full-time basis are very similar to men pursuing entrepreneurship on a full-time basis in terms of ambitions and business success (it is just that there is a lower percentage of full-time women entrepreneurs).

The government wants more women to become entrepreneurs. Recent research indicates that women have (all but) equal access to the economic resources and support necessary to do this. The government will keep monitoring the development of female entrepreneurship. Moreover, the government will promote women entrepreneurs as role models to motivate other women to pursue entrepreneurship. In October 2000 a congress took place to promote entrepreneurship for women. In September 2001 a women-focused trade mission led by the (female) Minister of Economic Affairs will visit Germany. The aim of this mission is to promote growth and exports among female-owned firms.

Ethnic Entrepreneurs

In 1998 ethnic minorities made up 8% of the work force in the Netherlands but this is expected to increase to 15% by 2020. Currently, these ethnic minorities are not satisfactorily integrated into the labour market. There was a nine percentage point unemployment gap...
between native Dutch and ethnic minorities in 1998, considerably higher than other European
countries; in 1998 the labour force participation of ethnic minorities was about 45%.\textsuperscript{48} This
low participation rate is also reflected in a low level of ethnic entrepreneurship – 7.4% of the
ethnic minority labour force is self-employed compared to almost 10% of the native Dutch
labour force. However, there are significant differences between self-employment rates within
the ethnic community ranging from over 12% for Turkish immigrants to 5.4% for immigrants
from Surinam (1997 data).\textsuperscript{49}

In 1998, the Cabinet requested an examination of issues influencing the level of ethnic
entrepreneurship. The report indicated that ethnic minorities were over-represented in
marginal sectors of the economy due to lower qualifications and poor representation in
networks and that they encountered special problems in starting new businesses. It
recommended that policy measures tailored to local situations would be most effective;
subsequently the central government included ethnic minority entrepreneurship as a priority
within the framework of ‘big cities’.\textsuperscript{50} Initiatives are being developed at the local level,
including a mentor initiative.

\textbf{Fast-growth and Technology Entrepreneurs}

The most proactive and significant targeting efforts are to encourage fast-growth
entrepreneurs. High-growth companies are considered very important to economic
development, yet research reveals that the Netherlands has a low proportion of high growth
companies compared to the United States and other European countries. Thus, this group of
entrepreneurs has been targeted for special efforts. With support of the Ministry of Economic
Affairs, the Dutch chapter of Growth Plus Europe was founded in 2000. Growth Plus Europe
is a pan-European association that aims to stimulate entrepreneurship in Europe and to
promote the interests of high growth companies. It also stimulates innovative research about
entrepreneurship. Its business network plays an important role in putting high growth
companies in touch with each other. This enables participating entrepreneurs to compare their
internal business management strategies and problems with those of their peers. These owners
of fast growing enterprises form a mutual source of expertise and can provide advice to each
other about how to break through the ‘growth glass-ceiling’. The Dutch chapter now consists
of 20 members, who own the fastest growing companies of the Netherlands.\textsuperscript{51}

Growth Plus is aimed at the fastest growth companies, but the Netherlands also directs a
number of other programs at companies with growth ambitions. The Ministry of Economic
Affairs has implemented ‘Maak kennis met…’ (Get to know…), a program offering
participants the opportunity to take a look behind the scenes of other high growth companies.
This fosters the exchange of experiences between host-companies and guest-companies
through business visits and exposes ‘Maak kennis met…’ companies to role models with
whom they can compare themselves.

\textsuperscript{48} Benchmarking the Netherlands 2000, p. 105.
\textsuperscript{49} Ibid, p. 106.
\textsuperscript{50} The Entrepreneurial Society, p. 44.
\textsuperscript{51} See also www.growthplus.org.
Furthermore, the Ministry of Economic Affairs, together with TIAS Business School, is developing an educational program for high growth companies and ambitious entrepreneurs. This program consists of master classes for ambitious entrepreneurs in high growth companies and will examine important aspects of business policy. These master classes will offer high quality education in the skills and knowledge needed to sustain growth, combined with networking possibilities.

Because entrepreneurs in the technology sector contribute significantly to the development and diffusion of new technologies, efforts are underway to stimulate new businesses in this sector. The government felt policy actions were necessary to remove obstacles due to market imperfections in the areas of access to financing, advice, technical assistance, premises, and networks. Two of the initiatives to encourage entrepreneurs in the high technology area are the Twinning project (ICT-sector) (www.twinning.com) and Biopartner (life sciences). Both offer a complete package of services to starting entrepreneurs; a) advice, coaching and support, b) incubators, 3) a StartFund to provide financing at the start-up phase and a Growth Fund to finance firms in the growth phase. The Ministry of Economic Affairs has now decided to broaden the concept of Twinning and Biopartner to other technological sectors. Dreamstart is one of these platforms. It performs the following activities:

- provides information, especially by giving insight into existing and new initiatives for techno start-ups through the Dreamstart website (www.dreamstart.nl);
- stimulates high-tech entrepreneurship in the Netherlands;
- brings together all parties who can stimulate techno start-ups to deliver a more integrated approach.

The Ministry of Economic Affairs is now developing a subsidy scheme similar to Twinning and Biopartner. By means of two tenders, subsidies will be granted for the co-financing of university business plans proposing ways to facilitate techno start-ups. This could include funding for infrastructure, like an incubator, or for advice and coaching, networking facilities, etcetera. Universities have to co-operate with private sector parties (e.g., a venture capitalist) in the delivery of the project. Dreamstart will fulfill the role of intermediary who brings the different parties together.

The Unemployed

Recipients of the social security system are targeted for self-employment programs to offer them the opportunity to regain their economic independence within society. The Self-Employed Benefit Decree (from April 2000) provides a business start-up loan and an income supplement (to bring their income up to the level of welfare payment) during the first 18 months of their self-employment. In 1998, the loan ceiling for this income support program was raised to NLG 60,000.
Networks

The primary membership based organizations for entrepreneurs and SMEs in the Netherlands are the Chambers of Commerce and the Association of Chambers of Commerce (www.kvk.nl), SME-Netherlands, a membership association focusing on only SMEs, and VNO-NCW.

Research reveals that 40% of entrepreneurs seek advice from other entrepreneurs when they need it or they turn to accountants or other private institutions – for the most part, this happens on a local level. Networks are seen as being particularly important for fast-growth entrepreneurs who take 50% longer than US firms to break through the growth ‘glass-ceiling’.

In the US, 63% of high growth companies are members of a network compared to only 27% of high growth companies in the Netherlands. One of the reasons for this is the high search costs for Dutch entrepreneurs to get peer networks off the ground. Thus, the government is assisting with the development of such networks for Dutch entrepreneurs (Growth Plus, Dreamstart and Maak kennis met…). The government is also promoting the formation of ethnic entrepreneur networks as part of the Big Cities Policy, but apart from these two initiatives, other activity takes place within traditional business membership organizations.

Access to Financing and Seed Capital

The Dutch government has determined that there are several gaps in SME financing, both at the starter and early stage growth phases, and that the bottleneck is at the lower end of the capital market for young and high growth firms. Many new entrepreneurs and young companies face obstacles in obtaining financing from the banks and have poor knowledge of financing alternatives. However, beyond the provision of a loan guarantee program for SMEs, and tax credits to encourage various kinds of investments in R&D and technology ventures, there does not appear to be a system of direct government loans or grants to SMEs. Government initiatives focus on enhancing the possibilities for firms to raise their own capital, as well as facilitating seed capital for special groups, like techno starters.

The Small and Medium-Sized Enterprises Credit Guarantee Scheme (BBMKB)

To deal with the obstacle of a shortage of collateral, the government created the Credit Guarantee Scheme (BBMKB). The BBMKB guarantee to the lending bank is 50% of the loan amount and the maximum credit guarantee is NLG 4 million. Because innovative SMEs have a more difficult time attracting bank financing, due to increased risk and lack of collateral, the government allows special BBMKB provisions for certain firms to increase the share of the guarantee to two-thirds, to extend the life of the guarantee from six to 12 years and to suspend repayments of the loan for the first three years. In February 1999, the Ministry of Economic Affairs and the European Investment Fund partnered to increase the Credit Guarantee Scheme (BBMKB) fund with NLG 150 million to NLG 1 billion within three years.

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52 Baljé and Waasdorp, p. 39.
53 The Entrepreneurial Society, p. 31-36.
54 Jobs Through Enterprise, p. 21.
**SME-account**

The SME-account (MKBalans) is an instrument developed by the Ministry of Economic Affairs in close cooperation with the representative of the accounting organisations, the Nivra. The aims of the SME-Account are threefold: 1) to reduce the information asymmetry between financiers and entrepreneurs; 2) to help entrepreneurs develop an annex on their yearly account; and 3) to give insight in ways to improve their business strategy. The SME-account is available as of July 2001 and hosted at the website of the Ministry of Economic Affairs. An active internet-policy ensures that entrepreneurs can find the SME-account on other crucial websites, such as Chambers of Commerce, accounting organisations, Senter and Syntens agencies and financiers. Syntens will likely play a crucial role to assist entrepreneurs when they face problems or have questions after using the SME-Account.

**Venture Capital**

The Dutch Venture Capital market is relatively well developed. In 1999 the venture capital market in the Netherlands invested more than two billion guilders in companies. The total investment as a percentage of the Gross National Product is 0.17%, compared with the UK where it is 0.13% (1999). Still, it remains difficult for new businesses to attract venture capital. To fill the gaps, various government policies have been introduced. In 1996 the techno starter funds were created. These are three funds, each providing approximately NLG 10 million in public/private capital. A third of this capital consists of a government loan, which under specific conditions relating to good business practice can be converted into a grant, and two-thirds consists of private equity. To stimulate ICT entrepreneurs, two special venture capital funds were established under the Twinning initiative, a Start-up Fund and a Growth Fund. Start-up companies are accommodated in a number of Twinning Center Incubators which provide technology and management support. To stimulate the Life Sciences sector, a comparable special fund for Life Sciences start-ups was launched in 2000.

Efforts are also being made to disseminate knowledge about capital markets to the entrepreneurial community.

**Angels**

Former research (K+V, 1996) estimated that there is NLG 10 billion of unused informal ‘angel’ capital in the Netherlands. This led to the conclusion that increased transparency and a brokerage, matching service could help bridge the gap. A private-sector Dutch initiative is providing such a matching service for informal investors and techno starters and has done a lot to fill the gap. As well, business angel networks have been established as a result of private-sector Dutch participation in the European Business Angels Network. The 1996 research will need to be updated in order to make a new estimate of the size of the informal investment market.
Research: Entrepreneurship/SME Issues

Government Research

The Ministry of Economic Affairs conducts studies and evaluation reports on a regular basis, produces White Papers on Entrepreneurship and jointly publishes a series under the title of *Entrepreneurship in the Netherlands*. This information is readily available and widely distributed to increase awareness of entrepreneurship as an issue and to educate stakeholders about policy issues and actions.

Non-government Research

The most significant entrepreneurship research in the Netherlands is being done by EIM Business & Policy Research based in Zoetermeer. EIM has been producing small business research for over 70 years; it currently receives about one-third of its funding from the Ministry of Economic Affairs, based on a well-defined contract for areas of entrepreneurship research. EIM’s current major research initiatives are the Business Starter panels, the Dutch nascent entrepreneur study, the State of Small Business in the Netherlands report, benchmarking studies, evaluation projects and studies of business entry, exit, survival and growth, characteristics of high-growth firms, characteristics of the Dutch entrepreneur, innovation, competition and regulatory burden.

The Ministry of Economic Affairs indicates to EIM which research it wants done. As a consequence, much of EIM’s research feeds into the policy-making efforts of the Ministry. EIM conducts the research, presents the findings, makes recommendations and the government makes the policy decisions, frequently offering draft policy documents to EIM for comment.

Among the most significant current EIM research is:

- **Business Starter panel** – this is a longitudinal data set of 2000 firms started in 1994. They are surveyed at periodic intervals, enabling a tracking of their performance over time. New panels of Business Starters were organized in 1998, 1999, and 2000, combining about 1,500 start-ups. Information such as this is useful in determining the motivations and resources of people who start businesses and the barriers they encounter. This examination and tracking of business starters in the Netherlands, combined with knowledge gained by a study of nascent entrepreneurs, provides valuable input to government policymakers.

- **Nascent entrepreneur project** – identification and surveying of 600 people who were in the process of starting a business and tracking of their progress in actually starting the business over distinct periods of time. The project started in 1998 and a series of

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57 *Benchmarking the Netherlands* 2000.
reports have been written. By 2000, 47% of these nascent entrepreneurs had started their businesses, 27% were still nascent and 26% had abandoned their efforts to start the business.  

- **Global Entrepreneurship Monitor for the Netherlands** – EIM is the 2001 partner in the GEM project and will undertake the research in the Netherlands.

- **Evaluation research** – EIM has the contract to measure the impact of policy measures implemented within the context of *The Entrepreneurial Society*. (See Figure 2 for an outline of performance indicators being used to measure the impact of these policy initiatives). The Entrepreneurship Monitor is published quarterly by the Ministry of Economic Affairs.

- **Theoretical research** – EIM also engages in research to examine theoretical aspects of the role of SMEs in the economy and the role of entrepreneurship in economic development as well as analysis of large-scale and multi-country databases to determine the factors which influence the level of entrepreneurship and self-employment in economies. EIM publishes its work in a series of EIM publications as well as in refereed scholarly journals.

A number of Dutch universities have their own entrepreneurship or economic research institutes and dialogue between these researchers and EIM is increasing.

### SECTION 3: EXPERIENCES/EVALUATION OF IMPACT

**Evaluating the Effect of Programs and Policy Measures**

The Ministry of Economic Affairs has started a monitoring program (The Entrepreneurship Monitor) to check the progress of the various actions for entrepreneurship policy outlined in the policy document *The Entrepreneurial Society*. EIM does the research for this monitoring, including quarterly monitoring of business start-up rates and new business trends and industry developments. Performance indicators and measurement methodologies for each of the entrepreneurship policy areas are outlined in Figure 2.

Performance on implementation of entrepreneurship education in the schools rests with the Commission on Entrepreneurship and Education but will likely be measured in terms of the number of programs developed, the amount of money spent in schools and the number of students exposed to entrepreneurship. The final measure of impact will be how many students actually start businesses, but this is a longer-term performance indicator.

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CHAPTER EIGHT

THE CASE OF SPAIN

INTRODUCTION

Spain has a population of 40 million, which is growing at the slow rate of 0.11%.¹ In 1999, its GDP was US$677.5 billion, or US$17,300 per capita. GDP growth for the 1995-99 period was 3.4%.² In 2000, GDP grew by over 4%.³ In terms of Spain’s industrial structure, manufacturing output to GDP is one of the highest among these ten cases, at 33.6%, service sector output to GDP is 63.2%, one of the lowest, and agricultural output to GDP is 3.2%.⁴ In 1999, the labour force totalled 16.2 million. The labour force participation rate is 61%, 63% among men and 37% among women. The participation rate for women is the lowest of the countries in this study. Spain has the highest unemployment rate of the countries. This has dropped to just over 13% in 2001 and is down from 22% in 1996. However, the level of self-employment is the highest among these countries at 20.1%⁵.

The OECD’s assessment is that Spain’s recent economic performance has been impressive because of declining interest rates and initiatives to enhance product market competition, improve the functioning of capital markets, step-up the privatization process and address rigidities in the labour market.⁶ The OECD suggests that continuing efforts to reform the tax system, the labour market, the social security system, and the competitive environment should be pursued. Such reforms would alleviate pressure on labour income, improve neutrality in the taxation of savings, better focus corporate tax incentives, create more flexibility in the labour market and open up more market opportunities.

Spain is a country of very small firms. All but 0.1% of firms have less than 250 employees, almost 95% have fewer than 10 employees (microenterprises) and 55% have no employees. Over 98% of firms have annual revenues of less than 500,000 Mptas (an equivalent of US$100,000). Spain is very dependent on the SME sector for private sector employment, the share of which is 78%. Spain also has a high annual business birth rate of over 13% and a high turbulence rate (i.e., over 25% of firms either enter or exit the statistics on an annual basis). Lots of businesses are being started and disappearing on an annual basis and there seems to be a high incidence of people entering and re-entering self-employment activity – a

⁶ Economic Survey of Spain, January 2000, OECD.
form of serial entrepreneurship. Many people start micro-enterprises due to the lack of employment options, but because of the time, cost and formality of the business registration process prior to 1997, tend to operate them as informal entities. Many of these micro-enterprises, for a number of reasons, have a tendency to rely on the unpaid labour of family members more so than on paid employees. Until the labour reforms of the late 1990s, rigid employment and social security laws actually inhibited the hiring process of micro-firms. Informal enterprises also have difficulty obtaining financing and thus are limited in scale and scope.

Employment creation through enterprise creation is a priority. In the past, entrepreneurship was viewed as a marginal activity – someone only started a business if they dropped out of school or could not find paid employment. Since 1996, attitudes have slowly begun to change. This process of change has been assisted by the creation of DG-PYME, whose role is to foster a more supportive environment for enterprise creation. However, many reforms have been, and still are, necessary to stimulate more competitive markets and to realize structural reforms that will enable the Spanish economy to meet the goals of the European Union.

SECTION 1: DEVELOPMENT & EVOLUTION OF SME POLICIES AND PROGRAMS

A: Spanish Industrial Development Policy

Spain has a long history of government control – state-owned enterprises in many sectors, high public sector employment and a high degree of government intervention in the economy. Structural changes have been taking place over the past 20 years. The public sector has been shrinking and there has been a large program of privatization. The most significant changes for the SME sector have taken place since 1996 when the socialist government was replaced by the popular party.

The government places priority on improving the competitiveness of existing SMEs by increasing access to financing and management skills, encouraging the development and adoption of new technologies, including e-commerce, and promoting business co-operation and internationalization. The sector focus of the past has been replaced by the priority themes of Innovation, Productivity and Technology. This reflects a change in government focus to the ‘competitiveness agenda’.

Spain is governed through a decentralized system of Territorial Administration. The State is organized into 17 independent Autonomous Communities, which apply their own economic/industrial policies and take advantage of their particular competencies to promote new enterprises. There is a great deal of variation among regions, with different sectors of different importance in different regions. Although there is a National Policy on SMEs, autonomous regions might apply these national policies or might have their own policies and funds. Much of the central government SME activity is funded by the EU. Through these
funds the central government influences activity in the autonomous regions. The General Administration of the State and the Autonomous Communities co-ordinates actions to promote enterprise development. However, the final results of the policies differ to the extent to which they are adjusted to the needs and priorities established by the regional governments.

B: SME Policy Development

Prior to 1996, the SME file was led by an autonomous unit within the Ministry of Industry and Energy (the Institute for Industrial SMEs). In 1996, the SME file was transferred to the Ministry of the Economy and became the responsibility of the new DG-PYME. Following this a number of initiatives were undertaken to create a more favourable environment for the creation of new enterprises and for the growth of existing microenterprises. These are co-ordinated with other Ministries as well: Treasury (fiscal matters), Labour and Social Affairs (Labour Market framework), Science and Technology (innovation, R + D, and Computer Society).

Since the mid-90s financial instruments and measures have been developed to facilitate SME access to long-term credit – low-interest loans to fund investment projects (ICO\textsuperscript{1}–SME-lines), participatory loans and shares in venture capital (ENISA\textsuperscript{2} Particpatory Loans) and a guarantee program for SME loans (Mutual Guarantee Support and Guarantee Systems programs run by CERSA\textsuperscript{3}).

Tax reform started in 1996, with a particular focus on the tax treatment of transfers of family businesses. In 1997, efforts began to simplify SME administrative procedures, the SME Information Area was created, and tax credits were made available for technological research and R&D. The SME Initiative, a multi-sector programme for SMEs, implemented in 1997-99 under the auspices of DG-PYME in collaboration with the autonomous communities, aimed to foster associations and co-operative networks among SMEs, to develop electronic/telematic communication networks, to promote innovative design, to foster access to credit by way of such financial instruments as guarantee funds and participatory loans, and to create a network of intermediate bodies for services in support of innovation. Tax reform in 1998 allowed SMEs to take advance depreciation on intangibles, to deduct double taxation on foreign business and simplified SME tax documents. The PIPE 2000 program was launched to foster the exporting activity of SMEs, to attract foreign investment and to promote Spanish products abroad. Directed by ICEX (Spanish Institute for External Commerce) and the Superior Council of Chambers, the program provides consulting, economic studies, information, training and promotion services. At the same time, changes were implemented to the national system of vocational training. Through the National Programme for Vocational Training (1998-2001), run by the Ministry of Labour and Social Affairs, collaborative efforts were stimulated between companies and universities to bring the training system in line with European standards and to provide training in areas with particular labour market problems. Further work on administrative reform was carried out under the Plan de Agilizacion y Simplificacion Normativa para la Competitividad de las PYME (Plan for Speeding-up and

\textsuperscript{1} ICO – The Official Credit Institute.
\textsuperscript{2} ENISA – National Innovation Company.
\textsuperscript{3} CERSA – Spanish Guarantee Company.
Simplifying Regulations for the Competitiveness of SMEs), which was approved in July 1999. Its aim was to reduce or remove administrative obstacles that prevent businesses from achieving their maximum potential. Under this Plan a number of Single Guichets for Enterprises were opened, permitting all enterprise creation procedures to be completed in a single place. A single business number was created to enable SMEs to settle all credits and tax debts in connection with VAT, personal income tax and corporation tax on a quarterly basis, thus improving their financial situation.

In 2000, a national plan for scientific research and technological development and innovation was established to provide grants to ‘interface centres’, intermediary establishments providing support for innovation. These grants are intended for activities promoting technological demand, dissemination of information and feasibility studies that will help in the planning and preparation of consortia for SME innovation projects. In 2001, a SME fund for new businesses was added to the ICO credit lines and intensive efforts began to prepare SMEs for the introduction of the Euro in 2002.

**The Directorate-General for Small and Medium-sized Enterprises (DG-PYME)**

DG-PYME was created as special unit for SME development in 1996, at which time the Spanish Government created a new State Secretariat for Commerce, Tourism and Small and Medium-Sized Enterprises and its current SME policy. The Directorate was formed to enhance interministerial co-ordination in the formulation and execution of SME policies. Its main objectives are to focus on regulations that affect SMEs within the Ministry of the Economy and other authorities, to analyse the SME sector and to propose new policies to meet needs. It concerns itself with general policies affecting SMEs, evaluates the proposed measures of other ministries and recommends changes that would be more sensitive to SMEs, commissions studies and does research and examines issues related to the development of Collectives, the handicraft sector, ‘empresas sin asalariados’ and self-employed women. About 80 people are involved in policy work within the DG-PYME.

The DG-PYME has four product lines: 1) SME financing, 2) New company creation, 3) Horizontal policies and 4) Entrepreneurial co-operation and international relations (e.g., European Union, European Commission, Organization for Economic Co-operation and Development, international conferences and events). These product lines will be discussed within the context of the next section of this report. Financing and information programs are directed to meet the needs of both existing firms and new firms and the DG-PYME is involved in the funding and management of business assistance programs.

It has administrative responsibility for implementation of the EU Multiannual Programme on Enterprise and Entrepreneurship, 2001-2006, which is delivered in Spain under the government’s Plan for Competitiveness and Consolidation of SMEs (PCCP) Programme in accordance with Regional Authorities. Under the PCCP (EU funds), the State government provides each Region with ‘grants for SMEs’ to be managed under certain criteria. These criteria are different for each Region depending on the context. The main uses of these funds are to support the work of intermediate organizations (e.g., Chambers and SME-oriented organizations) in serving the SME population.
The DG-PYME is also responsible for promoting the competitiveness of SMEs through the Programas de la Direction General de Politica de la PYME. The program assists firms to incorporate innovation activity (Programa Innova), acquire business management skills, adopt information and communications systems, access financing, develop co-operative networks and pursue internationalization. Encouraging SMEs to use e-commerce is seen as a priority to global competitiveness. The government, in co-operation with business associations, Chambers of Commerce and institutions, is working to strengthen SME capacity in this area. Another of its program efforts is the SME Information Area, which is designed to meet the needs of SMEs in acquiring business information (see below).

The DG-PYME also has responsibility for preparing SMEs for the introduction of the Euro in January 2002. They are publishing guides on how to transfer to the Euro system and organizing joint seminars for SMEs with the Chambers and business associations. According to DG-PYME, one of the priorities after the adoption of the Euro is to prepare a White Paper on Entrepreneurship, which will pull together all relevant information into one document. They are also trying to pull together a report on the State of Small Business in Spain.

A horizontal approach has been adopted to implement the national SME policy plan. Important aspects of policy fall within the responsibility of other ministries, particularly Treasury, Labour and Social Affairs and Science and Technology. According to the DG-PYME, one of the major challenges with this horizontal approach is influencing other ministerial areas such as taxation and labour. To facilitate interministerial co-operation and co-ordination, the DG-PYME holds administrative meetings in different areas. There are Working Groups on Financing, Administrative Support, the Labour Market and Fiscal and Taxation Affairs all working to reduce barriers to new firm creation and SME development. DG-PYME does bilateral agreements with other ministries (e.g., the Institutes for Women and Youth within the Ministry of Labour and Social Affairs) and maintains contact with sector and business associations. The Ministry of the Economy also works co-operatively with the Autonomous Communities on the SME agenda. The Minister of the Economy meets in Sectorial conferences with all Autonomous Communities as well as individually with the Ministers of each of the Autonomous Communities (the equivalent of provinces or states) to foster regional debate on decisions affecting SMEs.

The Ministry of the Economy chairs the ‘Observatory for SMEs’, a SME Commission, which acts as the forum for permanent dialogue and co-ordination of SME issues and policy. The DG-PYME co-ordinates the work of the ‘Observatory’ whose members are government officials, entrepreneurs and SME experts. The two priorities for 2001, each led by a working group, are New Forms of Financing for SMEs and New Programs for New Company Creation. These Working Groups commission studies, have background documents prepared by consultants and university researchers, send materials out to Observatory members for comment, meet to discuss conclusions and recommendations from this analysis and then publish and disseminate the results.

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11 Information obtained from an interview with the Sub-Director-General, PYMEs, March 2001.
12 Information obtained from an interview with the Sub-Director-General, PYMEs, March 2001.
C: Current SME Policies, Programs and Structures

The main needs of the Spanish SME sector are financing, information and training, management development and integration of technology; major obstacles are the lack of information on financing options, high interest costs, lack of collateral security and regulatory burden, particularly as these relate to the creation of enterprises. The Spanish government does not offer direct loans to SMEs, but instead improves access to financing through a mutual guarantee system. This system provides incentives for banks to lend to SMEs and new companies and offers risk capital through ‘participative loans’. Access to financing is led by the State Government through ICO (the Credit Institute) and CERSA (the Mutual Guarantee organization) and filtered through the autonomous regions. SME information is provided at both the State and autonomous regions level through the SME Information Area (DG-PYME) and the One-Stop Information Bureaux. The strategy is to improve access to information, counselling and advice and to promote new company creation through the reduction of barriers, taxation, social security and labour reform and procedural simplification. One stop guichets have been opened to enable entrepreneurs to complete all forms and obtain all permits to create a company in one location.

One of the priorities of the Employment Creation program is to simulate a higher level of self-employment. The Ministry of Labour and Social Affairs places principal emphasis on underprivileged rural areas affected by industrial restructuring. Measures favour the employment of disabled persons, women and young people. The main tasks of the Economic Aid for the Creation of Jobs and Promotion of Self Employment programs are to promote self-employment and employment creation in start-up SMEs. Grants are offered based on the number of jobs created and interest rate subsidies are given on loans used to purchase fixed assets. The Development of Social Economy: Job Creation in Co-operatives of Employee-owned Businesses program has as its objective to promote co-operative forms of employment. This is done by offering subsidies for creation and promotion of the co-operative, training of staff, and assessment of projects.

The Entrepreneurship Agenda

Bureaucratic difficulties pose one of the biggest barriers to entrepreneurship in Spain. Therefore, the main priorities in entrepreneurship are to improve the environment in order to facilitate the company creation process. This is being done by reducing regulatory barriers and encouraging informal economy enterprises to adopt a new, temporary legal business structure. ‘Sociedades anonimas’ is an independent unit, legally separate from the owner designed to encourage microenterprises into a more formal business structure. Another priority is to increase the percentage of youth and women-owned firms.

To encourage autonomous regions to focus on the development of new small firms, the State government passed the Ministerial Order of July 15, 1999 establishing a program to promote the development of small-scale projects and businesses. Grants are given to local authorities to establish businesses, promote the role of employment agents, develop new

forms of business assistance for local entrepreneurs, support the creation of new activities and provide a more effective instrument for maximising the employment potential of innovative activities.\textsuperscript{14}

Regional authorities have control over education, training and all areas of ‘competence’. This makes it difficult for the DG-PYME to pursue efforts to integrate entrepreneurship in the education system. Although there is a reported lack of culture in the creation of companies in schools and amongst youth, not much is being done in the schools or universities. Regional authorities promote self-employment, help with the creation of co-operatives, and encourage business formation in rural areas. Many of these regional initiatives are outlined in the EU report \textit{Support Initiatives for New Enterprises: Directory of Measures} (1999).

\textbf{D: Description of Existing Programs and Services in Support of Entrepreneurship}

\textbf{The Regulatory Environment for Start-Ups}

\textit{Taxation}

In 1996, the Council of Ministers established an Inter-ministerial Commission to analyse the fiscal environment for SMEs and to propose changes that would create a fiscal system more responsive to their needs.\textsuperscript{15} After consultations with numerous experts, organizations and institutions, several reforms were undertaken in the taxation area.\textsuperscript{16} To deal with the issue of survival of family enterprises the Ministry of Finance approved new regulations on the Tax on Inheritance and Donations (1996). This has improved the treatment of the transfer of family businesses by reducing the taxation on the \textit{mortis causa} transfer of a business by 95\%. In 1997 this was extended to include \textit{inter vivos} transfers (the donor must be over 65 or handicapped and the assets acquired must be kept for at least ten years). Furthermore, \textit{inter vivos} transfers are no longer considered as capital gains under the Personal Income Tax. This new tax framework discriminates positively in favour of SMEs and has allowed a nearly 10\% reduction in their tax burden between 1998-99, equivalent to more than 420 million Euro.

Tax incentives have also been introduced to encourage R&D investments, including a 10\% tax credit for technological innovation and fiscal deductions to encourage co-operation between businesses and research centres.\textsuperscript{17} Furthermore, changes to the taxation of sole proprietorships, including simplification of tax calculations, have affected more than 2.5 million SMEs.

\textsuperscript{15} \textit{La Piquena y Mediana Empresa en Espana: Politicas y Realizaciones}, 2000, p. 32.
\textsuperscript{17} Ibid, p. 28.
Administrative Simplification

In 1996, the Spanish government launched a process of structural reform to modernise and simplify public administration so as to create a better environment for entrepreneurial activity. Within this framework, a number of measures have been adopted to reduce existing burdens and compliance costs. In addition, an inter-ministerial Commission for Administrative Simplification was created to adopt and follow-up a plan to simplify existing procedures used in the general administration of the State and its autonomous bodies.18

Under the 1999 Plan for Speeding-up and Simplifying Regulations for the Competitiveness of SMEs, government departments are undertaking activity to facilitate business creation by abolishing non-essential procedures and permit requirements, reducing response times, simplifying forms and documents and creating electronic communications options. The creation of one-stop shops for businesses have reduced the time needed to create a business to one day for individual businesses and to 17 days for other companies, down from 1-4 weeks and 19-28 weeks respectively.19

Simplified Reporting

In mid-1999, changes to tax regulations enabled businesses to settle their VAT, personal income tax and corporation tax accounts on a quarterly basis, thus improving their financial situation.

Plans are underway to move to ‘one-form’ for all company creation documents, a Single Business Number and the electronic transfer of business information and reports to government. However, this requires the co-operation of several government departments, which according to the DG-PYME, may take some time to co-ordinate. It is noted that SMEs have been able to electronically submit social security documentation to the Ministry of Labour and Social Affairs since 1997 (the RED ‘Network’ project). In addition the National Institute for Employment (INEM) is analysing all the operations needed to allow employment contracts to be registered electronically so enterprises can complete all procedures without the need to travel.20

Reform of the Co-operatives Law

In order to make it easier to form co-operatives (and thus create more jobs) a new Co-operatives Law (Law 27/99) was passed in 1999 to reduce the number of partners required, ease start-up procedures, provide for more flexible self-regulation and create incentives for partners to create jobs through open-ended contracts.

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19 Ibid, p. 31.
Employment Contracts

Reforms to labour market and employment policies are also underway. Among changes have been a reduction in non-wage labour costs, a reduction in social security costs for the employment of young people (under 30 years of age) and promotion of part-time work, all in the name of encouraging more hiring.

Planned Law on the Creation of a New Company

In Spain a large number of self-employed people operate outside the formal regulatory environment. The biggest barrier for this form of enterprise is bureaucratic red-tape. An individual who wants to start a business has to do 20-30 things, bears high costs to form a limited company and encounters difficulty in meeting all the regulatory statutes. The government wants to help informal economy enterprises take steps to a more formal structure, but in order to do this, company law must be simplified. This requires reducing administrative burden, simplifying accounting requirements, and simplifying the company registration process (e.g., fewer forms, fewer permits, and fewer steps). The creation of the Single Business Window (SBW) has remarkably improved the process of setting up companies. These one-stop information centres supply all documents required to complete administrative procedures for new company creation. Electronic linking of the different regulatory bodies has further reduced administrative burden and simplified processes. As a result, a sole proprietorship can be approved within one day, and depending on the structure, a society can be approved within one week.

A new form of business, ‘the autonomous society’ is being created to encourage micro and informal economy businesses to become part of the formal economy. This new business form, which lies somewhere between a sole proprietorship and a limited liability corporation, can be created with a minimum of cost and legal complexity and is considered a transition phase to a more formal enterprise form. Future plans are to have the business form adopted as law. It will apply for the first two years of a firm’s existence. At the end of that period, the owner will have to decide whether to adopt a corporate structure (regular limited liability Company) or to revert back to a sole proprietorship (‘persona fisica’).

Promotion of Entrepreneurship

The major formal entrepreneurship promotion activity in Spain is the Prince Filipe Prize for Business Excellence, which was initiated in 1998. It is awarded annually by the Ministry of the Economy for achievements in various areas of competitiveness. A Young Entrepreneurs Award is also given.

The DG-PYME is beginning the process of trying to build networks and create more awareness of government support for entrepreneurship through events. For example, a Salon d’Emprende was held May 10-12, 2001 as a high profile event to attract SMEs and people interested in starting businesses.
Entrepreneurship Education

Efforts to integrate entrepreneurship education in the Spanish educational system are not well developed at the present time. The national Minister of Education has introduced enterprise-oriented curriculum in compulsory secondary education and specific vocational training, but not among primary students. Because most autonomous regions manage their own affairs, it is difficult to assess the real impact of these policies. 21

At the post-secondary level, there are very limited efforts to expose students to entrepreneurship. The recent inclusion of a mandatory module on entrepreneurship in vocational training programs will expose all students to entrepreneurship; the impact of this remains to be seen. Entrepreneurship courses at the university level are very limited.

Having said that, some localized initiatives aim to expose post-secondary students to entrepreneurship and business creation. The Escuela de Organizacion Industrial (Industrial Organization School) has established a SME network to promote the exchange of experiences amongst students who have set up their own companies. These students have access to a training consultant to help with the viable development of their projects and to obtain the basic tools for managing a business. Once the business has started, a team of training consultants helps the entrepreneur in the initial steps of setting up the business. Since 1989, over 6,000 students have participated in the program and over 2,100 companies, employing almost 15,000 people, have been started. 22 The Confederation of Galicia Businesses (CESEGA) also runs a training program with courses for young people from vocational colleges on developing and assessing business ideas, legal forms of business, start-up procedures, taxation and other commercial aspects. This is part of the Galician government initiative to promote self-employment and is supported by the Ministry of Labour and Social Affairs.

Small Business Support Network: Training and Counselling

Information support for new and existing SMEs is offered by both State and autonomous regional governments.

Information and Assistance

SME information, advice and counselling are provided by the State through the SME Information Area managed by the DG-PYME. It was created in 1997 and uses personal visits, fax, conventional mail, electronic mail, a Website and 900 numbers to service the SME community.

A network of ‘one-stop shops for businesses’, developed by Chambers of Commerce and Industry, has been launched by the Ministry of Public Administrations in co-operation with all ministries involved, to create an integrated system providing future entrepreneurs with information and advice on the formalities of starting a business. These centres are located in

22 Ibid, p. 27.
Chambers of Commerce and Industry and connected electronically to various public authorities. The procedures for creating a business can be completed in one day. New entrepreneurs are assigned an Advisor who will also comment on their business proposals including suggesting possible alternatives. In areas where these centres exist, the number of people who actually set up a business from those who intend to, has doubled from 14% to 27%. 23

**Self-Employment and Entrepreneurship Training**

All areas of ‘competency’ and training have been transferred to the Regional Authorities from the State, so self-employment and entrepreneurial training programs are regional in nature and vary across regions. Consequently, there are several different kinds of centres in Spain that support the creation and development of self-employed persons and new businesses through training and counselling. CESEGA (Confederacion de Empresarios de Galicia) operates the Galician Centre of Services for Enterprises to promote the development of new entrepreneurial initiatives, mainly for the self-employed. The Training and Business Start-up-Programme, run by CEEI de Castilla y Leon, supports the creation and development of SMEs. Training consists of help with strategy, information systems, marketing, production, quality and so on. Mentoring support is sponsored by the Agency for Economic Development of Castilla y Leon; the cost of tutoring services during the first 12 months of a business is subsidized by up to 70% for a maximum of 25 hours per semester. 24 These are only some examples of regional activity.

**Business and Innovation Centres and Incubators**

A network consisting of 21 Business and Innovation Centers across Spain aims to stimulate and encourage the creation and/or development of innovative enterprises. These BICs offer space, shared logistical services, advisory services, and post-start-up support. This encompasses evaluation and assessment of projects, entrepreneurial training, technical assistance, marketing advice, business planning assistance and financing support. The average survival rate of firms started in BICs is 90% after five years, which is significant. ADELA is a Spanish network of business incubators and development agencies that supports starters through the initial stages of enterprise formation. All incubators provide logistical support through office space and secretarial support. Club de Inventores is an organisation that supports the initiatives of inventors and unemployed persons and helps them to start up new enterprises. It does this through training and by acting as an ‘incubator of enterprises’.

**Support to Strengthen Existing Self-Employed Enterprises**

The DG-PYME, with support from the High Council of the Chambers of Commerce and Industry, aims to provide the self-employed with the information and advice necessary to

consolidate their businesses, gain access to new markets and improve their competitiveness. This program, The Integral Business Promotion Plan for the Self-Employed, consists of three phases: 1) an information and awareness-raising campaign for local groups of self-employed people, 2) two and a half month’s worth of consultancy services to help them formulate a strategic plan to consolidate their businesses and improve their competitiveness, and 3) collective training sessions on management techniques and practical case studies. The target is to reach 800 self-employed persons across Spain with 16 hours of specialized advice, 80 hours of collective training and 40 ‘working sessions’.

**Target Groups**

A number of target groups have been identified for self-employment support, including women, the unemployed, people with disabilities and youth. Initiatives to provide training, tutoring, technical assistance, business planning support and financing are offered by DG-PYME, the Ministry of Labour and Social Affairs (DG de la Juventud; DG de la Mujer), the Chambers of Commerce and Industry and the Autonomous Communities.

**Women**

The labour force participation rate of women is low, at 37%. Women made up only 26.8% of the self-employed in 1998. Women are increasingly turning to self-employment as a way of creating jobs for themselves, but they reportedly have difficulties in creating a company – to be seen as a boss, to obtain financing and to secure contracts. The DG-PYME has targeted women to explore ways to increase their business ownership rate. It is working with women-oriented organizations to assist them in helping more women start businesses and has an agreement with the Instituto de la Mujer (Institute for Women) of the Ministry of Labour and Social Affairs and the Chambers of Commerce and Industry to facilitate this process. Each of the regional governments has a unit for the development of women entrepreneurs. The Instituto de Fomento de Andalucía (IFA) runs the VIDEM Centre for Projects Promoted by Women. The objective is to help women set up their own businesses by providing information, orientation, technical assistance, management training and tutoring. A project in Catalonia provides micro-loans to women in amounts up to 2 million pesetas.

**The Unemployed**

There are a number of initiatives and programs geared to promoting self-employment among unemployed persons. These are both national and regional in nature and often emphasise particular regions (e.g., rural or declining regions or regions with higher levels of unemployment), sectors (e.g., tourism, agriculture) and the use of co-operative forms of

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enterprise. The National Employment Institute (INEM) has two initiatives to support unemployed people to start up new businesses as a ‘co-operative of workers’, either by reducing their social security payments by 50%-100% or by advancing the whole amount of unemployment indemnity. It also supports unemployed disabled persons to become self-employed by offering technical assistance and help with feasibility studies. In some programs, employment grants are also provided to these start-up enterprises if additional jobs are created. These grants range from 3,000-7,200 Euros per job created.

**Youth**

The unemployment rate for youth is estimated to be 23%. Self-employment is seen as way of creating employment. At the national level, DG-PYME has an agreement with the Instituto de la Juventud (Youth Institute) of the Ministry of Labour and Social Affairs but, itself, is not doing anything specifically to promote entrepreneurship among youth or to help young entrepreneurs. The DG de la Juventud has a program that helps to develop entrepreneurial skills in young people and supports them with subsidies based on the investment cost of a new business and the number of jobs created. At the regional level, there are a number of different initiatives to stimulate youth self-employment. The Young Enterprise Programme supports the creation and development of new enterprises by young entrepreneurs (defined as persons under 35 years of age), especially young women. Clients receive training, tutoring and help in elaborating a strategy and are offered subsidies of up to 12,000 Euros for this part of the program. They are also eligible for interest rate subsidies and loans of 30,000 to 300,000 Euros for the initial business investment. In Madrid, the Department of Agriculture offers a program to encourage young farmers to start their own agricultural-related business. The incentive is a reduction of their income tax payments by 25% during the first five years of existence. In Andalucia, subsidies of 40%-50% of start-up investment costs are offered to young people and women who pursue entrepreneurship through the formation of cooperatives. Young people who have difficulty finding jobs are offered subsidies of up to 4,500 Euros if they start a business.

**Networks**

There is limited information on the existence of entrepreneur-related networks in Spain. The Chamber of Commerce and Industry appears to play the most strategic role in facilitating networking activity among entrepreneurs. Other networks are limited. A National Business Angels Network has recently formed as part of the European Business Angels network but there is no information on their program of activity. There is a Spanish National Business and Innovation Centers Association, which networks the 21 BICs across the country, a Spanish network of business incubators and development agencies (ADELA), and the Technology

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28 www.inem.es.
30 Ibid, p. 64.
32 Ibid, p. 65.
33 Ibid, p. 124.
Parks Association of Spain. There are only a handful of university researchers specializing in the entrepreneurship/SME research and there are no formal mechanisms to promote interaction among them.

**Access to Financing and Seed Capital**

Although financing is perceived is one of the problems for SMEs, a detailed analysis of the situation suggests that it is not so much availability of capital but, channelling it to projects with the greatest potential. In this sense, it is necessary to take into account cultural elements, the insufficient organization of the Venture Capital Sector and the existence of information asymmetry between promoters and investors.

**Credit Guarantee System**

Spain is one of the few countries in this study which makes use of Mutual Guarantee Funds to support the financing of new and small firms. Under the Mutual Guarantee System, partnerships are formed with groups of firms (set up as co-operatives) and funds are allocated so that the owners of these firms can collectively guarantee each other’s loans. There are now 18-20 such social guarantee programs in place involving about 30,000 firms. The total loan value of these funds is 1 million ECU.\(^{34}\) There are three levels of guarantee for loans under the Mutual Guarantee System. The entrepreneurs themselves co-guarantee each other’s loans, a portion is guaranteed by the State and Compania Espanola de Reafianzamiento, S.A. (CERSA), and the rest by a public refinancing company. The default rate on loan guarantee support is about 1.5%.

**ICO-PYME and ICO-Crecion de Empresas**

The ICO, an official credit institute of the government, provides money to Spanish banks to relend to SMEs for the creation of companies, innovation and export development. Loans are made by banks at an interest rate of prime plus 5%. The ICO-PYME fund for 2001 totals 500,000 million pesetas. In 2000, 52% of clients were microenterprises\(^{35}\) and during 1999, over 92% of clients were firms with fewer than 50 employees.\(^{36}\) The start-up fund (ICO-Creacion de empresas), for which 50,000 million pesetas has been allocated, is new in 2001. There are no sector criteria!

**Micro-Credit**

The government has recently moved to micro-credit funds to fill the gap for small amounts of financing (loans of less than 4 million pesetas). DG-PYME is currently studying the possibility of extending the Cataluna project that provides micro-loans to women.

\(^{34}\) Conversion is 166.386 ECUs/pesetas.

\(^{35}\) Políticas de financiacion y acceso al capital, DG-PYME, 2001.

Risk Capital

In relation to risk capital, measures of Spanish Economic policy are oriented towards regulations to facilitate angel investments and to stimulate risk capital investments in projects with the highest innovative potential (in accordance with the European Investment Bank, EIB). The government is involved in ‘participative loans’ – loans that are halfway between debt and equity. One of these funds is provided by the National Innovation Company (ENISA). This mezzanine financing fills a gap for medium-sized firms by facilitating their capitalization. The average ‘loan’ is 600,000 EURO and ranges from a maximum of 900,000 EURO to a minimum of 240,000 EURO. The lending companies of these funds are private and during the period of the loan, ENISA participates as a non-voting member on the Board of each client firm, helping them to make decisions.

Venture Capital

Law 1/99 governs venture capital organizations and their management bodies and provides a stable framework for the operation and taxation of venture capital companies and funds. A number of tax exemptions and deductions have stimulated the development of new providers, but very little venture capital finds its way into seed and start-up companies, only 16% in 1999. The industry as a whole is still underdeveloped.

Angel Networks

There is no record of any active business angel networks although the National Business Angels Network has recently been created.

Research: Entrepreneurship/SME Issues

Knowledge about the state of entrepreneurship and small business in Spain is not well developed. The Spanish National Statistics Office does collect and report data and statistics on the composition and employment of the SME sector and, through the General Register of Enterprises (DIRCE), data on the registration and deregistration of enterprises. They started producing reports on start-up and death rates in 1996, pushed by Eurostat. But there is limited knowledge on the demographic make-up of business owners apart from some research on the entrepreneurial make-up in certain regions.

IKEI, a research consultancy institute, is the Spanish member of the European Network for Small and Medium-sized Enterprises Research and prepares the Spanish report for the European Observatory for SMEs. They have done some research on the demographics of business starters and have found that the majority is male, between 40-45, with lower

38 Ibid, p. 28.
education levels but some vocational skills. Over 40% of starters were unemployed prior to becoming self-employed and of the 51% who were employed just prior to starting a business, many were previously self-employed. This suggests a large number of serial business owners, people who move in and out of self-employment as they pursue opportunities.

SECTION 2: EXPERIENCES/EVALUATION OF IMPACT

Evaluating the Effect of Programs and Policy Orientation

The impact of government policy on an improved economic environment is documented in La Pequena y Mediana Empresa en Espana: Politicas y Realizaciones, 2000. The impact of liberalization efforts, fiscal measures, labour market measures, SME financing measures, internationalization measures, efforts to promote innovation and technology development and measures to provide business information to SMEs have been, to some extent, quantified.

The total number of enterprises in Spain increased by 3.3% between 1996-98; the percentage with no employees decreased from 56.75% in 1996 to 54.6% in 1999. The increase in the total number of firms is attributed to government policies to encourage firm creation and the decrease in the percentage of firms with no employees to the transformation of these firms to employers. Stimulated by employment incentives for the hiring of youth, women and people with disabilities, more than 60,000 businesses that had no employees prior to the reforms have created jobs.\(^40\) Between 1996-1998, a total of 1,800,000 jobs were created in the Spanish labour market.\(^41\) Results of actions to reduce taxation and to simplify tax reporting (including electronic filing) has had the impact of reducing indirect fiscal pressure on SMEs and administrative burden. Labour market reforms and changes to employment regulations have resulted in increased flexibility in the hiring of temporary and part-time workers and in the ‘termination of employment contracts for just cause’, thus contributing to enhanced competitiveness of the SME sector. Over 1 million indefinite contract employees were hired by firms with less than 25 employees during the 1996-98 period.\(^42\) The effectiveness of employment policies resulted in a reduction of the unemployment rate from 22.77% in 1995 to 15.45% in 1998. According to the Spanish government, post-1996 efforts to eliminate monopolistic industries and privatize services has led to new business opportunities and development of auxiliary production and services in the telecommunication and energy sectors.

The ICO-PYME line of financing has significantly improved SME access to financing, resulting in increased production capacity and the modernization of equipment and production processes. During the 1996-99 period, 1,194,679 million pesetas was specifically earmarked for SMEs, enabling the mobilization of 2.8 billion pesetas, primarily to firms with less than 50

\(^{40}\) La Pequena y Mediana Empresa en Espana: Politicas y Realizaciones, 2000, p. 62.
\(^{41}\) Ibid, p. 62.
\(^{42}\) Ibid, p. 64.
employees, resulting in the generation of 275,000 jobs. Businesses with less than 10 employees made up 64% of ICO-PYME clients and received 42% of the loan amounts.

For the provision of SME information, the Spanish government measures the number of Website visitors, the number of clients and the percent of requests for information on the starting of a business. Since 1997, the Area de Informacion Electronica (Website) has received more than 300,000 requests for information, about half of which related to the starting of a business; other requests are for SME assistance programs, competitiveness programs, technology and innovation programs, etc. The SME Information Centre has received more than 42,000 requests for information, 60% of which related to information on starting a business. The majority of contacts (60%) are by telephone, 15%-20% by personal visit and 15% by email.

Impact data is reported for export promotion (e.g., PIPE, ICO-ICEX), innovation and technology development programs in terms of the total number of SME clients, dollars invested and business generated.

SECTION 3: OBSERVATIONS AND CONCLUSIONS

General View

Although there is a National Policy on SMEs and a strategic effort to facilitate the creation of enterprises, most schemes are targeted to people who have already made the decision to start a business. The major policy focus is on the set of opportunity factors – reduction of administrative and regulatory burden, reduction of barriers to business creation and improved access to financing, information, advice, and management skills. Policies to create widespread promotion of an entrepreneurial culture or initiatives to encourage young people to pursue entrepreneurial careers are limited.

According to GEM 2000, there are signs that the entrepreneurship culture is taking root in Spain, but people still prefer to have a stable income from employment in a state-owned enterprise or the public sector. The authors of this report state their view that excessive regulation and regulatory differences between autonomous regional governments tend to undermine attempts to support programs for entrepreneurship. Entrepreneurial activity also tends to be localized in cities such as Madrid, Valencia, Barcelona and Bilbao. Availability of financing is seen by experts as the major obstacle; continued reform is required to increase the country’s banking support for entrepreneurial ventures.

In terms of what needs to be done, experts at IKEI suggest there should be more emphasis on entrepreneurial training for new entrepreneurs and greater co-ordination of business

43 Ibid, p. 66.
44 Ibid, p. 79.
support activity. At the present time ‘there are hundreds of places you can go’ to get information on starting a business (interview with IKEI, March 2001). IKEI’s assessment is that there is too much fragmentation and that lots of efforts are being duplicated.

Assessment of Entrepreneurship Policy Emphasis

The Spanish Government has made a lot of progress in improving the regulatory and operating environment for new and existing small firms. Reducing the costs, regulatory requirements and legal barriers associated with starting a business has been, and still is, a priority. One-stop guichets have simplified the start-up process and several government and non-government organizations have initiatives in place to encourage the business creation and self-employment process. The DG-PYME and the Observatory for SMEs are currently placing a priority on New Business Creation. Special efforts are targeted to the unemployed, particularly young people and women. Subsidies and incentives are provided to facilitate the transition from unemployment to self-employment. Co-operative enterprises are encouraged. The financing gap for new and small firms is being met by the existence of a mutual guarantee system and the recent development of micro-loan programs. A network of small business innovation centers, incubators and technology parks stimulate the creation and development of innovative enterprises.

Spain is clearly focused on new business creation in its SME policy! It works co-operatively with the autonomous regions to encourage the development of small-scale projects and businesses, the development of new forms of business assistance for local entrepreneurs and the creation of new activities. Reducing unemployment is a compelling driver of these initiatives. The government is also concerned about the high level of informal economy enterprises and is developing incentives and support to enable the owners of these enterprises to become part of the formal economy. Proposed new business incorporation laws are being developed to assist in this process.

In the areas of Skills, a mandatory entrepreneurship module has been introduced in vocational school training programs but university programs are limited at the present time. The Ministry of Education is supporting curriculum intended to promote the notion of enterprise among secondary students but these efforts are fairly recent. Having said that, there is evidence of localized initiatives that aim to expose post-secondary students and youth to entrepreneurship, including the Young Enterprise Programme and the Industrial Organization School.

Widespread efforts to promote entrepreneurship are only just beginning.

Insights, Observations and Lessons Learned

- Spain is one of the lesser developed of the developed economies in this study, with a GDP per capita of just over US$17,300. It has a very high self-employment rate (over 20%), a high proportion of SMEs (99.9% of all enterprises) and a large share of private sector employment in SMEs (78%). Over 55% of firms do not have any employees and 95% have fewer than 10 employees.
• It has a higher annual business birth rate than other economies in this study, over 13% in 1998, and a high level of ‘turbulence’.

• At the same time it has a high unemployment rate relative to the EU average and the labour force participation rate of women is low (less than 40%).

• There is an adequate supply of private sector SME financing but progress is needed to increase the supply of risk capital and formal venture capital, and to reduce the asymmetry of information for the financing of R&D and innovation projects.

• There is a considerable degree of regional variation in enterprise density and business start-up rates, as is the case in the other countries in this study.

• The government’s goal is to create a more favourable environment for the creation of a company and at the same time to reduce the share of the SME sector operating in the informal economy.

• Spain has had a SME focus since the 1980s. However, this focus broadened in 1996, when the DG-PYME was created within the Ministry of the Economy. Prior to this, emphasis was placed on industrial SMEs. Interest in the area has increased substantially in the past five years.

• Spain has been heavily influenced in its broader-based SME policy by the European Union. With EU funds, the State government has implemented several national SME measures (e.g., one-stop shops, financial assistance programs) and provided incentives to the Autonomous Regions to undertake complementary SME support measures.

• Spain has taken a horizontal approach to SME policy development. The Ministry of the Economy has set up inter-ministerial councils, an Observatory on SMEs for regular dialogue on SME policy issues and works co-operatively with the Autonomous Regions. Among key State ministries are Finance, Public Administrations, Labour and Social Affairs, and Agriculture. The Chambers of Commerce and other major business and industrial organizations are also involved in the delivery of small business support initiatives and networks.

• There appear to be two areas of focus for SME development in Spain; one is on new business creation and the other is on the strengthening and development of the existing SME base. To support new business creation, the Spanish government is reducing barriers to business formation and offering subsidies and grants to encourage more people to become self-employed, particularly women, youth and the unemployed. A number of One-Stop Business Shops enable all the steps of starting a new business to be completed in one day, and in 2001, the government established a start-up fund (ICO-Creacion de empresas) through the Credit Institute to finance new business creation. To support SME development, the focus is on increasing access to financing for investment, R&D and internationalization and stimulating employment creation. The government is also introducing measures to facilitate the transition of micro-enterprises from the informal to the formal economy and to make it easier for these
firms to hire employees (e.g., labour market and employment legislation reform; job creation incentives). The major emphasis is on employment creation.

- Improving access to SME information and simplifying the business creation process are priorities. The SME Information Area (website, SME database, 1-800-phone lines, etc.) and the network of One-stop Business Shops are part of the solution.

- There is a large emphasis on improving access to small business financing through a system of Mutual Guarantees, government-funded and bank-delivered SME credit lines, interest rate subsidies, and grants and subsidies for feasibility studies, investment in plant and equipment and job creation. This is one of the only countries in this study which makes such broad use of grants and subsidies to reduce start-up costs and stimulate new job creation and business investment.

- There is some emphasis on the development of business incubators and co-operative networks of SMEs.

- There is limited focus on the promotion of an entrepreneurship culture, and the promotion of entrepreneurship as a career choice through entrepreneurship education, in spite of the high unemployment rate, especially among youth. There is an initiative to introduce a compulsory entrepreneurship module in vocational programs of study but few opportunities exist for university students to take entrepreneurship courses.

- As a way of reducing unemployment levels special incentives are offered to encourage women, youth and the unemployed to become self-employed or start their own businesses through ‘co-operatives’. SMEs are also offered special employment grants and subsidies if they hire women and youth (DG de la Juventud and DG de la Mujer).

- Data on SME dynamics is collected and reported by the National Statistics Office but the government does not, at this point, publish a State of Small Business in Spain report. There is limited research on the Spanish entrepreneur and only a small number of academic researchers specializing in producing knowledge in the entrepreneurship/SME field. There are no formal networks for these researchers to share knowledge and insight.

- Key to success in the implementation of the SME program will be the ability of the Ministry of the Economy and the DG-PYME to manage the horizontal relationships among the various ministries needed to shape the environment for entrepreneurship, as well as the collaborative co-operation of the autonomous regions.
ANNEX: OVERVIEW OF THE SME SECTOR

Definition of Small Business/SME

The definition of a SME in Spain is a firm with less than 250 employees, the definition recommended by the European Union. However, firms with no employees are referred to as ‘empresa sin asalariados’, those with fewer than 10 employees are micro-enterprises, those with 10-49 employees are small businesses and those with 50-250 employees are medium-sized enterprises.

The word ‘entrepreneur’ is not widely used in Spain because it does not translate well into Spanish. The word ‘negocio’ (business) is used but because of its profit-orientation has a negative image.

Number of SMEs and SME Employment

In 1999 there were a reported 2,595 million enterprises in Spain, 54.6% with no employees, 39.4% with 1-9 employees (micro-enterprises), and 5.2% with 10-49 employees. Less than 1% of firms had more than 50 employees (see Table 1). SMEs constitute 99.9% of all private sector firms and are responsible for 78% of total private sector employment. This share of SME employment is much higher than for the other countries in this study except for Taiwan, which is about the same. (It should be noted that 79.5% of wage earners in Spain are in the private sector and 20.5% in the public sector\textsuperscript{46}). Although SMEs generate 28% of total private sector sales, 98.5% of Spanish firms have annual revenues of less than 500,000 Mptas. Spain is truly a country of very small firms!

Table 1 - Distribution of Spanish Firms by Size (1999) and Employment (1998)

<table>
<thead>
<tr>
<th>Size of firm</th>
<th>Number of firms 1999</th>
<th>Distribution of firms (%)</th>
<th>Employment 1998</th>
<th>Distribution of employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No employees</td>
<td>1,417,221</td>
<td>54.6</td>
<td>1,388,116</td>
<td>10</td>
</tr>
<tr>
<td>1-9 employees</td>
<td>1,021,248</td>
<td>39.4</td>
<td>5,172,144</td>
<td>37</td>
</tr>
<tr>
<td>10-49 employees</td>
<td>135,114</td>
<td>5.2</td>
<td>2,652,020</td>
<td>19</td>
</tr>
<tr>
<td>50-249 employees</td>
<td>18,804</td>
<td>0.7</td>
<td>1,674,960</td>
<td>12</td>
</tr>
<tr>
<td><strong>Subtotal for SMEs</strong></td>
<td><strong>2,592,387</strong></td>
<td><strong>99.9</strong></td>
<td><strong>10,887,240</strong></td>
<td><strong>78</strong></td>
</tr>
<tr>
<td>250 or more employees</td>
<td>3,005</td>
<td>0.1</td>
<td>3,070,760</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2,595,392</strong></td>
<td><strong>100.0</strong></td>
<td><strong>13,958,000</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>


About two-thirds of Spanish enterprises are sole proprietorships (‘personas fisicas’), 5% are autonomous societies, 22% are limited liability companies and about 1% are collective or co-

\textsuperscript{46} The Spanish Economy, \textit{Quarterly Bulletin}, July 2000, Ministry of the Economy and Finance, Table 3.
operative societies. Business structure differs significantly by size of firm. Over 85% of enterprises with no employees are sole proprietorships; this decreases to 46% for businesses with 1-9 employees and to less than 8% for businesses with 10-49 employees.

**Sector Distribution of Enterprises**

The majority of Spanish enterprises are in the services sector (48.6%) followed by commerce (31.2%), construction (10.8%) and industry (9.4%). However, the Industry sector employs proportionally more people (9% of firms and 26.6% of employment). See Table 2. The majority of microenterprises operate in the commercial, transportation and services sectors. The average number of employees per firm is 7.99.

**Table 2 – Distribution of Enterprises and Employment by Sector, 1998**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Enterprises (%)</th>
<th>Employment (%)</th>
<th>Average Employment per Enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>9.4</td>
<td>26.6</td>
<td>15.11</td>
</tr>
<tr>
<td>Construction</td>
<td>10.8</td>
<td>12.4</td>
<td>7.60</td>
</tr>
<tr>
<td>Commerce</td>
<td>31.2</td>
<td>20.2</td>
<td>5.18</td>
</tr>
<tr>
<td>Services</td>
<td>48.6</td>
<td>40.8</td>
<td>7.82</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>7.99</strong></td>
</tr>
</tbody>
</table>


**Self-Employment**

The self-employment rate exceeds 20%, but there are a large number of informal enterprises in Spain. These are self-employed persons who operate under unlimited liability forms, pay personal taxes, have no formal employees and depend on family members working as unpaid labour in the business. Many of these businesses operate outside the formal regulatory structure and thus have difficulty accessing financing and pursuing growth.

**Growth Rates in the SME Sector**

For the 1984 to 1998 period, the average annual growth rate for incorporated and unincorporated businesses in Spain was 1.7%, compared to an average rate of 0.3% for 23 OECD countries (Wennekers and Thurik, 2001). However, this growth rate is increasing. From 1999 to 2000, the number of firms increased by 3%, with the highest increase (9.4%) in the number of firms with 50-249 employees. The number of solo firms increased by 2.1%, micro-enterprises by 3.6% and small enterprises by 8%. The number of large firms increased

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by 6.3%. Over three-quarters of the net increase in the number of firms was in the under 10
employee category, primarily those firms with 1-9 employees.49

Business Start-up, Survival and Exit Rates

The birth rate of new businesses in 1998 was 13.7%, up from 13.1% in 1996.50 Although this
is considered a high start-up rate (the second highest reported for the countries in this study),
Spain is considered a ‘medium entrepreneurial activity country’ according to GEM 2000.51
GEM 2000 reports that 4.7% of the adult population was either involved in the start-up of a
business (nascent entrepreneur) or involved in the ownership a new firm (one less than 42
months old). This ranged from 16% in Brazil to 1% for Ireland. Interestingly, in Spain, there
was no significant difference between this rate for men and women. The Total Entrepreneurial
Activity rate was 4.2% among adult women and 4.9% among adult men. On average in GEM
2000 countries, men were twice as likely as women to be involved in entrepreneurial activity.

In 1998 the survival rate of new firms after three years was 61%. The net creation rate
(births minus deaths) was 2.5% in 1996 and 1.5% in 1998.52 This suggests that the exit rates
were 10.6% in 1996 and 12.2% in 1998 rendering turbulence rates (entry rate plus exit rate) of
23.7% and 25.9% respectively.

Job Gains and Losses in Spanish SMEs

No information available.

Regional Variations

There is a considerable degree of variation in entrepreneurial activity among Spain’s 17
autonomous regions. Almost half of Spain’s businesses (48%) are located in three of Spain’s
autonomous regions – Cataluna (19.44%), Andalucia (14.27%) and Madrid (14.21%).53
Although the most recent available data is for the 1990-95 period, it reveals that in 1995, the
number of new businesses per 1,000 of the labour force ranged from 17.0 in Rioja to 3.9 in
Pais Vasco (an average of 6.3 for all of Spain).54 In 1995, the number of new enterprises per
100 existing enterprises ranged from 2.7 in Pais Vasco to 9.9 in Rioja (an average of 4.3 for
the country).55 The most entrepreneurially active regions (above the average for the country
on both indices) were Rioja, Aragon, Canarias, Ceuta y Melilla, Castilla y Leon,
Comunidad Valenciana, Cantabria, Murcia and Asturias.

51 Taken from the General Register of Enterprises of the Spanish National Statistics Office.
55 IKEI, 1997, p. 46.
56 Ibid, p. 44.
ORGANIZATIONS CONSULTED

1. DG-PYME, Ministry of Economy, Madrid
2. IKEI Research and Consultancy Service, Donostia-San Sebastian
3. European Commission – Project Officer for BEST project – Spain

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CHAPTER NINE

THE CASE OF SWEDEN

INTRODUCTION

Sweden has an estimated population of 8.9 million that grew by 0.02% in 1999. This is the lowest population growth rate of the countries in this study. Sweden also has the lowest rate of immigration, 0.86 immigrants per 1000 population in 2000. The purchasing power parity of GDP in 1999 was US$184.0 billion – US$20,700 per capita. The annual GDP growth rate for the 1995-99 period was 2.5%. Agricultural output to GDP is 2.2%, manufacturing output to GDP is 30.5% and service sector output to GDP is 67.3%. The private sector contribution to GDP is 57%. Much of the public sector contribution is due to the Swedish government’s active enterprise ownership policy. State-owned companies account for about 25% of the domestic corporate sector and, because most of the large private sector corporations have a majority of their operations outside Sweden, the development of state-owned companies is considered of great importance for Swedish economic growth. Government enterprises employ 200,000 people in Sweden.

Since the mid-nineties the Swedish economy has experienced a strong and widespread economic boom with rising employment. 2000 saw an increase in employment of 91,000 persons and an increase in the GDP of 3.6%. Even though there are some signs of a weakening trend, recent forecasts are that the Swedish economic situation will continue to improve for the next few years. According to the latest forecast from the OECD the economic growth rate in Sweden will be 2.8% in 2001 and around 3% in 2002.

There were 4.3 million people in the labour force in 1999, resulting in a labour force participation rate of 76% (the highest in this study). The labour force participation rate for men in 2000 was 76% and for women, 72%, the highest female participation rate in this study. The unemployment rate in 2000 was 4.7%, but during the 1998-2000 period, the

2 Ibid.
3 Ibid.
9 Ibid.
labour force decreased by approximately 199,000\textsuperscript{12} and the number of employed people decreased by around 327,000.\textsuperscript{13} In 2000, 68% of all employees were employed in the private sector and 32% in the public sector. Since 1990 the share of private employment has increased five percentage points. Employment decreased in both sectors in the first years of the 1990s, but the subsequent recovery was much weaker in the public sector. Accordingly, the relative size of the private sector has increased.

About 10% of the labour force is self-employed; women constitute 25.6%.\textsuperscript{14} There are approximately 500,000 SMEs in Sweden, excluding firms in primary industries and public-sector owned enterprises.\textsuperscript{15} The SME sector accounts for 59% of the total turnover; its share of the total value-added in the Swedish economy is 57%.\textsuperscript{16} Combined with the own-account self-employed, SMEs employ 60% of the private sector workforce, but just less than 40% of the total workforce.

The 2000 Global Entrepreneurship Monitor ranked Sweden the 16\textsuperscript{th} most entrepreneurial of 21 nations on its Entrepreneurial Activity Index (TEA).\textsuperscript{17} One in 50 adults is currently trying to start a business (2%) and one in 51 (2.1%) is involved in the ownership of a new firm that is less than 42 months old (2%). Its overall 4% on the TEA index puts it in the group of low entrepreneurial nations, even though it ranks 10th on the new firm prevalence rate. About 170,000 people were actively trying to start a business in 2000.\textsuperscript{18}

\section*{SECTION 1: DEVELOPMENT AND EVOLUTION OF SME POLICIES}

\subsection*{A: Swedish Industrial Policy}

Swedish industrial policies have traditionally focused on large enterprises and individual sectors. In the 1970s and early 1980s, industrial policy was associated with a sector or company-oriented policy aimed at subsidising industries in recession. Policies regarding small enterprises and entrepreneurship have grown over the last two decades. Today the industrial policy is more offensive and future-oriented and covers a wider area. It takes SMEs into account and focuses on how to strengthen Sweden’s industrial and international competitiveness by promoting good conditions for growth and renewal. This includes, among other things, a better and simplified regulatory system, better return on capital and fostering entrepreneurship among all citizens. This represents a shift in perspective from existing enterprises to an increased interest in the processes that contribute to the creation and survival

\textsuperscript{12} In relation to the total labour force in 1990 this is a decrease by about four percent.

\textsuperscript{13} In relation to the total number of employed 1990 this is a decrease by about seven percent.

\textsuperscript{14} \textit{Small and Medium Enterprise Outlook}, OECD, 2000, p. 222.

\textsuperscript{15} \textit{SMEs in Sweden}, 2001, p. 16.

\textsuperscript{16} Ibid, p. 18.


\textsuperscript{18} Ibid.
of companies. Earlier, policy also focused on the owners of companies. Today there is an increased interest in the relationships between enterprises. This is based on evidence that networks and clusters stimulate links between enterprises and promote the start of the growth process.  

There are several reasons why small enterprises have come to be a more prioritised target of industrial policy. The main reason is that SMEs have become an increasingly important source of employment and growth. Studies have shown that large enterprises no longer create the same number of jobs, due to globalisation and the rationalisation of operations. Small enterprises, then, can replace larger enterprises in providing employment opportunities. Furthermore, the public sector in Sweden has been downsized and its relative share of employment decreased, even though it is still of significant importance. A more favourable economic environment and a balanced Swedish State budget were two basic conditions in Sweden’s development of a more proactive industrial policy. Thus, the government has obtained more room to manoeuvre in the domain of SME policy. At the same time, the emphasis of Swedish SME policy has shifted from selective, delimited policy measures to a more general and horizontal policy approach. The objective of the government is, in other words, to promote institutional favourable preconditions for small and medium sized enterprises in general, i.e., rules of the game, access to markets, financial support, etc. This policy change has been primarily in response to new imperatives and, to a marginal extent, to evaluations of previous policy measures. Views have shifted on the role of the state in economic growth, but today the main opinion is that it is important to find a balance between the government’s intervention and matters left to the ‘market’. The major task for the state has less to do with constraining market forces and more to do with creating good conditions for individuals, enterprises and regions to pursue ideas. This involves good management of natural and human resources, the creation of opportunities and removal of obstacles for people to realise ideas, and promotion of an entrepreneurial spirit among the self-employed and employees.

NUTEK’s 1999 report, *Growth 2000 – an industrial policy for the new millennium*, enumerated Sweden’s structural problems as a comparatively low number of business start-ups, large placement problems on the labour market, too little R&D collaboration and weak regional labour markets. Thus Sweden’s industrial policy priorities were laid out as improved production efficiency and capacity, improved labour force competence (especially in the science and technology areas), increased investment in R&D and the use and application of information technology, increased innovation, stronger regions and increased entrepreneurship.

**B: SME Policy Development**

SME support in Sweden can be traced back to 1962 with the creation of Norrlandsfonden for financing companies in the northern part of Sweden. In 1968, the first Ministry of Industry was created along with the Swedish Board for Technical Development. In 1973, the Swedish

19 How do macro-economic developments affect SMEs?, NUTEK, INFO 393-1996.
Board for Industrial Development was established and in 1978, the Regional Development Fund came into being with one regional fund located in each county in Sweden. The Swedish Industrial Development Fund was created in 1979 to encourage profitable growth and innovation in the SME sector. Government Acts for Industry Policy and Industrial Development were brought into effect in 1980 and 1982.

In 1991, NUTEK was formed from the merging of three different central agencies for development and the central agency for energy questions. This new structure put into place a system for the development of innovation. In 1993, proactive efforts to stimulate new enterprise creation began. NUTEK started offering a Start-up phone line service, Startlinjen, to answer questions from people wanting to start a business. The same year, the ‘Flashes of Genius’ project was created to expose 6-11 year olds to innovation and inventing activity (Snilleblixtarna). In 1994, the Regional Development Funds were transferred into ALMI Företagspartner AB which set up 24 ALMI offices; the Foundation for Innovation Centre SIC was set up to provide early stage financing for innovative firms; the Swedish Innovation Centre was established; and the Business Advisors for Women project was launched. In 1997, several Business Innovation Centres were funded, Industrial Development Centres were set up to stimulate development of processes, competence, and products in technically-oriented SMEs, and efforts to promote entrepreneurship education in schools was initiated. In 1998, the Small Business Initiative was funded from EU Structural Funds. A Committee on Small Enterprises was set up by the government to identify obstacles to SMEs and several studies were undertaken to review existing SME policy structures and measures. The Swedish Foundation for Small Business Research (FSF) conducted an evaluation of Swedish SME policy on behalf of the Ministry of Industry and released its report, *Outline of a Contemporary Small Business Policy*, in 1999. The Simplex Regulation was passed in 1999 to reduce the administrative burden on SMEs imposed by existing and new regulations and legislation and a Government Bill on Competition Policy was passed. Also, in 1999, two different Expert Commissions for Investigation examined the future structure of central agencies and their tasks. In January 2001 a restructuring of the industrial and SME support system was announced by Government Act.

**Responsibility Centre for SME Issues**

The Ministry of Industry, Employment and Communications has responsibility for SME policy. Its overall goals are to accomplish a sustainable economic growth and a low level of unemployment in Sweden. Its objectives are to further the development of companies, foster the development of entrepreneurship in regions and individuals in the labour market, and provide effective, secure transport and communications throughout Sweden. It endeavours to stimulate enterprise and renewal by focusing on creating the right environment and conditions, i.e., simple regulations and efficient competition. Several agencies report to the Ministry, including NUTEK, the Swedish Business Development Agency, VINNOVA, the Swedish Agency for Innovation Systems, and ITPS, the Swedish Institute for Growth Policy Studies (see below for descriptions of these agencies).
Entrepreneurship Analysis Division, NUTEK

Responsibility for SME and entrepreneurship policy issues is split between NUTEK and the Directorate for Business Development of the Ministry of Industry, Employment and Communications, although there is no small business or entrepreneurship policy, per se. The Entrepreneurship Analysis Division within NUTEK is a very small unit that conducts research, analyses small business statistics, oversees the annual report on New Business Starters (with Statistics Sweden) and identifies policy issues. The Business Development Directorate of the Ministry identifies issues affecting SMEs but has a much broader mandate.

C: Current SME Policies, Programs and Structures

In *Growth 2000 – an industrial policy for the new millennium* (1999) NUTEK proposed several policy measures to strengthen the SME sector; anti-trust regulation, reduction of tax and administrative burden, simplification of the taxation reporting systems, improved access to seed and venture capital financing, improved SME access to R&D expertise and development of an entrepreneurial climate which would place Sweden among the best in the world. Current efforts focus on providing information to SMEs (SMELink; Starting Line), reducing administrative burden (SIMPLEX Group), improved access to financing (NUTEK and ALMI loans and grants; financing databases; Start-up Grant for unemployed people; ALMI Start Loan for women entrepreneurs), promoting youth entrepreneurship (Open for Business Sites; Venture Cup business plan competition, and the National Action Programme to Promote Entrepreneurship Amongst Young People, 2000) and R&D/innovation support programs. With specific reference to entrepreneurship, it was proposed that efforts be taken to create a more favourable attitude towards entrepreneurship, to develop entrepreneurship education in the schools, to fill the gap for start-up financing and to support the development of new private sector opportunities in the service sector.

There are also several initiatives and programs to promote and support innovation and technology development in Sweden. These include the Technology Bridge Foundation (*Teknikbrostiftelser*) which is intended to increase the exchange of knowledge and cooperation between universities and industry at the regional level (www.teknikbroarna.com); a network of 11 Industrial Development Centres (*Industriella utvecklingscentra*) which support innovation-based enterprises through skills development, technical training and business development (www.iuc.nu); the Technology Transfer for SMEs project that aims to create a system to facilitate trade in technological services between SMEs and public R&D technology providers like institutes, universities and university colleges (www.cordis.lu); and Competence Centres which were funded (with about 1% of Sweden’s R&D budget) to encourage research-based co-operation between universities and the business sector (www.cordis.lu).21 The *Sweden Innovation Centre (SIC)*22 supports businesslike projects in early stages of development and improves the innovative climate in Sweden. The *Swedish Industrial Design Foundation (SVID)* is commissioned by the Ministry of Industry to promote knowledge of industrial

21 *SMEs in Sweden*, 2001, p. 43.
22 www.innovationscentrum.se
design in Swedish industry and to give companies practical guidance on questions of industrial design. The aim of the Swedish Agency for Innovation Systems (VINNOVA) is to contribute to the development of strong and dynamic innovation systems that can generate sustainable growth in industry and society.

Another priority is trade development. The National Board of Trade (Kommerskollegium) has responsibility for foreign trade and trade policy and the Swedish Trade Council (Exportrådet) promotes, supports and creates opportunities for Swedish exports. They help SMEs establish and develop enterprises and introduce products into foreign markets by assisting with feasibility studies, marketing plans, competitive analysis and product adaptations.


- **NUTEK** - The Swedish Business Development Agency is the central public authority for enterprise development and regional development. NUTEK together with ALMI Företagspartner forms a national competence centre for enterprise development and the fostering of entrepreneurship. This is accomplished through business finance programs, provision of information and advice services and support for various programs and processes to strengthen the business climate and regional development. Important targets for NUTEKs work are growth of existing enterprises, an increased number of new enterprises and a balanced regional development with a special focus on prioritised Swedish regions. NUTEK also works to facilitate structural change and internationalisation of Swedish business. ALMI delivers SME financial and advisory assistance programs through 22 regional offices.

- **VINNOVA** - The Swedish Agency for Innovation Systems integrates research and development in technology, working life and society. VINNOVA’s main roles are:
  - to finance research, development and demonstration activities that meet the needs of business and the public sector,
  - to foster co-operation between universities, industrial research institutes and business,
  - to promote the diffusion of information and knowledge, especially to small and medium-sized enterprises,
  - to stimulate increased Swedish participation in the EU’s general R&D programs,
  - to evaluate and develop the Technology Foresight process,
  - to develop the role of research institutes in innovation systems.

- **ITPS** – The Swedish Institute for Growth Policy Studies is a government authority responsible for policy intelligence, evaluation and some areas of official statistics. ITPS provides a knowledge base for a forward looking growth policy. Growth policy is defined as any policy designed to increase wealth in the country by creating better opportunities for individuals to improve their skills and know-how and for business to
grow. Formulating growth policy requires in-depth understanding of how growth is created and what factors adversely affect growth. ITPS provides supporting material to help policy makers formulate policies for economic growth.

The main SME priority, post-restructuring, is to simplify the legal and administrative framework to integrate SME policy in general policy fields, especially policy fields such as labour market, regional policies, education, and work life. Together with the change on a national level the government seeks to counteract regional inequalities. New ways of organising the regional level within the public administration and co-ordinating the different public and private organisations on the local and regional levels are at present under consideration in Sweden. One objective of the considered organisational changes is to create new, and favourable, institutional preconditions for the SME sector to expand in all regions. A significant and on-going example is the existence of regional growth agreements. The starting point of the regional growth agreements is to fulfil the potential that exists for accelerating economic growth in Sweden by making better use of the resources available in all regions. The underlying principle behind the regional growth agreements is the formation of regional partnerships with representatives of municipalities, local business associations, universities and colleges within each administrative region (21) in Sweden. County administrative boards and regional councils will act as co-ordinators and catalysts.

The Entrepreneurship Agenda

‘Good entrepreneurship’ has been identified as one of the four main pillars in NUTEK’s ‘growth policy’, along with ‘capable people’, ‘dynamic innovation systems’ and ‘strong regions’.23 ‘Good entrepreneurship’ is seen as a crucial support for the innovation initiative. Factors such as tax regulations, capital access and anti-trust legislation were identified as areas that would have a short term impact on the level of entrepreneurship, while changing the prevailing attitude towards entrepreneurship would have a longer term impact. Promotion of entrepreneurship and working with entrepreneurship in the schools were cited as necessary investments to create a good business climate. To stimulate the growth of smaller companies, a stable legislative framework, new forms of employment and collaboration and stable tax regulations are required. In addition, financing gaps for new and early stage firms need to be filled. To bridge this gap, new venture capital funds, investment tax credits and new forms of seed and risk financing need to be explored. Finally, NUTEK pointed to the need to review operations in the public sector with a view to having more open competition in protected market areas.

D: Description of Existing Programs and Services in Support of Entrepreneurship

The Regulatory Environment for Start-ups

It is neither difficult nor costly to start a business in Sweden. It requires only four procedures, takes 17 days to gain approvals and costs 0.0254 of per capita GDP to meet the requirements to set up a normal business. This ranked Sweden 5th among 75 countries in a comparison of the regulation of entry. However, a considerable capital investment is necessary when starting a limited liability company. The share capital for a private company must be a minimum of 100,000 Swedish kronor, much higher than that required in many other countries in this study. It is notable that the vast majority of small businesses in Sweden are sole proprietorships.

Administrative and Regulatory Burden

A considerable part of the debate surrounding the business climate in Sweden has centred on the role of administrative obstacles to the formation and growth of SMEs. Several studies have been conducted during the last few decades to identify these obstacles. In 1998 a number of reports from the Committee for Small Enterprises (Småföretagsdelegationen) were published outlining 76 different suggestions to improve the conditions for SMEs. One of the results from the work of this Committee was the formation of the SimpLex Group, at the level of the Ministry of Industry, with civil servants and an advisory group. The legal base for the work is the SimpLex Regulation (SFS 1998:1820). It says that no authority or central agency can initiate a new regulation without doing a calculation of the costs for SMEs. Public authorities, under a statutory obligation (SFS 1998:1828) are now required to carry out an ex-ante evaluation of all regulations to measure the possible impact on the SME sector. This ex-ante evaluation focuses mainly on compliance costs for the enterprise, effects of the regulation on the competitiveness of SMEs, the necessity for launching an information campaign, and so on. This regulation was enacted in January 1999. The SimpLex Group is responsible for this work. Once a year the Group writes a report to Parliament on how the regulation is fulfilled by different central agencies. The idea is also to do similar calculations for laws instituted by the different ministries. Another important task for the unit is to co-operate with the authorities on how to simplify existing regulations. The ministry has previously done similar work, but for the first time there is a formal regulation for public authorities to follow.

In June 1998, the Government launched a project with the aim of introducing a single business registration form and a single contact point for registration of a business. The project is a co-operation between the Swedish Tax Authority and the Swedish Patent and Registration

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Office and is expected to facilitate and standardise information. It should be seen as a first step to make it possible to share existing information between authorities (Kontakt-N).

In 1999 the Government launched a survey of SMEs clients of twelve different public authorities. The aim was to find out the enterprise’s opinion on their contacts with the authorities in terms of opening hours, forms, understanding and treatment. The survey will appear on a regular basis with the objective of improving information and services for entrepreneurship and enterprise development.

**Taxation**

The Committee on Simplification of Taxation Rules for Small Enterprises has investigated the possibilities of simplifying existing tax regulations, including examining the conditions for introducing simplified declaration and reporting procedures for smaller service companies run as sole proprietorships. The Committee’s proposals are now under consideration in the Government Offices. In addition to this, new rules for tax declaration have been introduced and forms for VAT and income declarations have been merged to one form; one tax account. All taxes are now paid with one remittance slip (VAT, taxes for employees, social security tax and corporate taxes).

**Competition Policy**

One of the explanations for Sweden’s low growth relative to many other countries is a lack of competition in many sectors of the economy. The public sector has been responsible for a significant share of production, while competition has been weak in many parts of the private sector of the economy. By passing of the Government Bill 1999/2000:140 the government intended to establish a political platform for continuing work on competition policy and to provide an overall picture of the competition policy being pursued in divergent areas. In 2000, the Swedish Competition Authority was allocated increased resources and given the task of carrying out various projects to promote competition in line with principles set by the government in Government Bill 1999/2000:140. Several aspects of Competition Policy with adverse effects on small enterprises have been under review, including the effects of public sector activity in competitive markets.

**Promotion of Entrepreneurship**

There is no widespread, strategic promotion of an entrepreneurship culture in Sweden through use of the media, except for the occasional feature or entrepreneurial profile. However, *Entreprenören* is published monthly by one of Sweden’s business newspapers and the Swedish Federation of Private Enterprises publishes a monthly small business magazine, *Företagaren*. The most extensive promotion activity is initiated by the Swedish Foundation for Small Business Research (FSF), in co-operation with private sector partners, industry and

employer associations and regional authorities. Primary among these are Entrepreneurship Week which takes place every year and involves a travelling road show of half-day conferences in towns and cities around Sweden where entrepreneurs and experts make presentations and engage in discussion. Annually in January, FSF organizes Small Business Days when researchers and experts come together with entrepreneurs, government officials and other interested parties to discuss the latest developments in SME knowledge. They also present conferences on topics such as solo entrepreneurs, family business and youth entrepreneurship. Thousands of people are reached annually through these and related activities.

The Entrepreneurship and Small Business Research Institute (ESBRI) also plays a role in promoting entrepreneurship throughout Sweden. ESBRI publishes Entre, a magazine which features the results of entrepreneurship research for public awareness. It is published four times a year and distributed to about 10,000 people. 28

One notes the presence of three national Entrepreneur of the year award programs, one sponsored by Ernst&Young (Entrepreneur Of The Year program), one sponsored by Dagens Industri, Sweden’s largest business newspaper, and the third by the Federation of Private Enterprises.

Entrepreneurship Education

Stimulating young entrepreneurship is to a great extent related to the education policy domain. In the spring of 2000, NUTEK prepared a proposal for a ‘National Action Programme to Promote Entrepreneurship amongst Young People’, based on the principle that the educational system should more broadly stimulate young people to look upon self-employment as a viable alternative to regular employment and foster entrepreneurship as a career. The proposal suggested, among other things, strengthening the entrepreneurial culture amongst young people through pilot projects in the school system, increasing enterprising skills, as well as the opportunities to start businesses. The proposal is now under discussion.

During the last few years more and more attention has been focused on attitudes to entrepreneurship and how to stimulate young people to look upon enterprise as a way of living. One of the effects has been a fruitful co-operation between the National Agency for Education (Skolverket) and NUTEK in order to introduce new attitudes towards learning. The national curriculum now emphasises the importance of taking initiative, developing the ability to work and solve problems independently and realising the consequences of different alternatives. The introduction of entrepreneurship in schools is consequently about further enforcing already existing pedagogic starting points. The entrepreneurial approach to learning is more student-centered and action-oriented, allows students to work on cross-curricular projects and to learn entrepreneurship concepts by playing games or running companies. In 1997, NUTEK and FSF collaborated in the production of a teaching resource, Skolans entreprenörsbok, which is used in grammar schools to facilitate more entrepreneurial ways of teaching. This project, funded under the DESK Program (Destination Entrepreneurship in

28 www.esbri.se/tidningen.htm.
Schools), also provides examples of entrepreneurship projects and activities that can be introduced in schools and classrooms.

To supplement formal curriculum activity, several activities, mainly private or semi-private, expose youth of all ages to entrepreneurship.

- Snilleblixtar ([www.snilleblixt.nu](http://www.snilleblixt.nu)) – The goal of Snilleblixtarna is to stimulate the creativity, initiative, innovativeness and self confidence among children 6-11 years by letting them solve problems that occur in their daily life in their own way. The activities of Snilleblixtarna are organised by the school. Besides teachers, others support these activities, like parents, business owners and others interested in the project. Normally the schools work with Snilleblixtarna one whole day a week.

- Young Achievement ([www.ungforetagsamhet.se](http://www.ungforetagsamhet.se)) – Young Achievement (Ung företagsamhet) is an organisation with the objective of working with students between 16-20 years old so they have the opportunity to start and run a business for a year with support from the school and the business society. Today around 3,000 UF-enterprises are running in Sweden and 12,000 young people are involved.

- Open for Business ([www.ofb.nu](http://www.ofb.nu)) – Open for Business, a licensed concept from Canada, was launched in four locations in Sweden in 2000. Open for Business is a drop-in resource centre for young people who want to start businesses. The aim is to teach young people more about entrepreneurship through a ‘learning by doing’ model. Counsellors also make presentations in schools, organise evening and weekend seminars and activities and promote entrepreneurship in the wider community. A number of special activities have been developed around this project. Open for Business locations are run by a number of co-operating organisations.

**University Level**

Most of the universities in Sweden have courses in Entrepreneurship but none of them yet offers a concentration in Entrepreneurial Studies. However, there is a trend towards developing some specialization in this area. The Jönköping Graduate School provides a SME orientation to its students through a mentor program and a SME consultancy project. Chalmers University engineering students are encouraged to develop and market product ideas and engineering students at Halmstad University are involved in the creation of new companies based on product development and design. In May 2001, the University of Umeå opened its Centre for Innovation and Entrepreneurship at the Skellefteå campus and this is expected to emerge into a full blown incubating environment for entrepreneurship students. The Stockholm School of Economics is beginning to develop an interest in entrepreneurial studies and research.

One of the three objectives of ESBRI, the Entrepreneurship and Small Business Research Institute in Stockholm is to initiate and develop undergraduate and graduate education and training. ESBRI runs one course in entrepreneurship for students and has developed a second 40-credit course for students who already have a bachelor’s degree. Since 1998, the Institute
has also organised an annual workshop for college and university professors of entrepreneurship and small business who meet to discuss pedagogical approaches.  

In several university cities ‘green houses’ (Drivhus) have been set up by students with the aim to stimulate and support practical entrepreneurship amongst student. Through incubator activities, exercises, business idea competitions and other projects, students are encouraged to start their own businesses. The green houses are managed as foundations and are mainly financed on a regional basis and to a lesser extent by national authorities or organisations (www.drivhuset.se).

Venture Cup, based on an idea from the US, is an annual national business plan competition in which thousands of Swedish university students participate. A similar idea from US, Connect, has also been introduced in Sweden.

**Small Business Support**

The majority of programs intended for owners of small enterprises and entrepreneurs who plan to start enterprises are within the area of information and counselling. Some of the programs aim only to provide information, while others combine information with other services such as financing. As a result, the boundary between information and other services is seldom unequivocal. One can assume that all organisations working with small enterprises through counselling, financing or training also have considerable sources of information at their disposal.

**SME Information Websites**

- **SMELink** – the largest website in Sweden addressing SMEs, financed jointly by the Wallenberg Foundation (which funded 90% of the EUR 6.5M in costs\(^\text{30}\)) and the government (www.smelink.se). SMELink was launched nationally in 1998. Its mission is to increase the competitiveness of SMEs by providing tailored, strategic business information and by building a platform for companies to find new business opportunities by using the Net. It includes a meeting place for SMEs, a marketplace for SME products and services and an extensive directory of updated business information. There are 14 information areas, including ones on public tenders, financing, government regulations, the establishment of new businesses, product development, employment and recruitment, SME growth strategies and export/import.

- **The Enterprise Guide** – In order to make it simpler for entrepreneurs and would-be entrepreneurs to find the information and services they need, the Government has commissioned NUTEK to create a web site linked to all relevant central agencies of interest for the business society. The web site, launched in May 2001, is a co-operation between 23 different authorities (www.foretagarguiden.gov.se).

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\(^{29}\) [www.esbri.se/utbildningen.htm](http://www.esbri.se/utbildningen.htm).

• **Starting Line** ([www.nutek.se/startlinjen](http://www.nutek.se/startlinjen)) – Anyone who wishes to obtain free information and guidance how to start an company in Sweden can get in touch with the Starting Line, a telephone and Internet service, run by NUTEK, and intended to reduce the time required by an entrepreneur to retrieve information. The Starting Line receives queries about most issues to do with the start-up of a company, e.g., rules and procedures, financing, taxation, licences and formal requirements, type of company, etc. Among the resources on which the Starting Line can draw is a register containing about 1,250 organisations and authorities, which a prospective entrepreneur might need to contact or obtain support from. With this register, individuals can quickly be directed to the appropriate authority or organisations, national, regional or local. In 1999, 17,000 people used the Starting Line.

**Counselling and Advice**

• **Swedish Jobs & Society Trust** ([Stiftelsen Svenska Jobs and Society](http://www.jobs-society.se)) – Jobs and Society works to promote entrepreneurship and the creation of new enterprises. To achieve this, they run Startcentrum offices ([Nyföretagarcentrum](http://www.nyföretagarcentrum.se)) in approximately 100 different locations in Sweden. Central operations focus on counselling and support that is provided by a network of experienced advisers, both experts and entrepreneurs. A primary target group is unemployed people who have received a Start-up Grant from the Labour Board. These clients are assisted in the development of business ideas and during the first three years of business life. This includes advice and information, education and training, and networking and contacts. The Jobs and Society model is driven by the presence of local industries in each area but is also sponsored by national authorities. During 1999, 16,000 individuals received counselling.

• **ALMI Företagspartner AB** – a public financed company with 22 regional offices. The head office, owned by the Ministry of Industry, is located in Stockholm. The regional offices are 51% owned by the head office and 49% by county councils. ALMI’s mission is to support SMEs by combining financing and business development advice to existing SMEs with potential to grow, as well as providing assistance to individuals in the starting of their own businesses ([www.almi.se](http://www.almi.se)). The main target group is enterprises with fewer than 20 employees and growth potential. ALMI provides both general advisory services and specific business development training in areas such as product development, market development, internationalisation, ICT, management and board issues, environmental and quality assessment programs. Approximately half of ALMI contributions go to existing enterprises. ALMI also offers special loan packages and services to women and young entrepreneurs.

• **SME Package** – A large number of SMEs lack the resources necessary to enter the export market. The objective of the **SME Package** is to support SMEs who want to enter the export market and thereby minimise barriers to entry into foreign markets. The ‘package’ consists of some of the services provided by the Swedish Trade Council
and access to a network of 16 regional Export Centres (partnership between ALMI Företagspartner, The Swedish Trade Council and the Chambers of Commerce). The aim is to give companies information and advice about exporting and international partnerships.

Identification of Target Groups

A dynamic entrepreneurial economy needs to make use of all its entrepreneurial resources. It is a challenge to meet the different needs of women, the unemployed, young people and immigrants. There are several activities focused on stimulating entrepreneurship among women. The need for specific efforts to further support entrepreneurs with immigrant backgrounds and young people are currently under discussion. So far the contribution in these areas are focused mainly on advice and counselling, both on a national and regional level.

Women Entrepreneurs

Less than one third of Sweden’s entrepreneurs are women. Statistics Sweden estimates that 5% of women in the labour market are self-employed compared to 13% of men. However, the share of new enterprises run by women increased from approximately 20% in 1990 to 30% in 2000 (about 10,500 firms). Women are more likely to start an enterprise in categories such as education, health care and social work while men are more likely to start enterprises in manufacturing, and trade. As is the case in other countries, businesses owned by women also tend to be smaller than those owned by men. In 1995, 73% of women-owned firms had sales of under 300,000 SEK; the corresponding figure for men was 54%. Only 6% of women had firms with sales of at least 1 million SEK; this was 17% for men.

NUTEK has been running programs to promote female entrepreneurship since 1991. In 1993, the Business Consultants for Women project was initiated to meet an identified need for women advisers. Experience shows that many women prefer to turn to women when they require information, training and consultation in connection with starting a company. The Business Consultants for Women project provides advice and non-financial support. The consultants are prepared to discuss any kind of business and how to combine family life with running a business. The project started in 62 municipalities in the regional policy support areas with financial support from NUTEK, county administrative boards and county labour boards. NUTEK supplied training and exchange of experience for the business advisors and the program was marketed in traditional ways as well as via an electronic network. Today there are 53 business advisors. Researchers have tracked the program and an extensive report on the project was presented in December 2000. Business Advisors for Women was chosen as one out of eleven Best Practices within the Employment Pact in 1999.

34 Ibid, p. 22.
35 www.nutek.se/kvinnftg
ALMI Företagspartner AB currently provides a Loan Support Scheme for Women Entrepreneurs to meet the need for the smaller loan amounts expressed by women. The loan facility is very often combined with advisory services and business development training. An example is the mentoring program that matches novice women entrepreneurs with experienced mentors in order to strengthen their management skills and entrepreneurial decision-making.\textsuperscript{36} During 1998-2000, ALMI received government funding specifically designated for projects promoting female entrepreneurship\textsuperscript{37}, with the purpose of making extra advisory services available to women.

Obviously, more could be done to increase the participation rate of women in entrepreneurial activity. One of FSF’s main research program themes is Female Entrepreneurship and Management. The main areas of investigation are entrepreneurship as a lifestyle and women’s invisibility in entrepreneurship.

\textbf{The Unemployed}

Throughout the 1990s, the desire to ‘work independently’ and to ‘realise an idea’ were the two top motives for starting an enterprise. Significant changes have, however, occurred regarding the role of unemployment as the main motive. The share of new entrepreneurs stating unemployment or risk of unemployment as the primary motive has been more than halved between 1994 and 1999, from 25\% to 12\%. However, it is interesting to note that from 1994 to 1999, the percentage of all new business starters with grants from the Swedish National Labour Market Administration (\textit{Arbetsförmedlingen}) ranged from a high of 34\% to a low of 26\%. That means that, in 1999, 26\% of new businesses were started by unemployed persons.\textsuperscript{38} The National Labour Market Administration start-up grant (\textit{Start av näringsverksamhet}) is available to unemployed applicants with a business plan deemed to meet the requirements for satisfactory profitability and permanent employment. The amount of the subsidy is approximately the same as unemployment insurance and, in certain cases, the period of the subsidy can be extended by a maximum of six months, i.e., from the ordinary six months up to one year. The program is intended for all business ideas that will likely be successful; however, with unemployment insurance as its base, it is likely that most of the support provided by the start-up grant would apply to solo companies.

\textbf{Immigrant Entrepreneurs}

NUTEK has just completed a major statistical study of immigrant entrepreneurs in Sweden, estimating that up to 20\% of the Swedish population consists of persons who were born outside of the country or had parents who were, and that 20\% of new businesses are being started by immigrants.\textsuperscript{39} However, only 12.5\% of Swedish businesses are immigrant-owned (about 70,000 companies)\textsuperscript{40}; thus they are under-represented as entrepreneurs. The number of new enterprises started by immigrants has increased slightly since 1993 when information

\begin{thebibliography}{99}
\bibitem[36]{36} Women Entrepreneurs in Sweden and the UK, p. 48.
\bibitem[37]{37} Ibid, p. 44.
\bibitem[38]{38} Statistics on newly started enterprises, NUTEK/SCB.
\bibitem[40]{40} Swedish Industry and Industrial Policy 2000, NUTEK, June 2000, p. 97.
\end{thebibliography}
regarding the owners’ immigrant background was made available. New entrepreneurs with immigrant background are represented in all sectors. However, in general, immigrant entrepreneurs are overly represented in labour intensive sectors such as the trade, hotel and restaurant sectors and underrepresented within knowledge intensive branches like finance and business services. The NUTEK study indicated that first generation immigrants and ethnic minorities may encounter more problems in the beginning stages of a business, particularly in obtaining financing and in dealing with government regulations and laws (due to language barriers). This research may be a beginning point for the further development of government policy to address any unique problems and barriers encountered by immigrant entrepreneurs in the country. At this point, unemployment rates in certain immigrants groups are three to four times higher than the national average. In light of the difficulties immigrants have in the labour market, starting a company is viewed as a way to economically and socially integrate in Swedish society. Increased immigrant entrepreneurship will lead to a reduction in unemployment, an increase in the level of self-sufficiency and a decrease in dependence on social aid among vulnerable immigrant groups.

An initial step to assist immigrant entrepreneurs was taken in 1996 with the founding of the Swedish Association of Ethnic Entrepreneurs (IFS), a non-profit association whose mission is to improve the plight of its members by providing counselling and assistance to ethnic minorities who want to start businesses, helping them to access financing, positively profiling the ethnic entrepreneur in the community and lobbying with governments and banks on their behalf. IFS argues that ethnic minority entrepreneurs encounter discrimination and unequal treatment by government authorities, bankers and potential customers. IFS receives 80% of its funding from government and operates a network of 17 offices throughout Sweden. According to IFS officials, the majority of ethnic entrepreneurs have problems with their companies and warrant targeted support. IFS works in close co-operation with the regional ALMI offices in order to facilitate financing both from ALMI and from commercial banks.

Young Entrepreneurs

According to NUTEK research, approximately 26% of new business starters are under 30. Open for Business sites (in four locations) provide learning and advisory support for people under 30 who want to start their own businesses, incubators for young entrepreneurs exist in some Swedish cities (e.g., Umeå Business Innovation Centre for Young Entrepreneurs) and ALMI offers a special loan for young entrepreneurs.

Networks

There are several private sector organizations for SMEs in Sweden. The major one is the Chamber of Commerce (Handelskammare). Chambers are financed through membership and service fees; membership is voluntary. Eleven regional Chambers co-operate closely with each other under the Association of Swedish Chambers of Commerce and Industry

41 Ibid, p. 95.
42 SMEs in Sweden, 2001, p. 25.
The Federation of Private Enterprises (Företagarnas Riksorganisation, FR) offers advice and service to members and lobbies on their behalf. The FR is represented in public commissions and presents its views in committee reports and directly to politicians and official authorities. Its overall aim is to improve the climate for entrepreneurs through lower taxes, less bureaucracy, an improved venture capital market, and an effective labour market. Around 60,000 owners of small and medium sized private enterprises are members and FR encompasses additional 30,000 small businesses through 32 affiliated trade associations.

There is a SME unit within the Federation of Swedish Industries, (Industriförbundet) which has as its objective to guide the Federation regarding the interests of small and medium sized industrial companies. An important foundation of the unit is co-operation with the Federation’s small business committee, which comprises some 20 active company heads from owner-managed companies. The Federations’ main membership is 19 member trade associations that in total represent around 7,000 enterprises.

The Swedish Employers’ Confederation (Svenska Arbetsgivarföreningen) is made up of 38 employers’ federations and over 45,000 companies, that together employ close to 1.4 million people. The main goal for the Confederation is to fight for optimum conditions for starting, running, owning and building profitable companies. The SAF main office is in Stockholm but it is also represented throughout the country with 20 regional offices.

There are few of the entrepreneur associations in Sweden that are very common in Canada and the United States.

Access to Financing and Seed Capital

The role of the Swedish government is more to create good conditions for individuals and enterprises and less to financially support sectors or companies. However, the government has a role when it comes to stimulating new business start-ups, developing entrepreneurs and helping innovators to enter the market. Government financing exists to support the start-up and expansion of certain kinds of firms and in certain regions of Sweden.

Financing the Start-up Phase

- **Start-Up Grant** – One example of financing is the start-up grant (*Start av näringsverksamhet*)\(^{43}\), which is actually a form of labour market support rather than company support. It is intended for unemployed people registered as looking for work at The Swedish National Labour Market Administration (*Arbetsförmedlingen*). To qualify for support, applicants must have a business plan deemed to contain the requirements for satisfactory profitability. The program is intended for all business ideas that are likely to be successful.

- **ALMI Företagspartner** – ALMI offers several different loans to Swedish SMEs:

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\(^{43}\) Previously known as *Starta-eget-bidrag* (www.amv.se).
• Loans to firms with growth potential. This loan aims to stimulate firms in rapid expansion.

• Loans to new starters. The minimum amount lent is SEK 50,000 to a maximum of 30% of the capital needed. The personal contribution has to be at least 10%.

• Loans to women entrepreneurs. The minimum is SEK 50,000 and maximum SEK 300,000 and must not exceed 50% of the capital needed. Both new and already existing enterprises are eligible.

• Loans to young entrepreneurs, i.e., people between the age of 18 to 35 years. The loan cannot exceed 50% of the capital needed for loan amounts from SEK 25,000 to SEK 150,000.

In general, ALMI loans are complementary financing and, on average, generate four additional crowns from commercial banks. The loans earn ordinary interest rates and the SME must pledge security for the amount borrowed.

Seed Capital

The initial phase of a technology-based project is almost always combined with high costs, high risks and uncertainty. That is why governmental support is highly demanded in these projects. One of the sources of risk financing is the seed capital provided by NUTEK. Their financial support is limited to 50% of the total cost of the project during the initial stage. The remaining part has to be borne by banks or other investors. Apart from the financing, NUTEK performs the function of an advisor, which is estimated to be of substantial value for the development of the project. A loan can be provided for up to SEK 3 million but the average amount is about SEK 800,000. Interest rates are equivalent to those offered by banks. When the product or service begins to generate a profit, the company must begin repayment of the loan. If the project does not succeed commercially, the loan may be written off.

R&D Loans

The Sweden Innovation Centre, SIC (www.innovationscentrum.se) has as its main task to support and stimulate projects in early stages of development through conditional loans up to a maximum of SEK 400,000. The support can be granted to companies not older than three years and to private individuals. There is also a possibility to award non-repayable subsidies for technical and commercial studies. In addition to financial support SIC encourages young and female inventors and has been actively involved in building a regional innovation system in Sweden. The ambition is to create one ‘innovation office’ in every county to advise and help inventors.

Financing Database

One of the most frequent questions to business advisors is how to access financing. In order to provide prompt and easy information a database has been created. The database is accessible
via Internet and free of charge. In order to simplify the search process for the entrepreneur it is possible to search for financing for specific investments, in specific geographical areas or for specific target groups. For each different source of financing, information is given concerning aim, requirements, conditions and how to apply. As far as possible a contact person is appointed. Today the database consists of more than 100 different public supports, financial as well as non-financial, in Sweden as well as in the Nordic countries (www.nutek.se/finansieringsdatabasen).

**Venture Capital**

The Swedish venture capital market, in relative terms, is one of the biggest among the countries in this study. Private sector formal and informal venture capital is complemented by a number of publicly funded sources. The Swedish Industrial Development Fund is co-owner of six venture capital companies: Malmöhus Invest, Emano, Arbustum Invest, Söderhamn Invest, CIMON Medical and Aldano. The Fund’s financing, which is tailor-made to the needs of each company, can be divided into two main categories: loans for specific projects and equity capital. But the Fund contributes more than capital. An investment is always combined with expert advice and other forms of support.

**Venture Capital Database**

Linked to the database on Financing there is a database containing information on venture capital companies. Information is given about the companies profile, the amount of money in the fund and conditions (www.nutek.se/riskkapitaldatabasen).

**Venture Forum**

CapTec is an annual investment forum organized to make it easier for small, newly-started innovative enterprises to access venture capital by presenting their ideas and project proposals to business angels, venture capitalists and corporate financiers. This project is run by NUTEK. It is evaluated on an annual basis: from 1994-1998, 78 enterprises presented themselves at CapTec forums and more than 50% accessed capital as a result.

**Angel Investments**

The University of Uppsala is currently conducting a study on business angels in Sweden, a topic about which very little is known. The results of this study will be available later in 2001.

**Research: Entrepreneurship/SME Issues**

Statistics Sweden collects information on Swedish SMEs and NUTEK conducts an annual study of new starters. The NUTEK study gathers data on the demographic profile of new

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44 www.industrifonden.se
entrepreneurs, including immigrant background, gender and age, a profile of the businesses they start and information on their reasons for starting a business. However, Sweden does not publish an annual report on the state of the SME sector for public distribution.

Considerable research is undertaken by Swedish academics for publication in scholarly journals. Sweden has a long tradition in research in Entrepreneurship and Small Business. It started at the University of Umeå in the early 1970s. Many of the doctoral students at that time have now formed research units at different universities in Sweden. There are interesting clusters at several universities and business schools, e.g., International Business School in Jönköping, Växjö University, Halmstads University, Umeå University and also the Universities in Stockholm and Uppsala. Different organisations have been created around a number of these universities, such as SIRE in Halmstad and Växjö, CEF in Uppsala and ESBRI in Stockholm. ESBRI is the lead organization on the Swedish component of the Global Entrepreneurship Monitor study of national entrepreneurial activity levels. Thus, much is known about the development of entrepreneurship and the SME sector in Sweden.

The Ministry of Industry, Employment and Communications and NUTEK provides funding to the Swedish Foundation for Small Business Research (FSF) to undertake a SME research program which is fulfilled through a network of researchers from several Swedish universities. FSF started in 1994 to serve as a bridge between the Swedish small business research community and all parties active in development of new and small enterprises (www.fsf.se). This is done by initiating and disseminating research relevant to policy in the fields of entrepreneurship and small enterprise, by offering small business researchers a forum for idea sharing and by building national and international networks in the field. The major output is bridging the gap between research and its practical application in the small business sector. It’s current research programs focus on:

- New Enterprises and Business Forms
- Venture Capital for Small and Medium-sized Enterprises
- Studies of Women’s Enterprise
- Medium-sized Family Businesses
- Effects of Measures to Promote Development of SMEs
- Small Businesses in Local and Regional Development
- Marketing for Growth in SMEs.

FSF and NUTEK, together with Telia Företag AB, founded the International Award for Entrepreneurship and Small Business Research in 1996. The award winner’s research should have contributed substantially to the knowledge base in entrepreneurship or small business leading to an increased understanding of the conditions under which small business operates. The Scientific Council of FSF is responsible for the evaluation of candidates and the final selection of the annual winner. The award consists of the statuette ‘God’s Hand’ created by the sculptor Carl Milles and US$50,000.
SECTION 3: EXPERIENCES/EVALUATION OF IMPACT

A major review of government policy in 1996 revealed three areas impacting on the development of companies - industrial policy, regional policy and labour market policy. The majority of resource allocation, about 60% of total public business support, was to labour market policy to stimulate the recruitment of new employees in companies and to provide start-up support for unemployed people.\textsuperscript{45} The least amount of allocation was to government agencies and organisations providing direct assistance to SMEs. Generally, there is a lack of knowledge concerning the effects of different incentives in Swedish SME policy. The evaluation process is impeded by the fact that evaluations are often conducted by the same organisations responsible for the operation of the programs. In Sweden, as in many other countries, there are problems in adjusting SME policy structures. Even after extensive reviews and evaluation processes, structural and policy changes often end up being ‘more of the same’. Reasons for this are the lack of knowledge concerning the effects of different incentives and the lack of clear objectives for these incentives, so the target is ‘whatever you happen to hit’.\textsuperscript{46} From a national policy perspective it is not easy to get an overview of what is happening in the system.

Research suggests there is an increasing number of service providers that are partly or totally public financed. However, there does not seem to be a problem for SMEs to find the appropriate service provider in the system. The majority of SME managers state that they have no problems finding the appropriate provider when there is a need for it.\textsuperscript{47} The use of service providers with public financing is limited. At the same time, the different SMEs using these providers are generally positive about the help they are receiving.

SECTION 4: OBSERVATIONS AND CONCLUSIONS

A: General View

Sweden has some excellent entrepreneurs, many of whom have several businesses. Experts estimated that 10-20 Swedish families dominate entrepreneurial activity. On the other hand, almost two-thirds of private sector businesses are operated as solo businesses, with no employees. This suggests there may be barriers to hiring the first employee (e.g., high non-wage costs and somewhat rigid employment contract regulations). Swedes are very favourable towards entrepreneurship (Gallop Europe 2000) but the start-up rate is low and has remained at a static absolute level for the past five years. Almost a quarter of new starters was

\textsuperscript{46}Ibid.
\textsuperscript{47}Ibid.
unemployed just prior to starting their business, which may indicate a ‘desperation push’ rather than an ‘opportunity pull’ motivation. There is also a considerable degree of regional variation in the density of business owners. Some regions are considerably more entrepreneurial than others.

According to authors of the GEM 2000 report for Sweden there are a number of historical impediments to entrepreneurship in Sweden: little attention paid to entrepreneurship in education, societally negative attitudes towards entrepreneurial failure, owner-manager’s reluctance to share equity, and an egalitarian bias as reflected in sustained efforts to narrow income differentials. ‘Structural constraints include high corporate and personal tax rates plus high non-wage costs, excessive regulation, and existence of a strong social security net for employees, although this is much lower for entrepreneurs’ (Reynolds et al., 2000, p. 43). In fact, 2000 Gallop Europe results indicate that the majority of Swedish people (63%) would prefer to be an employee rather than be self-employed.

**B: Assessment of Entrepreneurship Policy Focus**

In Sweden, there is minimal focus on entrepreneurship policy per se. In fact, the major focus is on industrial or growth policy, although the SME sector is certainly of some importance with respect to employment creation. In terms of the Motivation, Opportunity, Skills framework, primary emphasis in the past has been on Skills. This specifically relates to the Start-Up grant of the national Labour Board to encourage unemployed people to become self-employed. Unemployed persons who want to start businesses are supported with training and advice through Startcentrum offices. There are recent efforts to encourage the introduction of entrepreneurship education in the schools but NUTEKs National Action Programme to Promote Entrepreneurship amongst Young People is still under discussion. The issue of immigrant entrepreneurship is also under current examination.

In terms of Motivation, there are few government initiatives to widely promote entrepreneurship within society. Television advertising of NUTEKs Startlinjen (Start-Up line) is one activity, that does serve to raise awareness of available support for people thinking about starting a business, but campaigns are short-term in nature. The majority of Swedes, according to Gallop polls, are highly favourable towards entrepreneurship but most would still prefer to have paid employment rather than be self-employed. This suggests a gap between favourable attitudes and the desire to actually start a business and possible disincentives in the taxation and social security system which bias people’s preferences away from self-employment activity.

In the Opportunity area, the government is making progress in reducing administrative burdens on SMEs but perhaps more could be done to examine the burden of ‘hiring the first employee’ since Sweden has such a high percentage of solo entrepreneurs. There are government programs that provide financing to SMEs and certain loan programs are targeted at women and young entrepreneurs. The terms and conditions of government provided loan programs may be more restrictive than in some other countries, particularly with respect to the portion of capital costs that can be supported. Counselling and advisory support is offered through Jobs and Society, Startcentrum and ALMI offices. According to SME surveys,
Swedish SMEs do not have difficulty identifying support providers or accessing advisory services. There is limited evidence of the existence of membership-based associations for entrepreneurs, although SMEs are well represented by traditional federations and councils.

C: Insights, Observations and Lessons Learned

- Sweden has a big share of total employment in the public sector. There is a high labour force participation rate (76%), even if it has decreased during the last decade, meaning that there were 250,000 fewer people in the work force at the end of the last decade relative to the start.

- Compared with other countries, Sweden has a high participation rate for women (72%). Women are over represented in the public sector (2/3 of public sector employees) and underrepresented in business ownership (26%).

- Permanent workers are roughly 75% of all workers. However, among young people less than 25 years old there are more or less equal numbers for permanent and non-permanent workers.

- There were more or less the same number of employed people in the private sector at the end of the 1999 as in 1990, meaning that there has been no net increase during this period in the number of jobs in the private sector.

- In Sweden there are big regional differences. Over 50% of the whole workforce is located in three main city areas.

- Sweden has high personal income tax and fairly low corporate taxes.

- There are high investments in R&D in Sweden, mainly in the private sector.

- SMEs are of great importance. 58% of all private sector employees are in this sector. Sweden officially uses the EU recommendation in defining SMEs, at least according to the number of employees.

- The number of start-ups was increasing up to 1994, but has been at a more or less constant level since then, about 35,000 start-ups a year. This means that the start-up rate has been declining to its present level of 7.2%.

- Of all new starters, about 30% are woman, 20% are immigrants and 26% are under 30 years old. The failure rate is roughly 40% over a three-year period. However, only 4% will go bankrupt.

- According to international comparisons, Sweden has few nascent entrepreneurs. At any point in time, 2% of the population is trying to start a business. However, 18% are owners or partners in a SME and 25% have previously owned a business or made an attempt to start a business.
• Industrial policy in Sweden is mainly focused on efforts to improve regional and labour market situations. The share for direct SME-oriented efforts is only between 3-4% of total net expenditures.

• Sweden’s SME policy is mainly working with incentives in the Skill area and less in the Opportunity and Motivation area. However an increasing interest is shown in areas like Entrepreneurship education in primary schools and in reducing administrative burdens.

• In the financing area, there are few grants in Sweden. Loans with relatively high interest rates, to compensate for higher risks, are offered.

• Most programs are carried out on local or regional levels, partly as a result of the introduction of the structural funds in Sweden. There has also been an increasing number of service providers in the system during the last few years. That has not meant, however, that SMEs have difficulties in finding the appropriate provider of services.

• The use of many programs is relatively small; SMEs using the programs are generally satisfied with the service they receive.

• There does not seem to be a lot of networking, at least not among service providers on local and regional levels.

• A number of Internet based information systems have been created during the last 2 years, mainly on a national level. A special information system exists for start-ups.

• Sweden has few programs for stimulating entrepreneurship. Furthermore, there are limited evaluations of different programs. When evaluations are done, they are often ordered by the same organization that was responsible for the operation of the program.

• There is a lack of knowledge concerning the effects of different programs, what type of problems they are supposed to solve and why they should be solved with public resources.
ANNEX: OVERVIEW OF THE SME SECTOR

Definition of SME

Historically, there has never been one single generally accepted definition of the term small and medium size enterprises in Sweden. The principles of division have depended on the circumstances. Today Sweden officially applies the definition recommended by the European Commission i.e. all enterprises with fewer than 250 employees are categorised as small and medium size enterprises and those with fewer than 50 employees are categorised as small.

Number of SMEs and SME Employment

Of the total number of enterprises in 1999, 99.8% were SMEs (i.e., had less than 250 employees). The majority of enterprises (94%) have fewer than nine employees while about 5% have between 10 and 49 employees. Two thirds of the enterprises have no employees at all (60% of male-owned firms and 68% of female-owned firms\(^{48}\)). Altogether, the SME sector in Sweden accounted for 63% of total private employment in 1999, although this decreased to 60% in 2000.\(^{49}\) Thirty percent (30%) of employment is accounted for by the 94% of enterprises with less than 10 employees and 30% by the 0.02% of large firms. SME employment accounts for less than 40% of the total labour force.

Table 1 – Number of Private Sector Enterprises and Employment by Size of Enterprise, 1999

<table>
<thead>
<tr>
<th>Employee Size Category</th>
<th>Number of Businesses</th>
<th>% of Total Businesses</th>
<th>% of Total Employment in each Size Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>311,269</td>
<td>63.6</td>
<td>12.5</td>
</tr>
<tr>
<td>1-4</td>
<td>120,835</td>
<td>24.7</td>
<td>9.1</td>
</tr>
<tr>
<td>5-9</td>
<td>28,342</td>
<td>5.8</td>
<td>7.4</td>
</tr>
<tr>
<td>10-19</td>
<td>14,879</td>
<td>3.0</td>
<td>8.0</td>
</tr>
<tr>
<td>20-49</td>
<td>8,461</td>
<td>1.7</td>
<td>10.1</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>483,786</strong></td>
<td><strong>98.9</strong></td>
<td><strong>47.1</strong></td>
</tr>
<tr>
<td>50-99</td>
<td>2,558</td>
<td>0.05</td>
<td>7.1</td>
</tr>
<tr>
<td>100-249</td>
<td>1,501</td>
<td>0.03</td>
<td>9.2</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>487,845</strong></td>
<td><strong>99.8</strong></td>
<td><strong>63.4</strong></td>
</tr>
<tr>
<td>250-499</td>
<td>447</td>
<td>0.1</td>
<td>6.1</td>
</tr>
<tr>
<td>500+</td>
<td>462</td>
<td>0.1</td>
<td>30.4</td>
</tr>
<tr>
<td><strong>All Firm Sizes</strong></td>
<td><strong>488,754</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>All Employer-Firms</td>
<td>177,485</td>
<td>36.4</td>
<td>87.5</td>
</tr>
</tbody>
</table>

Source: The Business Register, SCB; agriculture, forestry, hunting and fishing have been excluded.

\(^{48}\) Women as Entrepreneurs in Sweden and the UK, p. 42.

\(^{49}\) Data from 2000.
Sector Distribution

In 2000 the three largest sectors, in terms of employment, were the manufacturing industry, health and social work and trade, hotels and restaurants. Around half of all Swedish employees are employed in these sectors. Looking at changes in the occupational structure during the 1990s we find that the manufacturing industry, agriculture and construction sectors have all experienced significant decreases in employment. The health care sector has experienced a slight decrease in employment. Sectors that have experienced increased employment are bank, insurance and business services, education and research and personal and cultural services.

Table 2 –Employment Distribution by Sector in 1990, 1995 and 2000

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, forestry, fishing</td>
<td>3.4</td>
<td>3.1</td>
<td>2.4</td>
<td>-36.0%</td>
</tr>
<tr>
<td>Manufacturing industry</td>
<td>22.0</td>
<td>20.1</td>
<td>19.2</td>
<td>-19.4%</td>
</tr>
<tr>
<td>Construction</td>
<td>7.2</td>
<td>5.8</td>
<td>5.4</td>
<td>-30.0%</td>
</tr>
<tr>
<td>Trade and communication</td>
<td>20.0</td>
<td>19.3</td>
<td>19.2</td>
<td>-11.0%</td>
</tr>
<tr>
<td>Personal and cultural services (incl. hotel, restaurants)</td>
<td>6.5</td>
<td>7.4</td>
<td>7.9</td>
<td>+11.8%</td>
</tr>
<tr>
<td>Bank, insurance and business services</td>
<td>8.8</td>
<td>10.6</td>
<td>13.3</td>
<td>+41.0%</td>
</tr>
<tr>
<td>Public administration and defence</td>
<td>5.4</td>
<td>5.0</td>
<td>5.4</td>
<td>-7.0%</td>
</tr>
<tr>
<td>Education and research</td>
<td>6.9</td>
<td>8.0</td>
<td>8.7</td>
<td>+16.4%</td>
</tr>
<tr>
<td>Health and social work</td>
<td>19.7</td>
<td>20.6</td>
<td>18.6</td>
<td>-12.9%</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>-7.3%</td>
</tr>
</tbody>
</table>

Source: Statistics Sweden (SCB). Taken from SMEs in Sweden, p. 11.

The overall share of enterprises belonging to the service sector has increased slightly during the 1990s. There is a clear correlation between firm size and sector suggesting that the larger the enterprise the less likelihood of belonging to the service sector. While the share of enterprises in the service sector varies between around 60% and 90% among SMEs, the share among large enterprises is around 50%.

A characteristic feature of the Swedish labour market is that men and women tend to be in different sectors. In 2000, approximately 79% of all employed men were employed within the private sector while the corresponding figure for women was approximately 46%. This clearly reflects that Swedish women are employed within the public health care sector to a much larger extent than men are.

One aspect of the structural changes in industry is the shift in businesses from industry to service production. Among newly started enterprises in 1999, 84% started in the service sector. A larger share of employment is within industry, which is natural given that industrial enterprises, on average, have more employees than service enterprises, however, it is worth noting that a few really large industrial enterprises make up a substantial share of total employment in the private sector.
Self-Employment Trends

About 415,000 persons are estimated to be owner-managers – about 9.5% of the workforce\(^50\) (15% of the private sector workforce). This includes persons working in family firms so overestimates the self-employment rate. Between 1995 and 1999, the number of own-account self-employed (solo entrepreneurs) increased by 30%, over 7% per year. About 5% of women in the labour market are self-employed compared to about 13% of men; women comprise about 25.6% of the total self-employed, but are more likely to be operating their businesses on a part-time basis.\(^51\)

Growth Rates in the SME Sector

There was a slight increase in the number of enterprises during the 1990s. This increase has exclusive taken place in the SME sector. The number of large enterprises decreased somewhat during the first few years of the 1990s only to slightly recover after 1995. Despite the slight recovery, the total number of large enterprises was less in 1999 than in 1990, while the number of SMEs increased by 37%, an annual rate of 3.7%. In 2000, the number of SMEs increased by almost 6%, but the increases were highest for firms in the 10-19 and 20-49 size categories (over 14%). The number of over 500 employees firms increased by only 3.4%.

Between 1995-99, SME employment grew by 10.4%, an annual rate of 2.6%. Large firm employment increased by an annual rate of 3.57%. The largest growth rate was in employment in firms with 1-4 employees. The number of firms in this size group grew by only 2.3% but firm employment increased by 24.7%!

SME Entry, Survival and Exit Rates

During the first few years of the 1990s, the number of newly started enterprises decreased somewhat. The trend was broken in 1994 when a significant increase of 65% occurred. One important reason behind this increase was the expanded use of the Start-up grant as a labour market measure. Since 1994 the yearly number of new enterprises seems to have stabilised at around 35,000. This means that the start-up rate has been declining (Table 3). In 1999, 35,000 new enterprises were started in Sweden. Related to the total number of enterprises this produces a business renewal factor\(^52\) of 7.2%, a decline from 8.5% in 1995. In relation to the population, this produces an establishment frequency of 6.3 new enterprises per 1000 inhabitants. Exit rates are low, compared to other countries in this study, which to some extent explains the higher three year survival rate of Swedish firms. The exit rate is an average 2.6% per year, yielding a turbulence rate of 10.4%.

\(^50\) Women as Entrepreneurs in Sweden and the UK, p. 35.
\(^51\) Ibid.
\(^52\) i.e. net creation of enterprises as percentage of total enterprise stock.
Table 3 – Entry and Exit Rate of Swedish Enterprises, 1995-2000

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of firms</th>
<th>New starters</th>
<th>Entry Rate</th>
<th>Exits</th>
<th>Exit Rate</th>
<th>Net Increase</th>
<th>Turbulence Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>409,342</td>
<td>35,000</td>
<td>8.5%</td>
<td>10,924</td>
<td>2.7%</td>
<td>5.8%</td>
<td>11.2%</td>
</tr>
<tr>
<td>1996</td>
<td>433,418</td>
<td>36,000</td>
<td>8.3%</td>
<td>7,419</td>
<td>1.7%</td>
<td>6.6%</td>
<td>10.0%</td>
</tr>
<tr>
<td>1997</td>
<td>461,999</td>
<td>37,000</td>
<td>8.0%</td>
<td>22,297</td>
<td>4.8%</td>
<td>3.2%</td>
<td>12.8%</td>
</tr>
<tr>
<td>1998</td>
<td>476,702</td>
<td>34,000</td>
<td>7.1%</td>
<td>12,856</td>
<td>2.7%</td>
<td>4.4%</td>
<td>9.8%</td>
</tr>
<tr>
<td>1999</td>
<td>487,846</td>
<td>35,000</td>
<td>7.2%</td>
<td>6,262</td>
<td>1.3%</td>
<td>5.9%</td>
<td>8.5%</td>
</tr>
<tr>
<td>2000</td>
<td>516,584</td>
<td>n.a.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Avg.</td>
<td>35,400</td>
<td></td>
<td>7.8%</td>
<td>11,951</td>
<td>2.6%</td>
<td>5.2%</td>
<td>10.4%</td>
</tr>
</tbody>
</table>

Source: NUTEK/SCB for first three columns. Column four is a calculated number based on the change in number of firms on an annual basis, given the number of new starters.

More than 80% of new enterprises are established in the services sector. The largest group within the service sector are financial enterprises and business services. At the same time, the relative increase in the service sector was highest among enterprises within education, medicine and health care and other personal and community services.

Studies reveal that the three-year survival rate of new firms is around 60% (based on follow-up studies by NUTEK and Statistics Sweden).\(^5^5\)

**Regional Variation**

Most new enterprises are established in the three large city regions and especially in the Stockholm region. Outside the large city regions the average establishment frequency is 4.8 enterprises per 1000 inhabitants compared to an average of 7.5 enterprises per 1000 inhabitants in the large city regions.

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\(^5^5\) *SMEs in Sweden*, 2001, p. 22.
ORGANIZATIONS CONSULTED

1. NUTEK
2. Ministry of Industry, Employment and Communications
3. Swedish Foundation for Small Business Research
4. ALMI
5. Swedish Association of Ethnic Entrepreneurs

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CHAPTER TEN

THE CASE OF TAIWAN, ROC

INTRODUCTION

Taiwan, ROC is an island to the southwest of the Asian continent, 36,000 square kilometers in size, with about 22.2 million inhabitants, up from 8 million in 1953. It is one of 35 provinces of the Republic of China. In 1999, total GDP was US$357.06 billion and per capita GDP was US$16,100. Taiwan has become increasingly industrialized over the past 45 years. Agricultural output/GDP has declined from 32.2% in 1953 to 2.7% in 1999 while manufacturing output to GDP climbed to 33% and service sector output to GDP to 64%. It has been enjoying annual economic growth rates of 8.3%, much higher than most other countries in this study and estimates were that GDP in 2000 could reach US$440 billion. Its rapid economic growth has earned it the reputation of being *The Asian Miracle*. In spite of this rapid growth, Taiwan has been able to maintain a balance between inflation and unemployment and a balanced distribution of income (the distance between the incomes of the top 20% and the bottom 20% of families is no greater than a factor of five). About 20% of Taiwan’s GDP is accounted for by the State-run Sector.

The labour force totalled 9.7 million in 1999 producing a labour force participation rate of 58%; 71% among men and 45.6% among women. The unemployment rate is less than 3%. Within the total employment structure, however, there is considerable disparity between men and women – not only is the labour force participation rate significantly higher for men than women, but women are less likely to be employed in the SME sector. Sixty-two percent of SME employment is male and 38% female. Within government and large enterprises the disparity is less – 42% and 48% of their respective employees are female.

SME development is considered critical to the growth of the economy and has been a key element of economic development initiatives since 1953. SMEs make up more than 97% of all enterprises (over one million SMEs in 2000) and employ over 78% of the work force. The importance of SMEs to the Asian economy has been even greater since the Asian crisis. It is

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2 Ibid.
5 White Paper on Small and Medium Enterprises in Taiwan, 2000, Small and Medium Enterprise Administration, Ministry of Economic Affairs, ROC.
6 Ibid.
believed that Taiwan suffered less from the crisis than other Asian economies because SMEs play such a dominant role in Taiwan economic policy, compared to Korea or Japan where more attention was paid to the large-enterprises.

In addition to employment, SMEs generate about 30% of overall sales, almost half of value-added\(^7\) (47.5%) and over 20% of total direct exports, an amount of NT$1.23 trillion in 1998.\(^8\) The absolute sales volume of SMEs has been quite constant since 1995, but because large firm sales have been increasing, the SME share has declined from 35% in 1995 to just less than 30% in 1999.

The government has encouraged private sector development by evolving government-owned enterprises to the private sector on a gradual basis while allowing time to develop the entrepreneurial skills of the population to manage them. It has promoted enterprise by encouraging all Taiwanese to join a productivity movement and by assisting young people in starting their own small businesses. The government has successfully promoted the practice and adoption of a subcontracting system – large business to small business and one small business to another, to allow the sharing of investment cost and risk and achieve more flexible manufacturing. Taiwan recognizes that while SMEs are more flexible than large firms, they have fewer resources and thus need assistance. This is reflected in their economic policy and business support structures.

*Stimulating ‘vigorous entrepreneurship’ is considered an important part of economic policy.*\(^9\) According to official reports, the private property system, open market access and the traditional ideology of ‘making oneself the boss’ are major factors behind the creation of 40-50,000 new enterprises and 6,000 – 7,000 newly installed factories every year.

**SECTION 1: DEVELOPMENT AND EVOLUTION OF SME POLICIES AND PROGRAMS**

**A: Taiwan’s Industrial Development Policy**

Taiwan's history of industrial development started at the end of the Second World War and from decade to decade has progressed through a series of policy waves. In the 1950s and 1960s, these included import substitution, export development and foreign investment, infrastructure development (construction of railway systems, harbours) and support for major heavy industries, such as steel and autos. In the 1970s the Industrial Development Bureau was established to support further development of the manufacturing sector and to focus on creating a regulatory environment for business. In the 1980s the government shifted its focus towards the technology sectors and higher value-added activities, adopted the centre-satellite factory system from Japan and established a number of high technology industrial parks. The

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\(^7\) Value-added is defined as the total sales value minus intermediate inputs.


vision was to create an ‘Island of Technology’ through R&D support and Quality Programs. In the 1990s the focus moved to ‘upgrading industry’ through use of tax incentives and low interest rate loans.

The current focus of the Industrial Development Bureau, which has seven divisions, is on the manufacturing and technology sectors. One of the objectives is to become the manufacturing center for Mainland China in high technology and high value-added activities. It has developed targets for ten emerging industry sectors: communications, information technology, consumer electronics, semi-conductors, precision machining and automation, aerospace, advanced materials, special medical devices/health care, pollution control and treatment, and special chemicals/pharmaceuticals.\(^\text{10}\) Foreign investment is also an important part of the overall economic strategy (Taiwan is ranked #14 in the list of global exporters) and the government aggressively seeks and develops overseas manufacturing and global networks. Responsibility for Taiwan’s trade strategy is delegated to the China External Trade Development Council (CETRA), a non-government organization, founded in 1970, which is authorized by the government to carry out government policy on trade development and to promote foreign trade.

In the formulation of industrial policy, an effort is made to consider the policy implications for the SME sector. The Taiwan government assessed that SMEs face limitations in terms of capital, personnel and scale of operations and are at a disadvantage when it comes to research and development and marketing, thus these became the priorities in government support programs. Support for SME development has evolved through several phases with the major initial emphasis on access to capital and on strengthening the management skills of SME owners, including micro-enterprise skills. SME assistance has been formulated in response to the problems that SMEs encounter in a more global environment, for example, improving the internationalization competence of SMEs.

The major difference between SME Development and Industrial Development in Taiwan was explained by officials of the Industrial Development Bureau (IDB) as one of emphasis – Industrial Policy focuses on addressing the technology challenge (e.g. automation) and SME Policy addresses the management challenge. In terms of allocation of government resources to these two policy domains, more resources are dedicated to the former. In April 2000, there were 226 employees in the IDB and just over 100 employees in the Small and Medium Enterprise Administration.

**B: SME Policy Development**

SME policy was first formulated in 1954 to address the financing problems of SMEs. This is similar to the initial priority for SME support in other countries that started early, like the US and Canada. A ‘Small and Medium Enterprise Working Group’ was established in 1966 for the purpose of providing business loans and working capital and enhancing the healthy

\(^{10}\) ‘Strategies and Measures for the Development of the Top Ten Emerging Industries,’ Industrial Development Bureau, Ministry of Economic Affairs, ROC.
growth of SMEs. In 1968, the Working Group was reorganized as the Small and Medium Enterprise Guidance Office to conduct surveys of the SME sector, study support methods of other countries and promote technology, management, financing, and co-operative organizations. This was modelled after successful examples in the US and Japan. In 1970 the Ministry of Economic Affairs established the Small and Medium Enterprise Joint Service Centre to promote technology and management research and development and to strengthen the provision of guidance to SMEs. The Small and Medium Business Guarantee Fund was set up in 1974 and the Taiwan Business Bank in 1976.

In 1981, due to the rapid increase in SMEs, the Ministry of Economic Affairs established the Small and Medium Enterprise Administration (SMEA) as a department with sole responsibility for fostering the sound development of SMEs. The Statute of the SMEA was promulgated in 1984. The strategic priority of the SMEA was to strengthen existing SMEs by providing them with access to guidance. This was based on the assumption that the ‘operating environment’ is the most critical element, therefore management skills are the key success factor. To help SMEs enhance their ability to obtain bank financing seven of Taiwan’s banks co-operated in the establishment of the SME Integrated Assistance Centre in 1982, financing it with NT$100 million initial-capital. In 1983 the government opened the door for the emergence of domestic venture capital firms in Taiwan and provided the first round of financing for venture capital firms. They did this in an attempt to encourage the development of the high technology sector.

The Statute for the Development of Medium and Small Enterprises was legislated in 1991. This provided the authorities for measures related to R&D, SME access to government procurement, mutual co-operation (SME networks), rationalization of SME operations, skills upgrading, formation and accumulation of capital and financial assistance, the establishment and supervision of assistance systems and the publication of an annual report on the status of the SME sector and government’s efforts to implement policy measures. Under the Statute, the government established a SME Development Fund (SMEDF) to assist SME development companies and to implement a series of guidance systems. The SMEDF is used to provide ‘special case loans’, establish Incubator Centres and to provide Adjustment Funds to help SMEs overcome disasters (such as earthquakes). Assistance is also offered to industry associations to hold conferences, provide industry information and conduct overseas fact-finding missions. A SME Guidance and Service Centre and a network of 22 SME Service Centres were created throughout the Island, forming a comprehensive support network for SMEs.

In 1994, the Executive Yuan formally established the Small and Medium Enterprise Policy Deliberation Committee, a committee composed of representatives from other governmental agencies to act as an advisory group for the government when co-ordinating SME related matters and implementing measures to provide prompt solutions to SME operations. In 1996, the government launched a national incubator strategy and established the Youth Facilitation Commission aimed at designing and implementing programs to assist young entrepreneurs. In 1997, the protection of SMEs became a constitutional provision, thus ensuring the growth and development of the SME sector.

11 The evolution of SME support systems in Taiwan is taken from ’R.O.C.’s SMEs Ready for the Next Millennium’, Small and Medium Enterprise Administration, Ministry of Economic Affairs, R.O.C.
The Small and Medium Enterprise Administration

The Small and Medium Enterprise Administration (SMEA) is the body responsible for administering SME policy under the legislative mandate of the Statute of the Small and Medium Enterprise Administration promulgated in 1984. The SMEA has the following mandate:

- Developing plans for SMEs and the drafting of relevant laws and regulations;
- Providing guidance and evaluation services to SMEs;
- Conducting surveys and research addressing SMEs;
- Personnel training, production technology improvement, and other relevant services provided to SMEs;
- Guidance concerning financing and management improvement provided to SMEs;
- Other guidance services to assist the development of SMEs.

The SMEA reports to the MOEA, which reports to the Executive Yuan. It has about 100 employees and three program divisions, Planning and Research, Guidance Services and Training Development, and International Affairs. The SMEA manages the network of SME Guidance Centres and five of the ten SME Guidance Systems. The SMEA offers a financial assistance program (start-up loan) to young entrepreneurs (defined as people under 45 years of age) and delivers some seminars to encourage people to start up businesses. It is responsible for facilitating a SME policy research and consultation process, the preparation of an annual White Paper on Small and Medium Enterprises in Taiwan, promoting entrepreneurship and representing the government in international SME organizations (e.g., APEC SME Policy Working Group).

The Executive Yuan set up the Small and Medium Enterprise Policy Deliberation Committee in 1994 as an advisory group for the government when co-ordinating SME related matters. This committee is composed of representatives from the governmental agencies of interior affairs, economic affairs, finance, labour affairs, as well as industry and academic members. The responsibilities of the Committee are: 12

- To improve and develop the business environment for SMEs,
- To set up identification criteria for SMEs,
- To provide financing and guarantees for SMEs,
- To devise SME tax regulations,
- To develop assistance programs to increase SME participation in public construction and government procurement,
- Other issues relating to the improvement and development of SMEs.

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The Committee collects relevant information and co-ordinates meetings for consensus decisions and then requests the authorities to re-draft or revise proposals for further review by the Committee. The most concerned issues at present are SME taxation, financing, SME access to procurement and the ‘environment’ for SME development.

**B: Current SME Policies, Programs and Structures**

The priorities of Taiwan SME policy focus on 1) improving the overall economic environment by eliminating legal obstacles, 2) helping SMEs to obtain production factors and upgrade their competitive advantages, 3) providing easier access to financing, 4) helping SMEs participate in government purchasing and 5) building networks to serve local and community-based SMEs.\(^{13}\)

The 1999 White Paper reported on the government’s achievements in six areas:

<table>
<thead>
<tr>
<th>Policy Objective</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address the problem of SME lack of collateral</td>
<td>SME Credit Guarantee Fund</td>
</tr>
<tr>
<td>Support SME guidance programs and investments</td>
<td>SME Development Fund</td>
</tr>
<tr>
<td>Help SMEs deal with capital investment problems</td>
<td>SME Investment Promotion Program</td>
</tr>
<tr>
<td>Address the problem of high-priced land and develop industrial lands for SME</td>
<td>Acquisition of Industrial Land</td>
</tr>
<tr>
<td>Improve access of SMEs to government contracts</td>
<td>Assisting SMEs in Government Procurement Projects</td>
</tr>
<tr>
<td>Boost the competitiveness of SMEs</td>
<td>SME Service Centers, Guidance Systems, National Incubator Strategy, Instant Solution Center, R&amp;D funds</td>
</tr>
<tr>
<td>Assist SMEs to build international activities and networks</td>
<td>SME Awards</td>
</tr>
<tr>
<td>Recognize SME achievements, create role-models and reward certain behaviours (e.g., innovation, quality, growth)</td>
<td></td>
</tr>
<tr>
<td>Enhance the local network of volunteer mentors</td>
<td>Honorary Volunteer Directors/Advisers</td>
</tr>
</tbody>
</table>

**The Entrepreneurship Agenda**

The current SME policy and strategy of the Taiwan government is set out in *R.O.C.’s SMEs Ready for the Next Millennium*.\(^{14}\) In addition to the policy objectives and measures outlined above, this document also refers to the objective of ‘assisting the creation of new firms’. Under this policy objective measures are identified as ones to help entrepreneurs obtain start-up funds, provide business information and consulting services to new entrepreneurs and to provide general knowledge about starting a business.

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\(^{13}\) *White Paper on SMEs, 2000*, Chapter 9.

\(^{14}\) *R.O.C.’s SMEs Ready for the Next Millennium*, pp. 13-17.
New business creation is considered increasingly important to the economy in this period of transformation. Traditional entrepreneurs are finding the competitive environment increasingly difficult leaving them no options except to reduce the scale of their operations or to cease business altogether. The government is beginning to ask questions about the quantity and quality of new firms and this has led to the 2000 study of new enterprises\textsuperscript{15} and a full chapter dedicated to the development of new SMEs in the 2000 White Paper. Existing initiatives, considered part of creating an environment conducive to the establishment and development of new enterprises, are the Youth Enterprise Loans Scheme, the venture capital scheme and the national incubator strategy.\textsuperscript{16} Authors of the 2000 White Paper recommend that more needs to be done to address the needs of entrepreneurs prior to the establishment of an enterprise and during the early stages of its establishment. At the pre-enterprise stage they suggest the biggest need is for timely information and the cultivation of technical and management capabilities. Specifically they suggest that the Youth Enterprise Loan Scheme be strengthened to provide more in-depth training for would-be entrepreneurs, that a market data inquiry system be set up on the Internet to highlight opportunities in growing sectors, that public training institutions provide management training for people interested in starting a business and that incubators play a more proactive role in providing opportunity information in the communities in which they are located. To support entrepreneurs in the early stages of enterprise development, the biggest needs are financing and product and market development. They recommend that the Youth Enterprise Loan Scheme be expanded to place an equal emphasis on loans and guidance, that incubators provide start-up and early stage guidance to clients not located on-site and that more guidance should focus on start-ups in the franchise system. The assessment of programs targeting firms in the expansion phase is that they are adequate.

D: Description of Existing Programs and Services in Support of Entrepreneurship

A description of the SME programs and services will be presented under the headings of Regulatory Environment, Promotion, Education, Small Business Counselling and Training, Target Groups, Networks, Access to Financing and Research and Evaluation.

The Regulatory Environment for SMEs

Regulations on Entry and Exit

A recent international study of the regulation of entry ranked Taiwan 25\textsuperscript{th} of 75 countries in the number of procedures required to obtain all approvals and meet all requirements to start a new business.\textsuperscript{17} Eight procedures are required, it takes 46 days to obtain all approvals and

\textsuperscript{15} 'A Study of Newly Created Enterprises in Taiwan,' Chung-Hua Institution for Economic Research, Taipei, 2000.

\textsuperscript{16} White Paper on SMEs, 2000, Chapter 6.

meet all requirements and the cost is $0.0072$ of per capita GDP (the measure used to standardize cost across countries). Since the average number of procedures was $10.17$ and the average number of days was $63$, Taiwan did not fare badly in the study. The cost of entry is low compared to the average per capita GDP cost of $0.34$. However, it may be more difficult to incorporate a company in Taiwan, as an incorporation requires seven directors. In countries like Canada, where there only needs to be one shareholder to incorporate a business, the requirement for seven would seem excessive. In the Taiwan context, it may not be. In terms of business failure, bankruptcy laws are stringent. All debts must be repaid, regardless of how long this takes. Therefore the cost of failure is high.

**Administrative and Regulatory Burden**

Reducing administrative burden on SMEs and eliminating obstacles is one of Taiwan’s SME policy areas. The Executive Yuan has formed the ‘Small and Medium Enterprise Development Promotion Task Force’ to accelerate the pace of amending laws affecting SMEs, eliminating obstacles to compliance, and generally establishing a fairer and more reasonable legal environment for SMEs. This Committee plays a key role in the better coordination of government actions in improving and developing the business environment for SMEs.

The SMEA plays an important role in this area. It educates related government departments about the nature of SME operation while they stipulate laws and regulations, holds seminar tours on commercial and business laws and regulations in practice to collect the opinions of SMEs and related associations, spots legal conditions that are out-of-date, and invites scholars and experts to form groups to conduct in-depth studies on current commercial and business laws and regulations and propose suggested changes to protect the rights of SMEs. The SMEA holds public hearings to report on the amendment of certain laws and regulations suggested by these groups of experts and invites authorities to explain the position and purpose of the legislation. After discussions, negotiations and communication, the SMEA gathers viewpoints and formulates amendatory suggestions or suggestions for alternative feasible measures. Today, government departments evaluate the impact on SMEs while drafting or amending laws and regulations. A SME law and regulation inquiry website is being developed to make this information more transparent and accessible to SMEs.

The government also encourages legislators to eliminate obstacles to participation in government purchasing by SMEs and to strengthen the system whereby SMEs obtain information on government purchasing.

**Taxation**

The Government offers a tax credit of up to $20\%$ to private individuals for investments in SMEs to address the equity gap. Its tax credit program for venture capital firms ended recently after having been in place since $1983$ to stimulate the development of the industry.

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Promotion

The culture of entrepreneurship is embedded in Taiwanese families and society. Officials in Taiwan shared the Chinese belief that ‘it is better to be the head of a chicken than the tail of an ox’; thus Taiwanese aspire to being a boss. Most Taiwanese consider that starting their own enterprise is the best way to find employment. In the early development days, the government invited everyone to become part of the ‘productivity movement’ and promoted the concept ‘let your living room be a factory and let your backyard be a chicken-yard’. Having said that, the government and its partners are actively involved in promoting entrepreneurs and SMEs.

Awards

The major formal entrepreneurship promotion activity is SME awards. Several awards are given, or sponsored jointly by government bodies, particularly the SMEA and the Small and Medium Business Credit Guarantee Fund (SMBCGF). Ten awards are given annually to different types of businesses under the Young Entrepreneurs Award program (sponsored by SMBCGF and the China Youth Career Development Association). Since 1978, over 300 start-up young entrepreneurs have been recognized. One of the awards is given to the ‘significant other’ of an entrepreneur (e.g., parent, spouse, banker) in recognition of the support young entrepreneurs need from a number of other people. A Certificate and Plaque are presented by the President of Taiwan at a formal awards ceremony. Newspapers and television are used to promote the program and these awards set a benchmark for every young person. A Young Entrepreneur Abroad award is also given to a Taiwanese who has started and built a business in another country. It is sponsored by the China Youth Career Development Association and Taiwan Councils abroad make the nominations. This is seen an innovative way to build trade links between Taiwan SME owners.

Eight years ago, the National Awards of Small and Medium Enterprises was created. Eighty-nine SMEs have received this award so far. These winners are made part of the Honorary Advisers and become part of the network of voluntary consultant advisers who talk to schools students and make visits to each others’ businesses.

The winners of all these awards are widely promoted, success story profiles are published on government websites (see www.moeasmea.gov.tw/english/html) and winners are used to speak at conferences.

Television and Radio

In a partnership between the NASME and the SMEA, a weekly program aired on Taiwan television for a four-year period, ending in 1999. It was the first television program in Taiwan history targeting the SME sector and was aired nightly from Monday to Thursday with different program highlights each night of the week ranging from Financial and Economic Hotlines to Who’s Who – The Entrepreneurs. The program format allowed for call-

in viewers to promote immediate communication between program hosts and guests and both domestic and overseas viewers. The objective was to profile SME issues and to create more awareness of the knowledge and resources required to support SME development.

Since May 1999, NASME, the SMEA and the Taipei Radio Station have partnered in the radio broadcast of a weekly program ‘SME Masters’, aimed to bridge the communication gap between the government and SMEs and to provide strategic information to entrepreneurs. Incoming and out-going calls provide a dialogue between studio guests and listeners. Feedback on this program is very favourable.

**Events**

The Taiwan government is also very involved in APEC and takes many opportunities to organize SME workshops and seminars in Taipei. There is a plethora of very high quality promotional materials on a vast array of SME issues and entrepreneur profiles.

**Entrepreneurship Education**

There is very little to report on formal entrepreneurship education activities in the Taiwan school system. There is limited exposure to entrepreneurship courses at the university level. The fact that the government is planning to compile entrepreneurship-related curriculum and teaching materials may indicate a stronger emphasis on this in the future. However, the National Taipei University does offer a Continuous Study for SME Management (MBA) to cultivate the business management talents of SMEs. 129 SME managers enrolled in this Continuous program in 2000.

**Small Business Support Network – Training, Counselling and Advisory Services**

A number of organizations deliver training and counselling services to new and existing SMEs. Some of these are government offices, like the network of SME Guidance Service Centers, others are independent non-government organizations, such as the China Youth Career Development Association and the Small Business Integrated Assistance Centre. The National Association of SMEs is also involved in the delivery of SME training programs. Much of this training and counselling support is provided free of charge by government offices or subsidised by government through the private sector.

**SME Guidance and Service Centres**

The SME Guidance and Service Centre was created to provide SMEs with production information and inquiry services. A network of 22 SME Service Centres was set up throughout Taiwan.
SME Guidance Systems

Ten SME guidance system programs form part of the SMEA strategy and approach (Figure 1). Twenty-five of these are administered by the SMEA and its partners; the remaining programs are either the responsibility of the Industrial Development Bureau or the Board of Foreign Trade and Commerce Department with CETRA. For the most part, these guidance systems are oriented towards existing SMEs. However, one of the policy objectives of the Taiwan government is to ‘assist the creation of new firms’ by way of helping entrepreneurs obtain business start-up financing, providing business information and counselling and providing general knowledge concerning starting a business. These services can be expected to expand in the future.

Figure 1: SME Guidance Systems, SMEA

| 1. *Finance and Credit Guidance System | to provide credit and instructing and assisting SMEs in improving their financial structures |
| 2. *Management Guidance System | to guide and assist SMEs in setting up management systems and boosting management efficiency and development of human resources |
| 3. *Information Management System | to guide and assist SMEs in the collection of information and the establishment of information management systems to enhance efficiency through the utilization of information technology |
| 4. *Mutual Support and Co-operation Guidance System | to guide and assist SMEs in conducting exchanges and co-operative activities in order to bolster their competitive ability |
| 5. *Quality Improvement Guidance System | to promote the results of quality guidance and raise the quality of products and services |
| 6. Marketing Guidance System | to assist SMEs in market expansion by collecting and providing the necessary market information |
| 7. Production Technology Guidance System | to guide and assist SMEs in boosting technological levels and adopting new technologies |
| 8. Research and Development Guidance System | to assist in the development of new products and technologies and support the co-operative R&D efforts of SMEs |
| 9. Industrial Safety Guidance System | to provide guidance to SMEs in establishing or improving industrial safety systems and assisting in the resolution of industrial safety problems |
| 10. Pollution Control Guidance System | to provide guidance to SMEs in improving pollution control facilities and resolving pollution control problems. |

Instant Solution Center

An Instant Solution Center was established by the SMEA under the MOEA in 1998 to handle all kinds of inquiries and petitions from SMEs. It handled 1,637 cases in 1998, with general counselling (1,055 cases) leading the list of assistance requested, followed by debt assistance.

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21 Details on each of these Guidance Systems is presented in 'The Experience and Achievements on Providing Guidance and Assistance to Small and Medium Enterprises’, 1999.
22 R.O.C.’s SMEs Ready for the Next Millennium, p. 16.
(262 cases), assistance in acquiring financing (183 cases), assistance in land acquisition (62 cases) and others (75 cases). Most clients need help solving some sort of financial crisis.

**The SME Integrated Assistance Centre**

The Small Business Integrated Assistance Centre (SBIAC) was established in 1982 as a co-operative action of seven of Taiwan’s banks to help SMEs enhance their ability to obtain bank financing. The SBIAC now employs about 40 people, the majority of whom provide counselling and advisory services to SME clients. Many of these clients are referred by banks who have initially rejected their proposals for financing; two-thirds of their over 3000 clients per year are specifically assisted with financial counselling services. In normal cases, one of the banks rejects a SME proposal for financing; the client is referred to the SBIAC; a consultant does a diagnosis of the SMEs situation; the client is assisted with a restructuring of their financing proposal based on the diagnosis and analysis; the loan application is resubmitted and in 40% of the cases, the financing decision is favourable. Through better working capital management practices, many of the remainder are able to solve their immediate financing problems without acquiring more bank debt.

The SMEA is also a partner in the SBIAC, providing annual funding so that counselling and consultancy can be offered to a wider range of SME clients. This funding covers 50% of the cost of an on-site diagnosis or other counselling service provided by the SBIAC. Teams are formed to do on-site diagnosis and diagnostic tools are used to provide consistent and efficient consultancy services. For the most part these are process tools which include a checklist outlining what documents need to be prepared, the information to be considered by the consultant (e.g. financial statements) and the steps in the investigation process: 1) gathering company information, 2) diagnosis of situation, 3) meeting with the SME President, 4) preparation of recommendations. In some cases, the SBIAC consultant will actually work for the SME on a full-time basis for a few months to help with implementation of the recommendations. In terms of clients, the SBIAC works with both young and mature companies. However, a different approach is used depending on the nature of the problem and the SMEs stage of company development.

The SBIAC produces an annual report, presenting a statistical analysis of their SME clients and outlining the impact of the service. As indicators of impact, they collect client data on increases in sales, reductions in labour costs, positive changes in financial ratios, increased efficiency in financial reporting (reduction in the number of days it takes to close financial statements at the end of each month, 30 days to 10 days, for example). Company status is recorded before and after the assistance is provided to enable the measurement of change in company performance.

**National Incubator Strategy**

‘Entrepreneurship’ and ‘innovation’ are the core of incubating systems. From 1996, the National Incubator Strategy has been an important part of Taiwan’s SME policy and strategy. An Incubator Center is defined as a place where individuals or enterprises are allowed to incubate new businesses and new technology, to start up a new business and to conduct
enterprise transformation and upgrade. Development of ‘Guidelines for Encouraging the Establishment of Small and Medium Enterprises Incubator Centres by Public and Private Sector’ and use of the SME Development Fund to fund the development of a series of SME incubators across the country aim to ‘nurture entrepreneurs out of enterprises or individuals’ to speed up the industrial upgrade. Fifty-two (52) SME incubators have been established – mostly on university campuses. Individual incubators range in size with objectives to incubate as few as five to more than 35 new enterprises per year. Educational institutions ranging from media and arts education, teacher education, and humanities and technology are all involved in the Incubator Center Program. The primary functions of the Incubator Centers are to reduce risk and start-up costs, provide easier access to guidance, academic and technical expertise, speed up product and technology development, and provide training. Taiwan implemented its national incubator strategy after reviewing experiences in the US, Europe, Singapore, Japan, Hong Kong and Mainland China.

All incubators offer a range of services including space and equipment, technology and professional manpower support, business service support, information support and administrative support. Strategic alliances, networks between the entrepreneurs and local industries and contact with graduate students, professors, and researchers are all encouraged and incorporated into the design and delivery of incubator services. Information on industries, markets, technologies, and government policy are provided and business service consulting groups are set up to provide operational consultancy. Access to investment opportunities is also offered. Over 670 businesses have started up in these incubators. Many of these incubated enterprises will move to one of Taiwan’s Science Parks.

This is a case of a well-integrated and comprehensive support structure for the development of new entrepreneurs and their business ideas. The SMEA is constructing an evaluation system to examine the incubation results under its ‘Five-Year Plan for Enhancing the Function of Incubation for SMEs’.

**Chinese Youth Career Development Association (CYCDA)**

The China Youth Career Development Association (CYCDA) started in 1964. The goal is to exchange career development models and information, promote youth business co-operation and provide networking and social activities. There are over 7,000 current members and over 10,000 entrepreneurs have participated in their programs. Members are graduates of their programs who become volunteers/consultants and contribute to the on-going activities of the association. There are 21 other volunteer consultants who provide advice to young entrepreneurs and evaluate their loan proposals and business projects (legal, tax, accounting and business planning aspects).

There are 23 affiliates within the Association and 35 employees in the Taipei office. They started promoting entrepreneurship 30 years ago because at that time it was difficult for youth to get a job and it was also difficult for young people to start a business because they could

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24 Ibid.
25 *Small and Medium Enterprise Incubation Centers in Taiwan*, SMEA.
not access start-up capital. The Association decided that providing loans to young entrepreneurs would be a good strategy and would encourage others to create their own job.

The Association partners with SMEA to deliver projects and activities, on a contract basis. For example, they offer a start-up loan of up to NT$12 million to young people (aged 23 - 45) to start a business. There is a grace period of up to one year during which time the young client pays only the interest and the repayment period can extend for up to 10 years. The loan is a personal loan, which the youth can then invest in the business. The minimum age is 23 because of the held view that one needs some time to acquire work experience prior to starting a business – at least three years of experience and some savings. A CYCDA loan committee assesses the loan application but one of Taiwan’s banks makes the loan. The CYCDA has also set up two Industrial Parks for young entrepreneurs in Taipei City and Taichung.

The CYCDA provides courses and instruction to young people – offering over 1000 training programs a year through its affiliates. The Vocational Training Bureau often contracts the association to deliver training seminars. They produce commercial information and management publications and tapes featuring entrepreneur success stories and a series of ‘how-to start a business (a florist shop, a bakery, a shoe maker shop, a convenience store, etc) publications’ written by other young entrepreneurs. These have a ‘recipe/menu’ approach built on success stories. Opportunity information is presented in a series of books.

They also organize an annual Awards program for Young Entrepreneurs, giving 10 awards each year to different types of businesses.

**Identification of Target Groups**

**Development of Young Entrepreneurs**

Taiwan is one of only two countries in this study where the Head of State has established a Commission on youth entrepreneurship to explore ways to encourage the development of young people in entrepreneurial careers.

The National Youth Commission (Executive Yuan) was first established in 1966 and has enacted programs regarding youth guidance. Helping young people establish their own businesses has been an important part of this work. As early as 1972, the Commission was involved in setting up special youth industrial parks in order to provide young entrepreneurs with an established ideal environment to open factories, (e.g., Taoyuan Youth Industrial District and Taichung Youth Industrial District).26 There is a Youth Enterprise Loan Scheme, a start-up loan program for recipients between 20-45 years of age, a Young Entrepreneurs Awards program, and an organization with primary responsibility for youth development (as described above). The basic framework in place to develop young entrepreneurs in Taiwan is modelled in Figure 2.

In 1998, the National Youth Commission established a network of business Start-up co-ordinators to strengthen local counselling support for new young entrepreneurs. Much of this counselling is provided by other model young entrepreneurs.

**Development of Women Entrepreneurs**

There are few strategic efforts to increase the number of women entrepreneurs. The CYCDA does offer some special seminars for women who find themselves divorced with limited opportunities for employment and, as mentioned earlier, many married women work as ‘boss’ wives’ in their husbands’ businesses as part of family enterprise. In her report for APEC, after a thorough review of government policies and legal regulations relevant to business start-up, investment, financing, and employment training and assistance programs, Shin-Yuan Lai concluded that there was ‘no evidence to show that there exists any programs in the government policy or legal framework that are in support of women entrepreneurs particularly’. 27 This is an area worthy of examination by the SMEA. Shin-Yuan Lai makes six recommendations for action, including the development of support agencies and networks for women entrepreneurs, offering business start-up training to women in educational institutions, providing incentives to encourage banks to give loans to women entrepreneurs, enacting a legal framework which emphasizes gender equality and reporting SME data in a gender de-segregated basis so more is known about the differences between male and female owned SMEs.

**Development of Technology-Based Entrepreneurs**

Although not overtly, efforts do seem to be targeted at creating or motivating technology based entrepreneurs. This is reflected in the National Incubator Strategy and the campaign to

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attract Taiwan expatriates back to the Republic to start enterprises. About a half of the 150-plus companies which have sited their facilities in the Hsinchu Science Based Industrial Park were founded by Taiwanese engineers repatriated from the United States. One of the key factors which has made the industrial park a success was the invitation extended by the government to Taiwanese engineers residing overseas. In an effort to lure them back, the government promised them the same amount of annual income they earned in the United States and provided housing units. The Commission regularly sponsors business management lectures, youth business Start-up research, exchanges, and product exhibitions and activities to foster the development and growth of assisted businesses.

**Networks**

A feature of Taiwan’s overall SME policy is a commitment to forming government-private sector partnerships and networks. According to the President of the SMBCGF, ‘networks are important for entrepreneurs so they can exchange information and learn from each other quickly. Someone has to help facilitate this for them. It's government's role to fund non-profit organizations so they have the resources to do this’. The SMEA works with a number of local industries and groups to organize events, alliances, training sessions, exhibitions and sales promotions. A number of examples are given in the 2000 White Paper on SMEs, Chapter 9.

**SME Honorary Directors**

One of the most innovative networks in this international case study is the SME Honorary Directors network of volunteers who agree to provide guidance and mentoring to other SMEs. The National SME Award and other winners of SME awards are formed into this special network along with executives and government officials who have lots of experience in enterprise development. There are over 4000 members who are actively involved in collecting and reporting SME views, answering questions, strengthening existing local service networks and implementing localized guidance services. Honorary Directors Associations are now being formed by individual city and county governments.

**The National Association for Small and Medium Enterprises**

The major SME networking organization is The National Association of Small and Medium Enterprises, Republic of China (NASME). NASME was formed in 1972. By 1998, it had 4000 members, 68% from the SME manufacturing sector, 10% from the service sector, and 22% from the SME Commercial sector, and had built a network of 23 county and city-based SME Associations. NASME regards itself as the ‘spokesman of the SME society and the communication bridge between the private sector and government authorities’. It offers a variety of services to meet the needs of its members, including business opportunity events, awards (NASME hosts the National Award for Outstanding Small and Medium Enterprise

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and manages the Small and Medium Enterprise Innovation Research Award, promotion activity, surveys and workshops and seminars to help SMEs improve their management skills and international competitiveness. The 1998 training itinerary included courses and seminars such as ‘The Mrs. Boss Workshop’, the SME Second-Generation Management Workshop, the Management Up-to-Date Manager Readers’ Club, Courses of Administrative Practices for Enterprise Managers, and Operation and Management Seminar. Over 11,000 SMEs participated in these various seminars and forums in 1998.

Lots of its activities are partnered with the SMEA; the NASME also provides the Secretariat for the International Council for Small Business – Republic of China affiliate (ICSB-ROC). ICSB-ROC, an affiliate of the International Council for Small Business, provides a network for researchers, academics, business associations, government officials and entrepreneurs.

**Access to Financing and Seed Capital**

Government plays a large role in the provision of financing to new and existing SMEs both directly and indirectly. As part of the Statute on Medium and Small Business, the government dictates that the by-laws of every bank must provide for the setting up of a SME Service Centre at each of its branches and the allocation of a certain proportion of loan funds to SMEs. There is evidence, however, that the level of private bank lending to SMEs is actually declining. The total balance of loans made to SMEs by ordinary banks in Taiwan decreased from 39% in 1992 to 29% in 1998. The rate of growth in bank loans to SMEs has also decreased substantially – from 25% in 1992 to 8% in 1997 to – 0.02% in 1998. It appears that as the process of privatization of banks goes ahead, the proportion of loans made to SMEs falls. The question is whether this is a result of the Asian financial crisis or a change in lending policy following privatization.

The government directly fills the SME financing gap through the Taiwan Business Bank, the Small and Medium Business Credit Guarantee Fund and a program to stimulate the development of a venture capital industry in Taiwan.

**Taiwan Business Bank**

The origin of the Taiwan Business Bank (TBB) dates back to 1915; it was renamed the Taiwan Business Bank in 1976 at which time it became part of the government's economic policy and the key bank in funding SMEs and the privatization of enterprise. The TBB was itself privatized in 1998 and is the largest special SME bank in Taiwan. With 2 million customers and NT$53.4 million in revenue, it has 124 business units in Taiwan, plus overseas units in Los Angeles, Amsterdam, New York, Hong Kong and Australia. It ranks 253rd in the list of the World's Top 1000 Banks. There are eight (8) other SME business banks in Taiwan but they are regional; TBB is the only national bank.

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31 *White Paper on SMEs, 1999*, p. 87.
It offers preferential interest loans, hosts a service centre for SMEs, supports a lot of R&D for the development of new products and new markets, conducts training for staff to improve their small business knowledge and ability to serve SMEs and are developing Internet banking products. The TBB has a staff-training centre outside Taipei City where they offer seminars every 1-2 weeks to their staff; they also send staff to attend seminars of other organizations. TBB has a special division for Industry and SME research.

The SME window at each TBB branch provides financial management and loan services to SMEs. There is a special Account Manager who is registered as a volunteer consultant (Honorary Directors network) and who refers clients in need of financial management assistance to the SMEA. If the client needs a diagnostic, they are referred to the Small Business Integrated Assistance Centre. Most SMEs do not have financial skills so this is seen as a big challenge. SME clients who lack collateral for TBB loans are referred to the Small and Medium Business Credit Guarantee Fund. TBB does about 25% of the SMBCGF guarantee amounts. Loan business of less than NT$10 million is also referred to the SMBCGF, although any client under NT$100 million in capitalization can apply for a guarantee loan. For the most part, TBB clients are existing SMEs with collateral - they can have loans for up to 20 years. Two-thirds of their clients are SMEs.

Small and Medium Business Credit Guarantee Fund (SMBCGF)

The SMBCGF was established in 1974 to address the problem of SME’s lack of adequate collateral for loans by providing them with a credit guarantee. It is designed to provide credit guarantees to those SMEs in normal operation but short of external financing and collateral. The SMBCGF is in line with the government’s financial and economic policies to assist SMEs.

Since 1993, about 100,000 cases are dealt with annually.\(^{33}\) In 1998, the total amount of loans guaranteed was NT$1.41 billion against NT$2.10 billion of loans acquired by over 38,000 client firms (although this was a decline in all levels of business from 1997).\(^{34}\) The amount guaranteed ranges from 50-90% of the loan but averages 70%. The annual delinquency rate on loans is 4.29%, but this had risen by the end of 1999 to 5.49% of loans, higher than the bank average.\(^{35}\)

Eligible clients include:

- manufacturing businesses, including construction businesses (paid-in capital of under NT$60 million);
- non-manufacturing businesses (annual sales between NT$3.5 million and NT$80 million; in operation for a year or longer);
- small-scale businesses (annual sales less than NT$3.5 million and eligible non-manufacturing business);
- prospective young entrepreneurs;

\(^{33}\) White Paper on SMEs, 1999, p. 197.


\(^{35}\) White Paper on SMEs, 2000, Chapter 9.
• enterprises in promotion of self-owned brand name internationally.

The SMBCGF program is very versatile, offering guarantees for 11 different types of loans/credit for a variety of purposes to a variety of clients (five categories as above). The loans are delivered through the 24 branches of the 48 domestic financial institutions with which the SMBCGF has contracts. The majority of outstanding credit guarantees are for General Purpose Loans (68.2%), Loans for Raw Materials (17.5%) and Policy-oriented Loans (7.9%). Over half of the credit guarantees are to manufacturing SMEs (52.3%) and 46.9% to non-manufacturing SMEs.

The SMBCGF also offers seminars on topics related to SME financing, sponsors several entrepreneurship promotion activities, particularly SME Awards, and tracks the progress and development of its client firms.

**Start-Up Loan Guarantees for Young Entrepreneurs**

The SMBCGF offers a guarantee for the start-up loans of young entrepreneurs who can apply for up to NT$4 million for a manufacturing business, NT$1.4 million of which must be secured by collateral. It is given as a personal loan and offers a two-year grace period for repayment. As of early 2000, a total of 3,744 cases had been guaranteed against US$62.8 million, generating 19,000 jobs – at a cost per job of US$3,300. Evaluation results of the impact of the business start-up loan for young people suggest that it is very cost effective. Since 1968 more than 20,000 people have received loans for business start-up. Between 1987 – 1998, 2,474 women and 7,251 men received financial assistance under the program, a ratio of 1:3. The average loan size was NT$1.15 million – NT$1.258 million ($41,000-$45,000 US). It is estimated that every US$3,000 loan produces one job; the default rate is less than 3% so it is a good benefit to the economy.

**Venture Capital**

The government has played an active and vital role in the development of the venture capital industry in Taiwan. Aware of the need to attract investment capital to back high technology companies, in 1982, the government introduced the venture capital mechanism for technology companies. In 1983, it approved ‘Regulations of Governing Venture Capital Investment Enterprises’ and opened the door for emergence of domestic venture capital firms in Taiwan. The first round of government financing for venture capital funds was NT$800 million, followed by a second round of NT$1.6 billion. In addition, the government introduced a tax credit for venture capital firms, which entitled them to a 20% tax concession upon investment in strategic industries.

Start-up venture capital companies had to be approved by government; NT$0.2 billion was the minimum fund capitalization. Each venture capital firm has its own objectives and strategy, specializing in biotechnology or IT, etc., and offers its investee firms money, HR support, and strategy advice. Over 3,000 venture capital investments had been done by April

2000 for a total investment of NT$80 billion; 1,155 of these were done in 1998 for a total of NT$21 billion.\(^{38}\) The biggest challenge in the venture capital industry is to find good deals.

‘Sixteen years ago, venture capital was only a vision for Taiwan. So the government needed to offer a 20% tax credit to stimulate the industry. Now there are 160 venture capital funds in Taiwan under management by about 60 venture fund managers; total funds value is $100 billion NT’.\(^{39}\) Between 1985 and 1989 there were one or two new venture capital firms each month, but the pace accelerated in the late 1990s, reaching 117 by 1998.

In 2000, the government ended the 20% tax concession for investments by venture capital firms. The government rationale was that the venture capital industry is now developed and should be operating in a more liberal environment, without the need for incentives. Some experts believe the ending of the tax credit program will lead to a decline in the venture capital industry. Individual investors are still eligible for a 10-20% tax credit for making a venture capital investment but not the individual venture capital shareholders. Shareholders outside the venture capital fund can receive a 20% tax credit when they invest directly in a firm. In other words, now it is better to be an angel than an investor in a venture capital fund.

The Taiwan Venture Capital Association is a non-profit organization formed to act as a bridge between government and the growing number of venture capital firms. In addition, it provides services to its members – for example, seminars to high tech companies on venture capital (small seminar each week and 1-2 large seminars a year), Venture Capital Forums to which 15-20 companies are invited to present their project proposals to TCVA members (like an MIT Forum) and a Website (www.tvca.org.tw) where businesses and project proposals can be posted for review by the venture capital member firms. Business angels, individuals who informally invest in SMEs, are allowed to be co-members of the TVCA.

**OTC Exchange**

On April 18, 2000, Taiwan opened an OTC for Innovative Growing Enterprises, TIGER (similar to NASDAQ). To be listed a SME must have NT$30M in capitalization and ‘big potential for growth’. There are 400 companies on the Taiwan Stock Market - OTC TIGER exchange for growth firms. About a third of the 1,155 venture capital investee firms have listed on the TIGER exchange.

**Research: Entrepreneurship/SME Issues**

The SMEA is legislated by Statute to produce an annual White Paper on SMEs in Taiwan. This is published in both Chinese and English and widely disseminated to promote the importance of the SME sector. The preparation of this report is contracted to the Chung-Hua Institution for Economic Research, which analyses SME data and reports on other research findings and projects. It is an independent research institute, which receives 90% of its funding from endowment funds and 10% from research contracts, including funding from the government for its SME Research Division. The SME division employs 10 of the Institution's

\(^{38}\) Ibid, p.6.

\(^{39}\) Interview with Teresa Yang, Deputy Secretary, TVCA, April 2000.
employees and conducts 3-4 projects each year for the SMEA including the preparation of
the annual White Paper. As input for the White Paper the Institution undertakes smaller
research projects such as the recent study ‘A Study of Newly Created Enterprises in Taiwan’.

Prior to formulation of the White Paper policy recommendations, the Institution hosts a
panel discussion of government officials and academics on the draft White Paper findings. This
one and a half day think-tank of about 40 persons is hosted by the Director-General of
the SMEA and discusses past performance, reviews new SME policy initiatives and plans
new strategies. A larger consultation on key features of SME policy is also held each year
with as many as 500 people participating. The Institution plays a role in advocating policy
changes in two ways – directly through contact with Congressmen and the Legislature and
indirectly through government committees on which SME Research Centre faculty members
sit as representatives. In this way thought and action can be influenced at the bureaucratic
level.

There have been few studies to examine the demographic profile of persons starting
businesses in Taiwan, therefore little is actually known about the gender, age, educational
background, previous experience, motivations and experiences of Taiwan entrepreneurs.
Existing SME research tends to focus on macro-issues – the economic, competitive,
international and management perspectives of SMEs. However, a recent study of newly
created enterprises in Taiwan conducted by sampling owners of firms which appeared as new
VAT registrations revealed that almost two-thirds (64%) of SME owners started businesses
in an industry related to their previous employment; for half of the owners, the newly
established enterprise was not their first, in other words, there is a high level of past
entrepreneurial experience. The smaller the new enterprise, the higher the percentage of first-
time SME owners. This suggests that past ownership experience leads to more substantial
second-time enterprises. Almost one-quarter (24%) of newly created enterprises have
participated in some form of government SME program (14% in training courses and 10% in
other programs) but overall participation is low. The authors concluded from the results of
this research that there are many ‘immature start-ups’ in Taiwan and that the most critical
support for them are 1) counselling assistance and 2) small business loan guarantee funds. In
terms of gaps in support, analysts at the Institution for Economic Research have concluded
that there are not enough services to assist SME owners in the preparation stage for a new
business; the majority of assistance is targeted at existing SMEs. They suggest that there
should be different kinds of assistance for businesses at different stages or steps of the
development process. They also suggest that the venture capital and incubator policies will
have important implications for business start-ups in the future.

In terms of future research, the Chung-Hua Institution for Economic Research would like
to explore the motivations of the Taiwan entrepreneur (why they actually start businesses),
what kind of help they are actually getting and the relationship between small firms and large
firms.

Proceedings of the ICSB World Conference, Brisbane, Australia, June 2000, CD-ROM.
41 ‘A Study of Newly Created Enterprises in Taiwan’, Chung-Hua Institution for Economic Research, Taipei,
2000.
Recently, there have been some efforts to build a network of academic researchers interested in SME research; an estimated 50-60 academics are either doing SME related research or are interested in the area. Most research is published in Chinese but a SME journal in Chinese does not presently exist.

SECTION 2: EXPERIENCES/EVALUATION OF IMPACT

Evaluating the Effect of Programs and Policy Orientations

Periodic evaluations of industrial policy are conducted; this work is often contracted to the Economic Research Institute. Outputs of industrial development policy are measured by indicators such as increases in foreign investment, production rates and productivity, higher value added products and environmental awareness. The White Paper on SMEs in Taiwan is the principle document for reporting on achievements and impacts of the various government programs and initiatives; it is full of both quantitative and qualitative measures of success.

Taiwan benchmarks itself against other countries in a number of areas. Its performance in the SME sector tends to be benchmarked against the European Union, Korea, Japan and the United on a number of indicators 42:
- SMEs as a percentage of total non-agricultural enterprises
- Number of persons employed in SMEs as a percentage of total non-agricultural employed population
- SMEs sales as a percentage of total sales
- SMEs value-added as a percentage of total private sector value-added
- SMEs exports as percentage of total exports
- Percentage of new enterprises being established
- Percentage of existing enterprises ceasing operations
- Long term trend (net increase in number of SMEs).

SECTION 3: OBSERVATIONS AND CONCLUSIONS

A: General View

The building of a sound policy, program and structural foundation for SMEs has taken almost 30 years. It has been put together under a relatively stable political system (one where government changes have not taken place every 3-4 years) guided by a consistent vision with

42 Taken from White Paper on SMEs, 1999, p. 41.
respect to the important role played by the SME sector in economic growth and development. The policy and strategies have evolved in response to changes in the economic and international environment but in a co-ordinated fashion.

SME development has indeed been the major focus of Taiwan's economic development strategy for several decades. The strength of the SME sector is given as the major reason why Taiwan survived the Asian crisis better than other Asian economies more focused on supporting the large enterprise sector. The proven resilience of SMEs in difficult economic times (lots of small firms can collectively absorb economic shock better than a few large firms) has elevated the importance of the SME sector in Taiwan even further. The government’s commitment to strengthening the SME sector is embedded in the 1991 Statute for Development of SMEs and in the activities of the SMEA and other government departments and directives. Having a legislated mandate for SME development which lays out specific authorities, has clearly stated objectives and programs, designates a branch of government with specific accountability for achieving policy and program objectives and which goes beyond the provision of capital assistance to address advisory, information and networking needs sets Taiwan apart from most of the other countries/regions in this international comparison.

According to the President of the SMBCGF, the intangibles of a strong enterprise economy are 1) a ‘boss’ attitude, 2) low entry barriers to make it possible for many people to have their own businesses, 3) assisting the clustering of SME owners to help concentrate business opportunity and 4) a ‘bottom-up’ and ‘from small to big’ growth environment for SMEs. In Taiwan, the night markets, the flower markets, the jade markets, etc. are considered incubation environments for entrepreneurs. From this broad base, micro-enterprises emerge, these grow into small enterprises and then into large enterprises.

It is acknowledged that Taiwanese people are very independent. They aspire to be their own boss; if this does not happen within the context of a company or government office, becoming a SME owner is a strong desire. Achievement, mastery, family and employer loyalty and contribution (obligation) to family and community are strong societal and individual values. Although entrepreneurship education is not fostered in the formal school system, it is encouraged within the family context. ‘The Chinese family has strong motivations to be their own boss so entrepreneurship is very popular. We can take this basic psychology and enlarge it’ (Chuen Chang). According to Steven Wu of the SMEA, ‘most Chinese people live for the family. It's important in Taiwan to have a family member who is an entrepreneur. Taiwan dreams start in the kitchen and the garage. Children are encouraged to have an education and a successful career in business. Since job opportunities have been a priority of government, we encouraged labour intensive industries.’

In spite of the cultural aspirations towards being the boss and the involvement in family enterprise, certain Taiwan officials also suggested that starting a SME is something that is done only after proving you can be a good employee. For example, to qualify for entrepreneurship training programs of the China Youth Career Development Association, the young person must be at least 23 years old and have 3-5 years of experience working for an

43 Chuen Chang, 1998b.
employer. Recent research recommends that the government needs to take more steps to target potential entrepreneurs and to assist new entrepreneurs in the earliest stages of survival.

There appears to be a high degree of integration of the members of the network who deliver SME policy and programs. Members know each other, are familiar with their own respective roles and responsibilities and appear to have an efficient cross-referral system for clients. Therefore, there is limited evidence of overlap and duplication of SME programs and services between government departments or the private sector. The government department responsible for SMEs, the SMEA, has built partnerships with the universities, the National Association of SMEs (NASME), the local municipal units, and other SME delivery agents, such as the Small and Medium Business Credit Guarantee Fund. The four year old SME Incubator Strategy has been implemented on a national scale with major co-operation of Taiwan's universities. There is an open SME policy development process, comprised of research by the SME Research Centre at the Chung Hua Institution for Economic Research, an annual 1 1/2-day think tank with academics, government officials and the NASME, and a set of public consultations on SME policy issues.

According to the President of the SMBCGF, ‘Taiwan's economic strategy really has been through SME development. It helps with income distribution: the average income gap between the lowest and highest paid in Taiwan is a factor of five. There are no monopolies. The distribution of income happens more naturally through a SME focus.’ He elaborates on what he considers to be the most important factors in the success of Taiwan’s economic development efforts:

- a common understanding among people that economic development is a must for Taiwan to survive,
- a steady leadership of the government with successful economic plans and projects,
- hardworking SME entrepreneurs,
- a sound banking industry with branches all over Taiwan,
- various assistance provided to the SME sector,
- establishing small business banks,
- establishing the Bureau of Small Enterprise Administration,
- establishing the Small and Medium Business Credit Guarantee Fund,
- establishing the Small and Medium Business Integrated Service Centre,
- establishing venture capital companies,
- establishing small business incubator centres,
- identification of light industry as a priority for development during the 1960s and 1970s,

44 Chang, Chuen, ‘By Sharing the Taiwan Experience to Envision the Success of the Public Programs for Emerging Companies in Argentina’, Seminar on Successful Public Programs for Emerging Companies in the Republic of Argentina, August 20, 1998b.
• encouraging Taiwanese people to save through a postal savings system (which indirectly put household funds into the production sector),

• maximizing results from USAID projects in the 1950s and 1960s, particularly the Potential Enterprises Selection project in 1966, which selected 100 SMEs for development assistance and provided them with the financing, marketing and management expertise to achieve growth.

B: Assessment of Entrepreneurship Policy Emphasis

When considering Taiwan's entrepreneurship focus against the Entrepreneurship Development framework - Motivation, Opportunity and Skills, it appears that priority focus is placed on Skills – the strengthening of SME skills and management ability – and Opportunity – the provision of capital, information and advisory support. This is reflected in a number of program areas, particularly in the guidance systems. At the same time, these initiatives target the broader SME community moreso than the development of new entrepreneurs.

On the Skills side, the focus is on guidance programs to improve the production efficiency and management practices of existing SME owners. These are delivered through the SMEA’s SME Guidance Systems. The Small Business Integrated Assistance Centre is also focused on improving the management and financial skills of existing SME owners. Commissioned by the SMEA, the NASME is active in designing and delivering relevant training courses to meet the needs for management professionalism of SMEs.

However, there is very little, if any, focus on entrepreneurship in the school system and limited focus on entrepreneurship courses at the university level. The China Youth Career Development Association, which works with thousands of youth each year, works under the assumption that ‘in order to be a good entrepreneur, one has to be a good employee first’. Thus, before accepting a youth client into an entrepreneurship-training program, the youth has to have 3-5 years of experience working for another company. This is quite contrary to the underlying philosophy in The Netherlands, for example – that efforts to impart entrepreneurship skills in the population should happen at an early age and that youth should be encouraged to start businesses as a career option. However, the CYCDA does provide support to the competence-building priority – this is both in the area of start-up skills and the skills of being a good employee.

The most recent effort to enhance the competence of SME owners and their employees is the Lifelong Learning Passport adopted in January 2000. Everyone is encouraged to pursue courses and forms of additional education to ‘enhance management know-how’. When 200 hours of learning have been accumulated in the passport, a certificate will be issued.

Under Opportunity, the major focus is on access to financing (e.g., Small and Medium Business Credit Guarantee Fund), access to advice and counselling support (e.g., SME Hot Line, Small Business Integrated Assistance Center) and access to markets. To encourage

stronger start-ups a national SME incubator strategy was implemented. By 2001, there was a network of 52 SME incubators around the Island and over 670 SMEs had been started.

In the domain of **Motivation**, the major vehicle is **SME awards**. There are several of these, including the National Award of SMEs, the SME Innovative Research Award, the National Quality Award, and the Rising Star Award. These awards serve to recognize achievement of SME owners, raising the profile of SMEs in the economy, creating successful role models and increasing the value of entrepreneurship as a career/employment option. The giving of these awards is accompanied by widely publicized ceremonies promoting SME ownership; award winners are subsequently organized in networks and used as volunteers to mentor new SMEs and contribute to the objectives of the SMEA. Broadcast media has also been used within the past five years to profile SME issues and to create more awareness of the knowledge and resources required to support SME development.

**C: Insights, Observations and Lessons Learned**

- Taiwan is an outward looking economy – they monitor best practice approaches from other parts of the world and then adapt these approaches for Taiwan – examples of the centre-satellite factory model from Japan and the Technology incubator model from the US. They make effective use of international comparisons to benchmark how well Taiwan is doing – they do this for general economic indicators but also in the SME area. They benchmark Taiwan against the US, Japan, and the EU on number of SMEs, employment in SMEs, entry and exit rates and SME performance.

- SME development has been part of Taiwan economic development policy for 50 years. This policy focus has not shifted from one extreme to another The government has progressively modified programs or built new initiatives to respond to SME needs.

- Taiwan has a very high percentage of its labour force employed in the SME sector (78%). There is a high self-employment rate – 21.5% of total employment and 23.8% of private sector employment.

- There is a high number of unpaid family workers in Taiwan SMEs. About three-quarters of these are estimated to be women who work in their husband’s business, a category referred to as ‘boss’ wives’.

- The start-up and exit rates may be low compared to some other countries in this study, but the age of businesses may be older – this may mean higher survival rates. What are the implications of this compared to what is happening in other countries? Is it because of the SME support structure in place, the favourable climate for SMEs and close networks or due to cultural factors? Some experts suggest that strong inter-firm co-operation is a factor in higher survival rates.

- There is a high social and financial cost of failure (e.g., no settling with creditors under bankruptcy; all debts have to be paid) and saving face is very important in Asian culture. Thus there are strong incentives not to fail.
• Entrepreneurship culture is more embedded in families (historical and cultural roots) and the strong small business base than in the education system. Many new entrepreneurs are spawned from family enterprise or from employment in a small firm.

• SMEs may be considered incubators for employees to gain support, knowledge, and skills to start their own businesses with the support of their bosses. Employers often support their employees in establishing their own business and become a mentor and customer or supplier.

• Although there is a strong motivation to be one’s own boss, there is an ethos that young people should learn to be a good employee before starting their own business. There is little, if any, entrepreneurship education in the K-12 system, there is limited entrepreneurship education at the university level (there is leadership and management education but the primary target group for masters programs are employees) and the minimum age of eligibility for admission to youth entrepreneurship training and funding programs is 23.

• SME ‘champions’ are important to the success of SME support programs, both in the short-term and long-term. Taiwan seems to have lots of them.

• SME Development is legislated under a Statute for Medium and Small Business. The SMEA is also authorized by Statute to lead the SME policy agenda. It works co-operatively with partners across the Island to deliver policy measures.

• The major focus on SME support is on improving the competence and management skills of existing SME owners, particularly in the areas of financial and marketing skills, and improving access to financing.

• Most assistance seems to be geared at helping existing SMEs; there is a financing program for young entrepreneurs and the China Youth Career Development Association offers entrepreneurship training, but the overall sense is a focus on strengthening the skills of existing firms. The Chung-Hua Institution of Economic Research has also concluded that more support should be targeted at actual start-ups. The government has dedicated a chapter in the 2000 White Paper on SMEs so may take a more serious look at policy measures to develop the supply of new entrepreneurs and new businesses.

• No level is left untouched. SME policy stretches from the home – ‘a factory in every living room’ – to the night market vendors, to information technology entrepreneurs.

• The SME support networks are very tight. There is a rational integrated referral system with lots of interaction between the heads of major SME support organizations.

• SMEs are encouraged and facilitated in the process of forming co-operative inter-dependent networks for the purposes of achieving economies of scale and scope. This system of networks seems to be very effective and efficient.

• Taiwan seems to have found a way to make an incubator strategy work on a national basis.
• There is virtually no policy focus on developing women entrepreneurs in Taiwan. At the same time, women are seriously under-represented as owners of businesses compared to many countries. This may be an untapped area of potential for entrepreneurship development.

• There is limited research on the Taiwan entrepreneur, including demographic information, and knowledge of the pre-start-up and start-up experiences. But an annual White Paper is produced to report on SME sector trends and the impact of government policy measures.

• There are a number of potential best practices – national incubator strategy, the SBIAC, synergy behind the SME awards programs (e.g., promotional spin-offs of ceremonies, recognizing the significant other, using the winners as volunteer mentor/advisers, the award for a young Taiwan entrepreneur abroad), the small business loan guarantee fund approach (loose eligibility criteria), the layering of financial assistance program supports – guarantee fund, youth start-up fund, venture capital, etc., government regulation requiring all banks to have a SME Support Centre, establishment of a SME Policy Deliberation Committee by the Executive Yuan.
ANNEX: OVERVIEW OF THE SME SECTOR

Definition of SME

The definition of a SME, adopted in 1995\(^{46}\), uses a combination of employee size, annual sales and paid-in capital criteria. In Taiwan, the following businesses are considered SMEs:

- Businesses in the manufacturing, mining, or construction sectors with paid-in capital of less than NT$80 million or with less than 200 employees;
- Businesses in any other sector with annual sales of less than NT$100 million or with less than 50 permanent employees.

A small-scaled enterprise is further defined as one with fewer than 20 employees in a manufacturing, mining or construction business; for other sectors, it is a business with fewer than five (5) employees.\(^{47}\)

Forty percent of Taiwan SMEs have capital of less than NT$100,000 and 50% of micro-enterprises are self-financed – using their own or their family’s money and trade credit to finance working capital. It appears that when these firms develop into an enterprise with capital over NT$80 million, they go to the financial market, capital market, money market or OBU market to look for low-cost financing\(^{48}\). Thus the NT$80 million seems to be an appropriate cut-off point from a definitional perspective.

Number of SMEs and SME Employment

By 1999, there were 1,085,430 SMEs,\(^{49}\) a 36% increase over the decade and a 1.5% increase over the 1998 number. The SME percentage of total enterprises was 97.7%; there were 49 SMEs per 1000 inhabitants. SMEs employed 78.5% of all employees (both public and private sector) and 87% of all private sector employees (see Table 1). However, one notes that only 62% of SME employment falls into the ‘paid employee’ category. Over 2 million are self-employed/business owners (27.2%) and over 700,000 are unpaid family workers. It is estimated that about three-quarters of the category of unpaid family worker are actually women who fall into the category of ‘boss’ wives’, a wife who is in charge of almost everything in her husband’s business, but who is not a paid worker or a legal owner of the business.\(^{50}\)

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\(^{46}\) ‘Standards for Identifying a Small or Medium-Sized Enterprise,’ in Statute for Development of Medium and Small Businesses.


\(^{49}\) The source of small business statistics in Taiwan is VAT registration data files and human resources surveys.

\(^{50}\) Shin-Yuan Lee, 1999, p. 233.
Table 1 – Public and Private Sector Employment, 1999

<table>
<thead>
<tr>
<th>Employment</th>
<th>Government</th>
<th>Large Firms</th>
<th>SMEs</th>
<th>Total All Entities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number (000)</td>
<td>%</td>
<td>Number (000)</td>
<td>%</td>
</tr>
<tr>
<td>Total employment</td>
<td>961</td>
<td>10.2</td>
<td>1,080</td>
<td>11.5</td>
</tr>
<tr>
<td>Paid employees</td>
<td>961</td>
<td>14.5</td>
<td>1,075</td>
<td>16.2</td>
</tr>
<tr>
<td>Business Owners, Self-employed</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>0.2</td>
</tr>
<tr>
<td>Unpaid Family Workers*</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Self-employed % of employment</td>
<td>0</td>
<td>0.46</td>
<td>0.46</td>
<td></td>
</tr>
</tbody>
</table>

Source: *White Paper on SMEs, 2000.* *Based on 1997 percentages, about 10.3% of total SME employment is made up of unpaid family workers; the self-employed make up 21% and Employers make up about 7%. These three groups make up this category of employment.*

Although the number of people employed in SMEs has continued to grow steadily, the percentage of SME employees has fallen slightly since 1995, during which time, the large enterprise sector has been growing. However, the average firm size is getting smaller. The total number of all employees/per SME was 6.92 in 1999 compared to 7.05 in 1997.

It is also interesting to note that more than 81% of the paid employees in private enterprises work in SMEs; less than 15% of all paid employees work for the government. Employment in the government sector declined by over 6% between 1997 and 1999 – from 1,023,000 to 961,000 employees.\(^{51}\) However, the best-educated people tend to be employed by government – over 30% of government employees are university educated compared to a quarter in large enterprises and about 6% of SME employees.\(^{52}\) The majority of SME employees have primary, junior or senior high school educations while the majority of employees in large enterprises are educated up to senior high school, junior college or university level. Two-thirds of SME employees have high school or less education, compared to a quarter in large firms. Thus, there is a significant difference in the quality of personnel between SMEs and large employers; large enterprises have a higher level of human capital than SMEs which likely correlates with higher productivity in large firms. However, business owners tend to be better educated. A recent survey of new business owners revealed that 28% of SME owners have college or university educations; this increased to over 50% for the owners of large enterprises.\(^{53}\) Large enterprises also employ a higher percentage of females than SMEs – 48% compared to 38%.

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\(^{51}\) *White Paper on SMEs, 2000.*

\(^{52}\) Ibid.

Sector Distribution of Enterprises

In 1999, SMEs were particularly significant in commercial enterprises (60.5%), manufacturing (13.45%) social and personal services (8.3%) and construction. The commercial enterprise sector was most important in terms of numbers of firms, total sales, direct exports, domestic sales, and value-added tax; manufacturing was most important in terms of total employment and total paid employment. The almost 14% of SME manufacturing enterprises employed 28.5% of the labour force; the commercial sector comprised over 60% of the enterprises but only 27.3% of employment (see Table 2). Compared to 1998, the number of commercial enterprises grew by 1.5%, while the number of manufacturing firms declined by 1.8%. The number of manufacturing firms has decreased annually since 1995, while the percentage of commercial enterprises (retail and wholesale trade) has grown steadily. The social and personal services sector is also growing. Employment growth rate is highest in commercial enterprises (4.2%) and social and personal services (3%).

Table 2 – Distribution of SMEs and Employment by Sector, 1998

<table>
<thead>
<tr>
<th>Sector</th>
<th>SMEs – 1999</th>
<th>Total employment - 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>% share</td>
</tr>
<tr>
<td>Commercial Sector</td>
<td>642,200</td>
<td>60.4</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>142,700</td>
<td>13.4</td>
</tr>
<tr>
<td>Social and Personal Services</td>
<td>88,300</td>
<td>8.3</td>
</tr>
<tr>
<td>Construction</td>
<td>74,300</td>
<td>6.8</td>
</tr>
<tr>
<td>Agriculture, Forestry and Fisheries</td>
<td>13,000</td>
<td>1.2</td>
</tr>
<tr>
<td>Other*</td>
<td>n.a</td>
<td>n.a</td>
</tr>
</tbody>
</table>

Source: Compiled from the White Paper on SMEs, 2000.
* Includes mining, utilities, transport and communications, finance, insurance and real estate and business services.

Self-Employment Trends

Self-employment makes up a very high proportion of the labour force – 27.2% of total SME employment, 23.8% of private sector employment and 21.3% of all employment (Table 1). In fact the category of workers who fall into the definition of employers, self-employed and obligatory family members totals almost 40%!

Official surveys of SME owners in Taiwan do not usually collect data on gender so officials are not able to easily answer questions about the proportion of firms owned by women. However, the recent APEC report on Women Entrepreneurs in SMEs in the APEC Region provides some data on the status of women entrepreneurs in Chinese Taipei indicating that, in 1997, women comprised less than 15% of the owners of employer firms and less than 20% of the self-employed (with no employees). A recent study of newly created enterprises in

55 Based on interview with researchers at the Chung-Hua Institution for Economic Research, April 2000.
Taiwan found that of businesses started in the past three years, 15% of the owners of new SMEs and 10% of the owners of new large firms were women.\textsuperscript{56}

**Growth Rates in the SME Sector**

The number of SMEs has grown by 35% over the past decade but the rate of growth has been declining. In 1999, the number of SMEs increased by 1.5% over the previous year and SME employment grew by only 1.09%. At the same time, both the number of large firms and large firm employees increased by almost 3%.

**SME Start-up, Survival and Exit Rates**

The number of new businesses has exceeded the number of exiting firms over the past several years (Table 3), but both the start-up and exit rates are substantially below those reported in the US, the UK, and Canada, for example. Over 70,000 businesses have been started in each of the last three years and just over 50,000 each year have closed. The start-up rate has averaged 7.25% per year and the closure rate has averaged 4.83%. This has resulted in a turbulence rate of 12.08%. This is much lower than the over 20% rates apparent in the UK, the US, Canada and Spain, however, it may be that SME survival rates are higher in Taiwan.

According to a survey of newly created enterprises in Taiwan, 84% of new firms started between 1996 and 1998 were small firms, 13% were medium-sized enterprises and 0.4% were large firms.\textsuperscript{57} Sixty-percent of the new jobs created were in the new SMEs and the remaining 40% in new large enterprises. (It is interesting to note that the founders of new large enterprises were more likely to have previously owned businesses and to be university educated.)

Table 3 - Business Start-Up\* and Exit Rates, 1996 – 1999

<table>
<thead>
<tr>
<th>Year</th>
<th>SMEs at beginning of year</th>
<th>Business Start-ups</th>
<th>Business Closures</th>
<th>Net Increase</th>
<th>Start-Up Rate (%)</th>
<th>Exit Rate (%)</th>
<th>Turbulence Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>1,003,325</td>
<td>67,592</td>
<td>48,136</td>
<td>19,456</td>
<td>6.74</td>
<td>4.80</td>
<td>11.24</td>
</tr>
<tr>
<td>1998</td>
<td>1,045,117</td>
<td>80,027</td>
<td>50,946</td>
<td>29,081</td>
<td>7.65</td>
<td>4.87</td>
<td>12.52</td>
</tr>
<tr>
<td>1999</td>
<td>1,074,198</td>
<td>76,841</td>
<td>52,683</td>
<td>24,158</td>
<td>7.15</td>
<td>4.90</td>
<td>12.05</td>
</tr>
<tr>
<td>Avg.</td>
<td>75,113</td>
<td>50,509</td>
<td>24,604</td>
<td>7.25</td>
<td>4.83</td>
<td>12.08</td>
<td></td>
</tr>
</tbody>
</table>


\*Assumed that the majority of these firms are in the SME category.

\textsuperscript{56} ‘The Current Status and Future Prospects of New SMEs’, 2000.

\textsuperscript{57} Ibid.
Almost 40% of Taiwan SMEs are over 10 years of age and 60% are more than five years old (Table 4). About 27% of the 1999 stock of SMEs was less than three years of age. Most notable of the trends in firm age of Taiwan SMEs is that the average age is getting higher.\textsuperscript{58}

\textsuperscript{58} White Paper on SMEs, 2000.
Table 4 - Percentage Age Distribution of SMEs, 1999

<table>
<thead>
<tr>
<th>Age of SMEs</th>
<th>Percentage Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year or less</td>
<td>9.5%</td>
</tr>
<tr>
<td>1-2 years</td>
<td>9.6%</td>
</tr>
<tr>
<td>2-3 years</td>
<td>7.9%</td>
</tr>
<tr>
<td>3-4 years</td>
<td>6.0%</td>
</tr>
<tr>
<td>4-5 years</td>
<td>6.0%</td>
</tr>
<tr>
<td>5-10 years</td>
<td>22.0%</td>
</tr>
<tr>
<td>10-20 years</td>
<td>22.1%</td>
</tr>
<tr>
<td>more than 20 years</td>
<td>15.0%</td>
</tr>
</tbody>
</table>

Regional Variations

As in other countries, SMEs are more highly concentrated in certain parts of the country than others (Table 5). While over 40% of SMEs in all regions are in the commercial sector, almost 70% of SMEs in Taipei City are commercial enterprises. In Taichung City, 35% of SMEs are in the manufacturing sector. Growth in the number of SMEs also varies considerably. Taoyuan County saw a three-year growth rate of 4.5% (the highest) while Taichung City saw an increase of 0.35% and Taipei City of 0.22%. No explanations are offered.

Table 5 – Distribution of SMEs by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>% Population</th>
<th>% of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taipei City</td>
<td>17.50%</td>
<td></td>
</tr>
<tr>
<td>Taipei County</td>
<td>14.43%</td>
<td></td>
</tr>
<tr>
<td>Kaohsiung City</td>
<td>7.36%</td>
<td></td>
</tr>
<tr>
<td>Taichung County</td>
<td>6.70%</td>
<td></td>
</tr>
<tr>
<td>Taoyuan County</td>
<td>6.31%</td>
<td></td>
</tr>
<tr>
<td>Taichung City</td>
<td>5.56%</td>
<td></td>
</tr>
<tr>
<td>Kinman County</td>
<td>n.a.</td>
<td></td>
</tr>
</tbody>
</table>

INTERVIEWED ORGANIZATIONS

1. Small and Medium Business Credit Guarantee Fund
2. Business Bank of Taiwan
3. Taiwan Venture Capital Association
4. Taiwan University (Executive MBA program)
5. Taiwan Normal University (SME Incubator)
6. China Youth Career Development Association (CYCDA)
7. Small and Medium Enterprise Administration (SMEA)
8. Ministry of Economic Affairs (MOEA) - Industry Development Bureau
9. Small Business Integrated Assistance Center (SBIAC)
10. Chung-Hua Institution for Economic Research (CIER)
11. China External Trade Development Council (CETRA)
12. National Association of Small & Medium Enterprises (NASME)
14. Entrepreneurs and SME owners

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CHAPTER ELEVEN

THE CASE OF THE UNITED KINGDOM

INTRODUCTION

The estimated population of the United Kingdom is 59.5 million, of which 29.3 million were in the labour force in 1999.\footnote{CIA World Fact Book, 2000.} Population growth in 2000 was 0.25%\footnote{Ibid.} GDP was US$1.29 trillion in 1999\footnote{Ibid.} and has been growing at an annual rate of 2.5% (1995-99)\footnote{Employment Outlook, OECD, Paris, June 2000.}. Expected growth in GDP for 2000 was forecast at 3%\footnote{Report on the Implementation of the Action Plan to Promote Entrepreneurship and Competitiveness, Commission Staff Working Paper, Commission of the European Communities, Brussels, 27.10.2000, SEC (2000) 1825 – Vol. 1, p. 83.}. GDP per capita in 1999 was US$21,800.\footnote{CIA World Fact Book, 2000.} The labour force participation rate is 75%, 87% among men and 67% among women. The unemployment rate in 1999 was 6.0%. Private sector employment is 72.5% of total employment.

Agriculture plays the smallest role in the economy of any of the countries in this study. Agricultural output to GDP is 1.7%, manufacturing output to GDP is 25.3% and service sector output to GDP is 73%\footnote{CIA World Fact Book, 2000.}, second highest to the US. Large manufacturing and service firms still play a relatively important role in employment in the UK economy, accounting for 45.5% of total private sector employment in 1997, however, firms with under 250 employees are responsible for well over half of employment (55.4%). There are about 3.7 million SMEs in the UK, 99.8% of all enterprises.

About 12% of the labour force are self-employed\footnote{Labour Force Statistics, 1978-1998, OECD, 1999.}; women make up only 26.5% of the self-employed persons.\footnote{Small and Medium Enterprise Outlook, OECD, Paris, 2000, p. 222.} The 1999 GEM Report revealed that the female entrepreneurial activity rate was less than half that of males, that is, 5.1% of working age men were in the process of trying to start a business in 1999, but only 2% of working age women.\footnote{Levie, Jonathon, Michael Hay and Paul D. Reynolds, Global Entrepreneurship Monitor, 1999 UK Executive Report, London Business School and Apax Partners & Co., UK, p. 5.} The 1999 UK GEM Report authors suggest that if the female entrepreneurial activity rate were to match that of UK males, UK start-ups would increase by 50%.

SECTION 1: DEVELOPMENT & EVOLUTION OF SME POLICIES AND PROGRAMS

A: UK Industrial Development Policy

The UK’s industrial policy in the 1960s and 1970s was clearly focused on support for the major heavy industries. The importance of these industries dated back as far as the Industrial Revolution. In the early 1970s, the old developed economies started to decline; by 1973 the world was in a recession. In the UK, shipbuilding, coal mining, and steel manufacturing were all badly affected leading to massive lay-offs and economic devastation in many single industry towns and regions. The need for economic revitalization, diversification and job creation eventually led to adoption of the ‘enterprise culture’ – a move from dependency to self-sufficiency, from unemployment to self-employment. During the 1980s the Thatcher Government was particularly committed to an Enterprise Initiative.

Today the Department of Trade and Industry (DTI) has responsibility for trade and industrial policy functions in the UK. Its mandate is ‘to increase competitiveness and scientific excellence in order to generate higher levels of sustainable growth and productivity in a modern economy’.11 In 1999, there were 9,500 employees in DTI and it had a budget of over £3 billion, about half for the Science Budget in support of the science, engineering and technology objective.12 Priorities have been set for development in certain key sectors, e.g., biotechnology, automotive and engineering, chemicals, space, construction, aerospace and defence, food, health, metals, mining, shipbuilding, environmental industries, textiles and clothing, paper and printing, retailing and commercial communications, ceramics and sports goods, as well as inward investment, small business and E-commerce.

The four objectives of the DTI Strategic Framework for 2000-2001 are: 1) to promote enterprise, innovation and increased productivity, 2) to make the most of the UK’s science, engineering, and technology, 3) to create strong and competitive markets, and 4) to create a fair and effective legal and regulatory framework.13 Objectives 1 and 4 make particular references to encouraging business start-ups and enterprise development.

B: SME Policy Development

The UK has a long history of SME support and development. The first strategic policy document on small business was the 1971 Bolton Task Force Report on Small Firms. By 1977 a Small Firms Service existed in the UK government with a primary function to provide information and advisory services to small businesses. In the late 1970s the Local Enterprise Agency (LEA) scheme came into being. The LEAs were a parallel structure for helping with the provision of ‘managed work-spaces’ and were funded by local banks, the private sector and local communities. The government introduced the Small Firms Loan Guarantee Scheme.

12 Ibid.
in 1981 to improve the ability of small firms to borrow money from traditional lenders in cases where they did not meet the collateral security requirements. In 1982 Shell started its LiveWIRE program for young entrepreneurs in the UK, followed by the establishment of the Prince’s Youth Business Trust (PYBT) in 1983. The PYBT provided start-up funding for at-risk youth with a business idea, as well as counselling and advisory support.

In 1985 DTI released its White Paper on the need to reduce the regulatory burden on SMEs, *Lifting the Burden*, and established a Deregulation Unit.

In 1987, in response to the high unemployment rate caused by the closing of the coal mines and other industrial restructuring, the Thatcher government launched the Enterprise Allowance Scheme to promote self-employment as an employment alternative. Unemployed persons with a simple business plan and a few mandatory counselling sessions could qualify for 40 pounds a week of income support if they started a business.

National Vocational Qualifications were put in place for Small Business Managers in an effort to improve the management competencies of small businesses. The Institute of Business Counsellors was established as a private sector activity (1989) to meet the demand for professional standards and accreditation in the practice of business counselling.14

During the 1990s several other developments took place. The Enterprise in Higher Education Initiative was launched in UK universities and the government funded a major small business research program through a network of universities managed from the University of Warwick. Manpower Services and the Small Firms Service were submerged into the Training and Enterprise Council (TEC). The TECs were a partnership between local economic development departments, Local Enterprise Agencies and local Chambers of Commerce to make training and enterprise support a seamless activity at the local level and to foster economic growth, strengthen the community skill base and assist local enterprises to expand. The Small Firms Loan Guarantee Scheme was rigorously assessed in 1990 and, although the conclusion of the review was that the Scheme had negligible impact, it had demonstrated to the clearing banks there were profitable opportunities for lending to the small business sector.15 The Enterprise Investment Scheme was launched to increase the supply of private investment capital by providing tax relief to business angels investing in qualified unquoted firms. This created a more favourable tax regime for informal investors in the UK. In 1993, DTI reviewed the small business support structure, concluding that there was too much confusion in support for small business. Based on this review and the findings of Storey (1994), the government changed its strategy to a targeted focus on growth-oriented SMEs using a ‘one-stop shop’ pilot approach in the form of the Business Link model. The focus of Business Links was on providing counselling and advisory support to growth-oriented SMEs. At the same time, the government became focused on the revitalization of ‘run-down’ areas and announced the Regeneration Budget. The Business Start-up Scheme ended (a program in which 34,000 people had participated in 1993/94) and its budget diverted into the Regeneration Budget.

This redirection of start-up funds into the Regeneration Budget, coupled with the Business Links focus on growth firms, meant that there was no longer a budget allocation for business

start-ups. New small firms, which had always supplied the future stock of businesses, replaced existing businesses that ceased to exist, and were responsible for a large proportion of new jobs. In 1996 even more federal monies were deviated from the start-up sector as additional budget was transferred to the ‘Local Competitiveness Challenge Fund’ and the Business Links system was rolled out nationally. Some would argue that the current lack of growth in the total stock of UK firms is the result of a decreased national policy focus on new business starts that began in 1994.

Several other developments took place in 1994: the DTI set up a Deregulation Task Force to examine existing legislative measures affecting SMEs and to measure the impact of new regulations on small business; the UK Small Firms Training Loans program was launched to subsidize small firm training; and the VentureNet database system was established to bridge the gap between investors, business angels, and SMEs. In 1995, TEC services were evaluated; the findings confirmed that the provision of information, advice and business skills was generating benefits to client firms and the communities in which they were located.

In 1997, the new Labour Minister for Small Firms released the government’s 18-point strategy for enhanced small firm support, Enhanced Business Links – A Vision for the 21st Century. The major commitments in this 18-point strategy were to improve the quality of service provided by Business Link’s Personal Business Advisers and any other business advisers being used by government to provide these services to small firms and to overall service quality. The Institute of Business Advisers (IBA) also published their document Small Firms Policy Proposals – improving the quality of business support, 2nd Edition – October 1997.

In 1998, DTI carried out a review of SME financing discovering that although SMEs tended to rely on debt finance where equity might better meet their needs, equity in smaller amounts was often hard to source. Consequently, the DTI set up an Enterprise Fund to provide flexible support for SMEs with growth potential. The Enterprise Fund was used to increase the Small Firms Loan Guarantee Scheme and to establish regional venture capital funds throughout England. The total Fund budget allocation for 1999-2002 was £180 million.

The UK also places a major focus on improving the best practice management of UK firms. The Benchmarking Index offers practical performance benchmarking to SMEs; the ‘Fit for the Future’ campaign promotes the ‘best practice’ learning of British industries and firms; and the Inside UK Enterprise Scheme facilitates visits to 170 UK companies that demonstrate best practice. The Council for Excellence in Management and Leadership, announced in November 1999, has as its role to develop a national strategy for the delivery of management training and development. Workforce development, apprenticeship, and employee training programs are supported through programs such as Small Firm Training Loans and the Small Firms Enterprise Development Initiative. Enterprises and employees are also encouraged to become familiar with information technologies and the Internet (IT Learning Centres, ECommerce initiatives).

Increased levels of industry R&D are encouraged through such schemes as the University Challenge Seed Fund, Science Enterprise Challenge, Foresight Programs, the Reach Out

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16 Based on interview with Brian Dunsby, Institute for Business Advisers, UK, November 2000.
17 Bridge et al., 1998, p. 275.
Fund, International Technology Service and Faraday Partnerships. Since 1999, the Smart Scheme (available only in England) has offered help with smaller projects undertaken by individuals or micro-enterprises (with fewer than 10 employees) by subsidizing costs associated with hiring consultants to bring about a significant improvement in SME use of technology. Many of the businesses supported through Smart have been university spin-offs. 19 SMEs are encouraged to pursue international trade through services provided by British Trade International Services, established in 1999. The UK government has a major initiative to encourage SMEs to become involved in e-business. A £60 million package was announced in the 2000 budget to encourage SMEs to invest in IT and embrace e-commerce. 20 This fund is administered by the new Small Business Service.

With the release of the 1998 Competitiveness White Paper, Our Competitive Future: Building the Knowledge Driven Economy, enterprise was again accorded a pivotal role in UK public policy. The Prime Minister urged an increase in the promotion of a new entrepreneurial spirit. The White Paper set out a series of initiatives designed to 'tackle the fear of failure, increase the rewards of success, raise the level of entrepreneurial ambition, develop the skills needed to exploit entrepreneurial opportunity, and open up sources of finance for entrepreneurial ventures'. 21 Among other things, it committed the government to looking at ways for schools to encourage the development of skills and attributes essential to entrepreneurship. This White Paper was complemented by the Institute for Public Policy Research (IPPR) report The Entrepreneurial Society. 22 This report reiterated the need for more entrepreneurship education (primary through post-secondary levels), a rebalancing of small business support towards new enterprises, the relaunch of programs to encourage the unemployed into self-employment and increased general promotion of entrepreneurship in UK society.

In 1999, the private-sector led Regional Development Agencies were launched to enable English regions to improve their competitiveness and to reduce imbalances that existed within and between regions. DTI established a new Small Business Investment Task Force to work closely with the Regional Development Agencies (RDAs) and the Small Business Service to guide decisions about venture capital provision for smaller firms in the regions through the umbrella fund for economic development. They also announced the Phoenix Fund, which would provide better access to finance and business support in deprived areas. This Fund provides new development money for innovative initiatives such as 1) business incubator units, 2) a national network of mentors for start-ups and micro-enterprises, 3) resources for Community Finance Initiatives, and 4) Loan Guarantees to help co-finance commercial lending to Community Finance Initiatives. 23

In 2000, the Secretary of State for Trade and Industry released The Small Business Service: A Public Consultation document inviting responses to a proposed new organization and structure for small firm support. In April the new Small Business Service was announced. Think Small First: A National Strategy for Supporting Small and Medium-Sized Enterprises in

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21 Levee et al., 1999, p. 4.
the UK and Integrating the Business Support Infrastructure for SMEs: A National Framework for Business Support were released as consultation documents to solicit comment on the proposed SME strategy and more effective public sector business support for SMEs in England.

Also in 2000, in partnership with six clearing banks, DTI set up a National Business Debt Hotline to offer advice to small businesses with debt problems, including telephone advice and self-help material to guide them. The objective is to help increase small business survival rates. DTI and Treasury completed a review of Bankruptcy legislation to look at options for promoting a rescue culture in the country; a consultation document on possible reforms to the law was published in March. (Further reforms and developments will be discussed under Section D).

This sets the stage for the UK’s Enterprise Policy in the 21st century.

The Small Business Service

A new structure for SME policy development and program implementation was adopted by the UK government in 2000 (see Figure 1) following an examination of good practice structures with a particular emphasis on the US Small Business Administration model. The new policy structure has three components – the Small Business Service (SBS), the Small Business Service Steering Board and the Small Business Council (SBC).

The SBS has four major tasks:24

- To be a strong voice for small business at the heart of Government, making sure government is aware of the needs of small business and adheres to the principles of Think Small First;

- To develop and maintain a world class business support service to enhance the competitiveness and profitability of small businesses;

- To minimise the burden of regulation on small firms;

- To champion entrepreneurship across society and change the culture so that society encourages, values and rewards enterprise.

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The CEO of the SBS is accountable to and has direct access to Ministers across government and has the authority to ensure that the interests and concerns of small firms are taken into account by all parts of government. The SBS has the RIGHT to be consulted on all new government legislation, the RIGHT to monitor and comment on all regulatory impact assessments from a SME perspective, the RIGHT to be consulted on all new proposals for business support in England, the job of improving the coherency of existing support programs and the responsibility for organizing conferences and conducting research on small business.

There are seven SBS Directorates: 1) Strategy, Research and Communications, 2) Investment (financing), 3) Knowledge-Management (online SME services), 4) Local Networks (Business Links file), 5) Regulatory Action, 6) Business Services, and 7) Corporate Services. These directorates undertake:

- research,
- policy development,
- internal advocacy work with other government departments on regulatory matters and administrative burden,
- external consultations,
- co-ordination of Business Links and other small business support systems,
- Program management (e.g. the Benchmarking Service, SMART Grants, the Loan Guarantee Scheme and SMEs Online).

There are over 300 employees, 70-80 who work in the policy-related areas.

The Small Business Service Steering Board is a group of senior officials from DTI, the Treasury, the CEO of the SBS and other private sector representatives, which advise on management and performance issues. The Small Business Council (SBC) is a non-department public advisory body of 20 active entrepreneurs and experts with a mandate to provide independent advice to the CEO of the Small Business Service and to report to the Secretary of State for Trade and Industry on the effects of government policy on small business. The SBC has set up a number of working groups to look at: 1) access to finance, 2) entrepreneurial
environment, 3) employment regulation, 4) regulation and red-tape, and 5) workforce development.25

C: Current SME Policies, Programs and Structures

The government’s overall SME policy, as summarised above, has focused on SME financing, R&D support, SME management performance and competitiveness, SMEs online and e-commerce, SME internationalization and delivery of small business support services on a national and regional basis. The new SME policy agenda, laid out in the DTI Strategic Framework for 2000-2001, includes the promotion of enterprise, innovation and productivity as one of its four key priorities. The following objectives are listed under Objective 1 of the DTI Strategic Framework.26

1. support a National Campaign for Enterprise to help transform attitudes towards entrepreneurship, develop entrepreneurship skills and encourage growth of successful businesses;
2. promote a culture of enterprise in the UK to support economic dynamism and simplify and improve the administrative and regulatory business environment;
3. help small businesses to gain access to, and make the most of, innovative ideas and technological know-how developed in the UK science-base and abroad;
4. engage more businesses in corporate social responsibility, tackle social exclusion and increase awareness and take-up of business support by ethnic minorities;
5. implement a regional policy which helps to improve the economic performance of all regions;
6. help small businesses to thrive by providing a strong voice and authoritative information, establish 45 franchises to deliver improved services (from April 2001), review all Government support schemes for small business and develop a coherent portfolio of services, reduce the burden of regulation on small businesses, encourage enterprise and business growth in disadvantaged communities, improve access to equity financing and pursue effective EU measures to release the potential of small businesses;
7. help small businesses connect to the digital marketplace;
8. improve the skills base of UK businesses by encouraging greater links between business and education at all levels;
9. increase the number of businesses undertaking benchmarking or other 'best practice’ for the first time;

10. help new, inexperienced and occasional exporters to develop their export capabilities and their competitiveness.

The government aims to increase the number of ‘successful high-growth business start-ups’\(^{27}\) from 11,800 (1995) to 20,000 (2005). This is a 69% increase. One of the ways they will achieve this is by providing more funding for these kinds of start-ups. Another goal is to increase the number of companies spun out of the universities by 50% over the five-year period ending in 2002.

**The Entrepreneurship/SME Agenda**

The lack of an enterprise culture in the UK has been identified through evidence of low start-up and growth rates, significant external ownership of businesses, an over-large public sector and high unemployment rates.\(^{28}\) The needs for such a culture were fully articulated in *The Entrepreneurial Society* (IPPR, 1998). The basic premise of the SBS is that to achieve greater economic growth and employment all members of UK society need to be more enterprising. Its vision is that ‘by 2005, the UK can become the best place in the world to start and grow a business’.\(^{29}\) Its mission is to promote an entrepreneurial society in which every individual and firm can achieve their full potential. To create this culture for entrepreneurship, the SBS has recognized the need to encourage an environment that fosters enterprise beginning within the environment for potential entrepreneurs rather than solely within the existing SME community. This means promoting entrepreneurship, putting entrepreneurship education in the schools, reducing the stigma of failure and targeting particular groups like women, ethnic minorities, young entrepreneurs and social enterprises.\(^{30}\)

The key objectives for the Small Business Service are presented in the national strategy for SME support, *Think Small First: A National Strategy for Supporting Small and Medium Sized Enterprises in the UK*. They are to:

- change the culture so that society recognizes entrepreneurs as playing a vital role in job and wealth creation;
- improve the business environment in which SMEs operate;
- increase the number and quality of business start-ups;
- encourage SME growth and increased productivity;
- encourage the number of SMEs engaged in workforce development activities;
- stimulate innovation;
- enable businesses to compare their performance with others and monitor progress, and
- help businesses reduce the risk of failure.

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\(^{27}\) A ‘successful high growth business start-up’ is defined as one which will have at least 10 employees or a turnover of at least £1M after five years.

\(^{28}\) Bridge et al., p. 246.

\(^{29}\) *Think Small First: A National Strategy for Supporting Small and Medium Sized Enterprises in the UK.*

\(^{30}\) Ibid.
D: Description of Existing Programs and Services in Support of Entrepreneurship

The Regulatory Environment for Start-Ups

A regulatory environment favourable to entrepreneurship and competitiveness is seen as a critical part of overall enterprise policy. The UK government is committed to ensuring that regulations are effective, balanced and fair and that burdens of unnecessary regulation on small business are reduced. All significant proposals for new regulations should undergo a rigorous assessment to ensure they do not impose undue burdens on small firms, a process which is overseen by the Regulatory Impact Unit based in the Cabinet Office.31 The task of administrative and regulatory burden reduction is shared by the Regulatory Impact Unit, the Panel for Regulatory Accountability (chaired by the Minister for the Cabinet Office) and the Better Regulation Task Force (independent body of 18 people appointed by government to advice it on regulatory matters).

The government is taking actions to both reduce barriers to entry and exit for entrepreneurs. DTI has taken seriously the finding that ease of business entry and business exit and a high rate of turbulence leads to growth and innovation in the economy. In order to make it easier to start a business, the government wants to create a truly entrepreneurial culture.

Regulatory burden

1. The Better Regulation Task Force is mandated to simplify and/or remove unnecessary regulation and to promote a culture change in government in favour of minimizing regulatory burdens. The Regulatory Impact Unit has the power to vet proposed new regulations including scrutiny of cabinet papers. ‘Think small first’ is the test for new regulations and its enforcement.

2. Single electronic gateway into regulatory information – The government is piloting a Small Business Start-Up Service facility designed to provide new entrepreneurs with an understanding of all the regulations that are involved in setting up their particular business, customized to their information needs.32 This is intended to provide one-stop shop access to information on regulations that might affect them (www.open.gov.uk /gdirect).

3. In the March 2000 budget, the Inland Revenue service doubled the size of its Business Support Team to help more small firms deal with payroll issues and to offer a health check on payroll operations. This builds on the 1999 New Enterprise Support Initiative, a helpline offering payroll support services to employers over the phone.33 The Inland Revenue service also provides incentives for small

32 www.businessadviceonline.org/regulationstaxes/
employers who file their PAYE and end-of-year returns over the Internet, and who use accredited software packages, Internet payroll services or payroll bureaux to calculate their payroll.

**Insolvency Laws**

Compared to the rest of Europe, it is relatively easy to start a business in the UK. It is possible to meet the requirements to start an enterprise in a day. However, the Competitiveness White Paper, *Tackling Fear of Failure*, deemed it necessary to deal with too-stringent insolvency laws, which made it difficult to exit a business or to restart after failure.

In the past, UK Bankruptcy legislation focused principally on the rights of secured creditors in insolvencies. Anyone going bankrupt had to give up all their assets, could not obtain credit, were barred from public office, and in some cases, were denied the opportunity to make a living in their occupation (one case being that of a taxi driver). This made it very difficult, if not impossible, for a bankrupt business owner to start another business or even gain employment. Based on an examination of the US insolvency legislation where the business owner has some protection, the UK has decided to build more flexibility into the system. The government Insolvency Service has undertaken a review of the law relating to personal bankruptcy and the barriers to restarting a business once someone has failed. A consultation document on possible reforms to the law was published in March 2000.

**Tax Reductions for Start-up and Small Firms**

On March 21, 2000 the UK announced a substantial package of tax and spending measures to help small businesses. This was said to confirm *the government’s commitment to making Britain the best environment for small business in the world*. Among the tax measures were:

- A 10% income tax for new firms (down from 20%) that will apply to the first £1,520 of profit. Almost 300,000 new firms and self-employed persons will benefit from this reduction. Along with the 10p-starting rate of corporation tax for the smallest companies, the corporate tax bill of small businesses will be cut by an average of 25%.

- The cash flow of new firms will be improved by a Permanent First Year (capital) Allowance for investments in plant and machinery of 40%.

- The threshold for quarterly payments under the PAYE scheme was raised from £1000 to £1500 a month (saving employers up to £150 a year).

- The VAT registration threshold was raised to £52,000, encouraging both new business start-ups and firm growth. The deregistration threshold was raised to £50,000. These VAT threshold rates are now the highest in Europe. In addition small firms are able to

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35 Prudent for a Purpose, March 2000.
36 Ibid.
file VAT returns on an annual rather than quarterly basis, thereby reducing compliance costs.

- **R&D tax credits** were increased to 150% - for every £100 a company spends on R&D, it can claim £150 against its taxable income. A company which is not yet generating profit can take the relief upfront and reduce the cash cost of R&D investment by 24%. SMEs are expected to benefit by an estimated £150 million a year.

- In recognition of the important role of share options to young, growing firms that often have insufficient cash flow to reward their employees, the Enterprise Management Incentives (EMIs) scheme enables these companies to recruit and retain the people they need. Companies can grant EMI options of up to £100,000 to 15 employees without paying any income tax or National Insurance charges. Capital Gains Tax relief will normally start from the date the options were granted.

- To encourage investment in new ideas, new technologies and new businesses, changes were made to the Enterprise Investment Scheme and the Venture Capital Trust. The new Corporate Venturing Scheme will allow investors to obtain corporation tax relief on investments in the shares of small high risk trading companies, defer tax on capital gains that arise from reinvestments and set off capital losses against income.

- To encourage entrepreneurs and outside investors to invest in entrepreneurial firms, Capital Gains Tax on unquoted businesses was reduced from 40% to 10% for four years.

**Promotion of Entrepreneurship**

Efforts to promote entrepreneurship as a desirable and feasible employment and career option in the UK and to create favourable attitudes towards entrepreneurship in general are being renewed. The first wave of media promotion of small business started in the mid 1990s when British tabloids began devoting space to profiling small business owners and their enterprises, but reports are that this level of promotion was not only insufficient but sometimes negative.

This lack of promotion was recognized by the current government. A National Campaign for Enterprise has been launched by the SBS in partnership with the British Chambers of Commerce, the Institute of Directors and the Confederation of British Industry. In addition, there has been a recent flurry of private sector initiatives. Entrepreneurship awards are sponsored by different UK organizations and Ernst&Young has launched its international Entrepreneur Of The Year Program in the UK. There is also evidence that some innovative print and broadcast media activities are starting to emerge.

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37 Detail on R&D tax credits are available at www.inlandrevenue.gov.uk.
38 Prudent for a Purpose, March 2000.
National Campaign for Enterprise

The aim of the National Enterprise Insight Campaign ‘is to create a substantial improvement in pro-entrepreneurial attitudes and a sustained increase in entrepreneurial activity in the UK’. The government and its partners are seeking to heighten awareness of the business possibilities open to everyone in society – to support the belief being that ‘entrepreneurs can come from any walk of life and make their first steps into business at any age’. The Campaign was launched in the Spring 2000. Key messages of Enterprise Insight are 1) enterprise skills are life skills, 2) you can be an entrepreneur, 3) we all profit from enterprise. The major target group for promotion efforts appears to be youth, ‘to raise awareness and improve understanding of enterprise and entrepreneurship among young people’.

Awards

There are a number of entrepreneurship awards in the UK, both public and private sector.

- Queen’s Awards for Enterprise’ – a revamped awards program as part of the government’s wishes to encourage entrepreneurship and innovation. This awards program started in 2000-2001.

- Smart Achievement Awards – awards are given each year to recognize the significant commercial success of companies who have secured Smart funding for an innovation project.

- Shell LiveWIRE Business Start-Up Awards – an annual competition for young clients who have accessed support from the Shell LiveWire program. (Shell LiveWire clients are 16-30 years of age).

- Ernst&Young Entrepreneur of the Year Program – started in the UK in 1999. This program is helping to create greater awareness of entrepreneurial achievements in UK enterprise. Ernst&Young has published EOY Report 2001 which profiles UK entrepreneurs and reports on interview-based research of 600 of them.

Broadcast and Print Media

Channel 4 has launched a television game show, ‘Who Wants to be an e-Millionaire’ providing aspiring entrepreneurs the chance to win early stage seed financing for their internet start-ups. Thousands of candidates applied to appear on the program. Its aim is to widen the public appeal of entrepreneurship.

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40 Ibid.
41 www.enterprisepsight.co.uk/whoweare.htm.
Other recent developments are the compilation of the Fast Track 100 list of the UK’s top, emerging, fast growth companies (fasttrack100.co.uk) and the Profit Track 100 which identifies Britain’s most profitable new businesses. The mission of FastTrack is to create a dynamic entrepreneurial community in Britain. Conferences and other events are organized by FastTrack 100 and Profit 100 sponsors to create more awareness and to provide networking for finalists and winners.

Increasingly the UK newspapers are profiling stories about entrepreneurs and featuring articles on the topic of entrepreneurship in the economy.

GEM 2000 authors conclude that an entrepreneurial culture is starting to take root as these publics and private sector initiatives create more entrepreneurial role models and raise general awareness of entrepreneurship in the economy.

Entrepreneurship Education

The UK GEM 2000 study found that 40% of new UK entrepreneurs have not gone beyond secondary schooling (Levie et al., 1999, p. 25). Its authors suggested this provides a strong case for introducing the fundamentals of entrepreneurship education at both the secondary and tertiary levels. Overall, UK experts were not positive about the extent to which entrepreneurship education is being delivered at any level of the education system. Given the importance of the education system to building an enterprise culture, the SBS is now preparing a paper on the integration of enterprise curriculum in the educational system. A series of meetings will then take place with education officials and Education Ministers to discuss a cohesive strategy for incorporating enterprise and entrepreneurship concepts across all levels of the system. Having said that, some initiatives do exist in the UK and these are discussed below.

Enterprise Education: K-12

Academics in the UK have been promoting the concept of enterprise education for several years. Considerable work in this area has been produced by Durham University, which published enterprise resource materials for teachers in the 1980s and pioneered workshops and seminars on ‘enterprising teaching strategies’ as well as enterprise-oriented teaching materials.44 Enterprise Education Experience: A Manual for School-Based In-Service Training, was delivered to thousands of teachers by Durham’s Enterprise Education Unit. It was aimed at facilitating the spread of Enterprise Education between schools and within schools.

The DUBS approach was a cross-disciplinary one – enterprise education was presented as relevant to all subjects in the curriculum. It was focused on promoting a learning style where students could learn from their own actions, were enabled to develop the competencies, skills,

attitudes and characteristics of enterprising people, could gain the knowledge and understanding of how to set up and run their own projects, could learn to transfer skills from one activity to another and could gain an understanding of economics and industry.\textsuperscript{45} This work influenced later developments in Canada, Australia and Finland, among others. Although the UK adopted the ‘enterprise culture’ concept during the 1980s, including the Mini-enterprise in Schools Project and the Enterprise in Higher Education Initiatives for universities, the widescale introduction of enterprise and entrepreneurship curriculum on a strategic, national basis in the UK has been slow in adoption.

In the 1998 Competitiveness White Paper, \textit{Our Competitive Future: Building the Knowledge Driven Economy}, the government committed itself to ‘encourage the development of entrepreneurship skills, especially amongst school pupils, students and university researchers’ and to look at ways that schools could impart the development of skills and attributes essential to entrepreneurship. The National Curriculum now includes ‘enterprise and entrepreneurial skills’ as one of the seven key learning components of school curriculum (www.nc.uk.net/learn.html) and as of May 1, 2001, teachers will be able to use the National Curriculum service to access information on how to promote enterprise and entrepreneurial skills across subject areas (e.g., history, geography, design/technology, art/design, mathematics). To influence what is included in ‘enterprise and entrepreneurial skills’ the Department of Trade and Industry has been working with the Qualifications and Curriculum Authority of the Department of Education and Employment (DfEE) to produce an Enterprise Guide for teachers. This Enterprise Guide is available on the web (www2.dti.gov.uk/enterpriseguide).

Another priority of the government is to bridge the gap between schools and businesses. The Department of Education and Employment (DfEE) and DTI are working closely with a number of other organizations, including business and the Treasury to develop an agenda for engaging more SMEs in school-business links at the local and national level. An interactive CD-ROM and paper-based materials are being developed to encourage more SMEs to participate in school/business activities; an education-business links website will provide a central point of information for all schools, businesses and other partners.

A range of organizations are included in the network to assist the teaching of enterprise and entrepreneurial skills in the classroom and these are linked to the Enterprise Guide website, for example, Young Enterprise, the National Foundation for the Teaching of Entrepreneurship UK (www.nfte.org.uk), Mini-enterprise in Schools, Shell LiveWire and Enterprise Insight.

\textbf{Young Enterprise Programmes}

A major effort is also being made to develop awareness of entrepreneurship among youth through the Young Enterprise Scheme which gives students an opportunity to experience running their own business. In 1999-2000, about 70,000 students between the ages of 14-19 participated in Youth Enterprise programs, guided, encouraged and taught by more than 9,000 volunteers and teachers.\textsuperscript{46} Young Enterprise offers five programs:\textsuperscript{47} 1) the Company

\textsuperscript{45} \textit{Enterprise Education Experience: A Manual for School-Based In-Service Training}, Durham University Business School.
\textsuperscript{46} www.young-enterprise.org.uk/

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Programme to 15-19 year olds, 2) Project Business to 14-15 year olds, 3) Team Enterprise to students with learning difficulties or disabilities, 4) Graduate Enterprise to university students (18-25 year olds) who want to start their own business, 5) Entrepreneurship Masterclass to students who have already gone through the Company Programme and 6) an introduction to basic economics and citizenship for primary students (Young Enterprise in Northern Ireland).

Both students and teachers can qualify for credits from Young Enterprise Programmes. The Young Enterprise Link Teacher’s Certificate Programme runs over one academic year, after which teachers receive a recognised professional qualification. See www.young-enterprise.org.uk/linkteacher.htm. Students can sit for the Young Enterprise Examination, an increasingly recognized qualification awarded by Oxford Cambridge RSA.

**Entrepreneurship Education – Post-Secondary Level**

A DfEE National Committee Inquiry into Higher Education in 1997 recommended that all Higher Education Institutions encourage entrepreneurship. Subsequently, DfEE funded five pilots at post-secondary institutions to assess: 1) the extent of and potential for self-employment as a career objective for graduates, 2) the start-up processes and patterns of graduates, 3) the experience of new graduate start-ups within a business incubator, and 4) the characteristics of successful graduate start-ups (Graduate Business Start-Up Project). Reports from these five pilot projects can be accessed at www.dfee.gov.uk/heqe/publication.htm. These pilot projects were all geared to give both undergraduate and graduate students an opportunity to design and run their own businesses and have now been extended to 17 universities and will run until 2001. Apart from this initiative, several universities do offer courses in Small Business and Entrepreneurship to their business students. Among the most progressive in Entrepreneurship are the University of Strathclyde in Scotland, Durham University, and most recently the London Business School.

However, UK universities, like those in other countries, fall short of providing non-business students with the opportunity to link learning in entrepreneurship in their domains of study. Discovering Entrepreneurship is a one pilot module developed with non-business school undergraduates to explore and discover with local entrepreneurs their own potential aspirations and competencies for entrepreneurship The full curriculum outline is posted at www.centreforenterprise.co.uk) and can be downloaded. Idea-HOUSE.com is a virtual start-up incubator to proactively stimulate start-ups in student and graduate communities. It is a mechanism for transferring knowledge between higher education and new businesses. This project is funded by the Higher Education Funding Council and development work is being done by the Centre for Enterprise. The site will act as an Internet Gateway for students and graduates to explore their aspirations and capabilities in developing business ideas and opportunities. The site will have a simple diagnostic tool, which categorizes site visitors and then refers them to the appropriate platform. For pre-starts, the emphasis will be on the use of on-line mentors to help with the development of the business idea. For start-ups, the package

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47 www.young-enterprise.org.uk/programmes.htm
49 From www.enterpriseforum.co.uk/devprojects.asp.
will include on-line start-up and early stage development learning materials, mentoring, webhosting, and web trading facilities.

These are only examples of innovative models being explored. In the future, it can be expected that more university-based incubators will be funded in order to encourage students to pursue entrepreneurship and to generate more university-based spin-off ventures.

Small Business Support

The UK has an extensive network of agencies and offices, which provide counselling, training and advisory services to new and growth-oriented SMEs. However, the UK has been criticized because of the fragmentation of program support, the variable quality of service and the difficulty of accessing government programs. Under the new SBS, these business support services will be better co-ordinated. The needs of a wide range of customers will be recognized – new start-ups, micro-businesses, high growth firms and businesses with less than 250 employees. It will target the self-employed as well as community enterprise. The focus of support will be on removing barriers and providing assistance at each key stage of the firm’s development. (The SBS only applies in England, as in Scotland, Wales, and Northern Ireland small business support is a devolved activity). New technologies will be applied to program support; use of websites, call centres, field offices of business advisers, and customer visits will become part of an integrated approach.

Single gateway for access to services

There will be a single entry point for all small business support programs and services, including SME export and workforce development services (Gateway portal). Services of the Business Link network and the Regional Development Agencies have been integrated. A national Information and Advisory Service for SMEs is being developed by the SBS to act as the entry point for ‘complete beginners’, that is new entrepreneurs. The marketing campaign for this new service will begin in 2001. The network of 45 Business Links will become the local entry point for more experienced customers.

Internet Business Portal

In the spring of 2001, the SBS will launch a web portal uniquely tailored to meet the needs of internet companies. It will include self-diagnostic tools to help users identify their needs, user-friendly advice on business plans, skills, training, and venture capital, and a helping hand from industry experts who will provide mentoring advice by e-mail. The objective is to help internet entrepreneurs make informed decisions at the vital early stages of development.

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**Online Advice for Start-Ups and Micro-Enterprises**

The National Federation of Enterprise Agencies offers an online advisory service for start-ups and new entrepreneurs which can be accessed at [www.smallbusinessadviceonline.org.uk/sbas.asp](http://www.smallbusinessadviceonline.org.uk/sbas.asp). Over 200 Accredited Business Advisers are available to answer questions posted online, guaranteeing a maximum two-day response time.

**Business Advisory Services**

Business Links have been the major network for providing business advisory services to SMEs in England for the past six years. The priority has been on growth-oriented SMEs although the target group for Business Links Personal Business Advisers has wavered over the years from growth-oriented SMEs to all firms. From April to June 1999, a review of Business Links clients showed that half had less than 10 employees, a proportion, which has remained fairly constant over time. Almost 1000 Personal Business Advisers were working with a total of 10,000 clients each year. The number of Business Links has recently been reduced from 81 to 45 and their services altered somewhat. In the past, each Business Links Personal Business Adviser worked with a client base of a number of growth-oriented firms. In the future, Business Links will also provide services to new entrepreneurs and start-up companies and have to meet targets for expanding their reach into the client base of women and ethnic-minority entrepreneurs, micro-enterprises and other groups which face specific barriers to entrepreneurship.

In Northern Ireland, LEDU is the main small business support agency, in Scotland, Scottish Enterprise and in Wales, the Welsh Development Agency.

**Mentoring**

A new business support initiative is the DTI-supported Volunteer Business Mentoring program developed by the National Federation of Enterprise Agencies (NFEA), a network of local agencies which provide seminars and support to people who are planning or starting a new business or who own a micro-enterprise with fewer than 10 employees. The Volunteer Business Mentoring Program (BVMA) was inspired by the SCORE program of retired executives in the US. The pilot scheme will recruit 1000 volunteers throughout England and run until March 2001. Volunteer mentors are required to spend 40 days a year providing support to start-up/micro businesses. The service will be supplemented with online counselling access for clients. The DTI has injected £3 million for the development and launch of this Scheme. If the initiative proves that starting and growing firms benefit from such a service, the Small Business Service will decide whether to continue it after March 2001. (One of the lessons learned from the SCORE program is, that even though volunteers are experienced professionals and entrepreneurs, they should be put through a mentor

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51 DTI Strategic Framework 2000-2001 ([www.dti.gov.uk/expenditure/chapter2/page8.htm](http://www.dti.gov.uk/expenditure/chapter2/page8.htm)).
52 [www.nfea.com](http://www.nfea.com).
53 Small Businesses to Have Access to Business Mentors, Press Release ([www.nfea.com](http://www.nfea.com)).
orientation program). The Prince’s Trust has developed a sophisticated approach to the development and training of volunteer mentors (they have over 6,500 business mentors in their database). Its National Mentoring Network has set out a framework, which is common to all successful mentoring programs. It outlines ten steps in good practice of establishing mentoring programs based on years of experience with a rich range of mentoring models.54

A Mentor’s Forum can be accessed at www.mentorsforum.co.uk. This site provides excellent guidance on the development and management of mentoring programs and relationships. It includes a review of schemes and relationships, measurement guidelines, a mentoring diagnostic kit and a graphic display of the various considerations as a mentoring relationship evolves.

In Northern Ireland, the Local Economic Development Unit (LEDU) has established the Northstar Scheme to draw on the experience of retired and semi-retired business people to provide mentoring services to small businesses. The Business to Business Bridge, supported by LEDU, provides a mechanism for large businesses to offer knowledge-based support for small firms. In Scotland, mentoring services take the form of Business Mentoring Scotland.

**Professional Development for Business Advisors**

A priority of the Small Business Service is quality service - the accreditation of advisers and counsellors who are providing services to SME clients in Business Links and other government funded organizations. The UK is the most advanced in the world in the area of setting standards for small business advisers and counsellors. National Vocational Qualifications (NVQs) have existed for small business counselling since 1994 and training programs are offered by a number of universities throughout the UK including Durham University and the University of Ulster in Northern Ireland. An NVQ is a statement of competence in the ability to perform to national standards in a real working environment. The Small Firms Lead Body (with the Institute of Business Advisers and others) has established six standards in NVQ for Business Counselling (D32 and D33) with a guide to attaining the NVQ/SVQ in Business Counselling. The DTI has adopted Standards of Professional Competence for all those delivering services on behalf of the SBS55 and works with the IBA to monitor these standards through the Business Link Accreditation Advisory Board.

The area of competency development for small business advisers was pioneered by the Small Business Institute at Durham University in the late 1980s. They started offering training for practitioners leading to a Certificate in Small Business Counselling. The Institute of Business Counsellors was formed in 1989 as a professional membership and accreditation organization. Renamed the Institute of Business Advisers in 1997, the IBA now has over 2000 accredited Business Advisers in the UK and chapters in Canada, South Africa and other parts of the world.56 The goal is to have a world-wide association of professional institutes all focused on enhancing the competency of business advisers. Although both Australia and Canada have established Institutes with similar objectives and aims, the IBA is the global standard for professional development and accreditation of small business advisers. IBA

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54 Mentoring, Factsheet 8, The Prince’s Trust Policy and Research Unit, July 1999 (www.princes-trust.org.uk).
56 www.iba.org.uk.
benefits are a Code of Conduct, Professional Indemnity Insurance, continuing professional
development, networking, professional magazines and designation letters. In 1993 the IBA
formed Joint Awarding Bodies with the Royal Society of Arts (RSA) and ScotVEC for
National Vocational Qualifications (NVQs) and SVQs in Business Counselling and
Information and in 1994 joined the National Federation of Enterprise Agencies and Durham
University Business School to accredit and promote Training Courses in Small Business
Support; a comprehensive list of accredited courses is published each year.

One of the new initiatives of the SBS is the planned launch of a national ‘virtual university
for business support’, Business Link ‘U’. This in-house training capacity will enable
practitioners to support the learning of all business support providers and offer opportunities
for continuous professional development at all levels of the SBS and Business Links. This is
an innovative concept and one that may be of interest to other countries.

Business Incubators

Research shows that businesses started in an incubator with access to premises, advice,
technical support and seed-capital have a much higher chance of survival. The UK has already
experienced considerable success with its Biotechnology Mentoring and Incubator
Challenge. Seventeen new start-up companies resulted from this Scheme which finished its
final round of funding in August 1999. A further 17 new firms, germinated from university
programs, are being supported now.57 The Internet Incubator Fund announced in October
2000 will allocate part of £5.5 million available to germinate new incubators and help existing
internet incubators to expand.58 The SBS intends to develop the incubator concept into a
comprehensive start-up policy and to ensure that those starting businesses have access to this
type of facility if they want it. A £75 million incubator loan fund will be used to encourage
business start-up and growth in managed workspaces in all regions, with flexible leases, good
communications and business advice and support.

Business Information and Training to Help Existing Firms Survive and Grow

To enhance the growth prospects of established SMEs, the SBS aims to improve access to
business information and training, encourage businesses to make much greater use of IT for
reporting, recording and trade purposes, and ensure entrepreneurs recognise the importance of
seeking outside professional support. The goal is to ensure that world-class business support
services are easily accessible including information, consultancy, management training and
development, workforce development, product and process development, supply chain
development, and a comprehensive array of financing products to stimulate innovation and
growth. SME’s are also encouraged to take-up management ‘best practice’ approaches
including benchmarking and the Business Excellence Model.59

58 Incubating dot.coms: The Future Role of Internet Incubators, UK Business Incubation Conference, London,
October 19, 2000, speech by Lord Sainsbury of Turville, DTI.
59 Think Small First: A National Strategy for Supporting Small and Medium Sized Enterprises in the UK,
Section 46.
Identification of Target Groups

The UK has targeted specific efforts to increase the growth of businesses owned by women, young people, ethnic minorities and new graduates. The most comprehensive support is for young people in which the private sector is heavily involved (e.g., Royal DutchShell, the Prince’s Youth Business Trust, Young Enterprise).

Women Entrepreneurs

Although there has been considerable growth in the number of self-employed women in the UK over the past 25 years (90% increase in the number of self-employed women compared to a 50% increase in the number of self-employed men from 1975-1995) men are still much more likely to be self-employed than women. In 1995, the self-employment rate among employed males was 18% (up from 11% in 1975) while the self-employment rate among employed women was only 7% (up from 4% in 1975). In addition, only 50% of self-employed women work in their businesses on a full-time basis, compared to 88% of self-employed men. It also appears there are substantial UK gender differences in the category of nascent entrepreneurs – those people who are currently in the process of taking some actions to start a business. The 1999 GEM Report revealed that the female entrepreneurial activity rate was less than half that of males, that is, 5.1% of working age men were in the process of trying to start a business in 1999, but only 2% of working age women. The 1999 UK GEM Report authors suggest that if the female entrepreneurial activity rate were to match that of UK males, UK start-ups would increase by 50%.

In the past, there has been limited attention to the issue of increasing the number of women entrepreneurs in the UK economy. There are virtually no targeted policies or programs to encourage women to start businesses, i.e., women’s enterprise centres, loan programs targeted to women, etc. except for isolated initiatives in parts of Scotland and Northern Ireland. For example, Women in Enterprise (WIE) started in Londonderry, Northern Ireland in 1997. It is modelled after US and European models of best practice to bring women into business ownership by offering tailored programs of pre-enterprise training and taking them through idea generation to business start training to loan funding to business establishment. WIE operates a Women in Enterprise Dedicated Business Centre that offers training, advice, counselling, mentoring and networking, a pilot micro-finance project that includes a start-up fund (£1,000 to £5,000 micro-loan for inadmissible non-bank financed starts; 4% interest rate; 2 year maturity) and a working capital fund (for established women-owned firms that are unable to access bank or government financing; up to £10,000; 2 year maturity; 4% interest).

With recent research on UK women business owners sponsored by Barclay’s Bank and IBM, in addition to the joint Sweden-UK report and GEM findings that there is a very low

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62 Levie et al., 1999, p. 5.
63 Women in business – the barriers start to fall, Barclay’s Bank, December 2000.
prevalence rate of new and nascent women entrepreneurs in the UK, government interest can
be expected to increase. In fact, the SBS and the Cabinet Office Women’s Unit have jointly
developed a Women’s Online Business Centre which will launched in the Spring of 2001. Other good practice initiatives may follow.

**Ethnic Entrepreneurs**

Ethnic firms now account for 7% of all UK businesses and 9% of all new business start-ups. Barclay’s Bank research reveals that although ethnic business owners are highly qualified and work longer hours than domestic entrepreneurs, they still face discrimination. Self-employment is often a response to poor job prospects, bank financing is more problematic and ethnic entrepreneurs face other access barriers.

To ensure that policies and support reflect ethnic minority needs, the government established an Ethnic Minority Business Advisory Forum in December 1999 ‘to identify issues of particular concern to the ethnic minority business community and to advise the Department of Trade and Industry on how it can tailor its policies and support to help improve the competitiveness of ethnic minority businesses’. Four Forum subgroups have been formed around identified needs: 1) procurement, 2) access to finance, 3) ICT/e-commerce and 4) business support. In addition, issues of inadequate statistics on ethnic minority businesses and the promotion of ethnic minority business success were identified as critical areas for attention.

Efforts are underway to examine strategies to reflect a locale’s ethnic diversity in the proportion of Business Links client base, including ministerial monitoring of the number of ethnic minority clients, diversity training for business advisers, the recruiting of more ethnic business advisers and more ethnic minority representation on industry committees. An Ethnic Minority Centre of Expertise for Business Links has been set up in London and is recommending that targets be established for the number of ethnic minority clients, that money be ring-fenced for ethnic minority business assistance, and that further work be done with banks to increase support for ethnic minority businesses. Forum members have also noted the inadequacy of statistics on minority-owned business in the UK and state that this should be a priority of the new SBS. Efforts to pull together existing research is now underway and the SBS has included social inclusion research and research on the enterprising behaviour and barriers of socially excluded groups in its current small business research strategy. Finally, Forum members have stressed the importance of promoting the entrepreneurial spirit of ethnic minority communities (as well as identifying the difficulties).

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Immigrant Entrepreneurs

In July 2000, the UK Immigration & Nationality Directorate announced the 2-year Pilot Scheme for Entrepreneurs designed to attract outstanding entrepreneurs whose proposals would result in exceptional economic benefit to the UK. It is open to immigrants in any business sector as long as the proposed business exploits economic opportunities in the rapidly developing S&T based sectors and e-business. No minimum investment is required, and there is no requirement for personal funds to be invested, but proposed ventures are to result in exceptional economic benefits. Applicants will be assessed for their combination of entrepreneurial ability, technical skills and viable proposal. This scheme supplements the existing immigrant business program for people who want to start businesses (required to invest at least £200,000 of their own money) and investors (required to invest a minimum of £750,000).

Young Entrepreneurs

A 1998 opinion survey revealed that of young people in Britain between the ages of 16 and 21, 48% aspired to owning their own business. In the UK, there are several national initiatives focused on the development of young entrepreneurs – e.g., Young Enterprise (covered above), Shell LiveWIRE and the Prince’s Youth Business Trust. In addition, unemployed 18-24 year olds can qualify for self-employment support through The New Deal program of the Department of Employment.

- **Shell LiveWire** – Shell LiveWIRE originated in the UK in 1982. It is a start-up support program for people between the ages of 16-30, which encourages them to see starting a business as a viable career option. Services provided by LiveWIRE offices differ depending on the level of existing service in the country or region where offices are located. However, there are some core products including the *Start Your Own Business Booklet*, the *Business Opportunity Profile* (fact sheet on business ideas), the *Writing Your First Business Plan Booklet* (and CD-ROM) and the *Market Research for the First Time Booklet*. Young people have access to one-on-one advice through a national network of local business advisers, an interactive web service and idea exchange and referral to sources of financing. Shell also publishes corporate material that promotes the concept of entrepreneurship as an option for young people and profiles examples of successful young entrepreneurs. Since 1982, LiveWIRE has helped over 140,000 young people consider starting a business, awarded over £2.2 million in start-up financing to clients, and recognized 437 young entrepreneurs in the Shell LiveWIRE regional Business Start-up Awards program. It also raises the

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69 Coming to the UK: Innovators pilot scheme, Immigration and Nationality Directorate (www.homeoffice.gov.uk/ind/to_the_uk/to_the_uk_22.html).
72 ‘Success’, LiveWIRE, accelerating young business ideas, Shell Corporate material, 1999.
profile of Britain’s most promising young entrepreneurs through this annual Young Business Start-up Awards Competition. In 1999, 29,068 young people made start-up enquiries with Shell LiveWIRE in the UK. One-third of the enquiries came from employed youth and two-thirds from unemployed youth. The average age of a LiveWIRE client is 22. (The complete report, Shell LiveWIRE UK and Regional Statistics, is available at www.shell-livewire.org/html/news/newsMain.htm#london2k).

- **Prince’s Youth Business Trust** – the Youth Business Trust helps unemployed disadvantaged youth to establish them in self-employment by providing business advice/mentoring, loans and bursaries. The Prince’s Trust offers:
  
  - a low interest loan of up to £5,000,
  - test marketing grants of up to £250,
  - grants of up to £1,500 in special circumstances,
  - advice from a volunteer ‘Business mentor’ during their first three years of trading,
  - extra support including discounted exhibition space and specialist advice.

Since 1983, the Trust has helped more than 43,000 young people to start their own enterprises; the target for 2000 is 4,800 start-ups; the five year goal is to raise £50,000 to start 30,000 new businesses over the next five years.

- **Self-Employment New Deal** – the New Deal is a key part of the government’s Welfare to Work strategy aimed to help people into the workforce from unemployment. From June 2000, New Deal has been offering help to people who want to set up and run their own businesses. 18-24 year olds can receive help from New Deal Personal Advisers to prepare a business plan while on Gateway and training and test trading while on the Employment Option. Young people over 25 who want to work for themselves can obtain help through Work-based Training for Adults (in England and Wales), Training for Work in Scotland or a Jobfinder’s Grant. The New Deal program involves an awareness session to find out more about the self-employment option, followed by a short course (usually one day a week for four weeks) or one-to-one counselling. It will help young people decide whether self-employment is the best choice for them, get further information and training and produce a business plan. If at that time, the young person has not started a business, they can join the self-employment element of the employment option, obtaining up to six months of advice and support from training providers while actually setting up and running their business. They receive an allowance and a grant of up to £400 paid in equal weekly or fortnightly instalments. Any money earned in the business during the first six months on the option can be reinvested in the business or stored in a special bank account until the option has ended.

75 [New Deal - Self-Employment](http://www.newdeal.gov.uk/english/self_employment/).
University Spin-Offs

The Graduate Business Start-up Scheme is focused on encouraging and helping new graduates to become entrepreneurs. Incubators on campus is part of the strategy to facilitate the development of new businesses based on research and ideas developed within the university environment, by both graduates and professors.

Networks

There are several small business/entrepreneurship related networks in the UK.

Entrepreneurs and SMEs: The Federation of Small Business and the Forum for Private Enterprise are established membership oriented organizations which represent the interests of small businesses across the UK. The First Tuesday group is active in parts of the UK and holds regular networking sessions for entrepreneurs, venture capitalists, bankers and business support professionals. The Enterprise Forum is a product developed by the Centre for Enterprise in partnership with Business Links, which is designed for entrepreneurs to share their business issues with an audience of peers, providing the opportunity for peer learning and development. The Enterprise Forum is a virtual discussion group for everyone interested in contributing to current thinking in research, policy and practice related to management development and small business enterprise. Discussion forums are built around a series of articles written by businesses and the wider business community that encourages fresh insights about the challenging and widely changing world of work.

Academics, Researchers, Policymakers, Business Support Professionals: There are also a number of networks for academics and researchers including the membership-based Institute for Small Business Affairs (ISBA) which operates a small business research portal (www.smallbusiness.cjb.net), publishes a quarterly newsletter, Small Business Issues, and organizes an annual Small Firms Policy and Research Conference. The ISBA is a UK network for anyone involved in formulating, delivering and evaluating policy towards small businesses, in Business Links, TECs/LECs, higher and further education, and business advice services. Its mission is ‘to encourage the conduct of high quality research in the field of small business development, to disseminate the results and findings for discussion and to assist and inform those responsible for the formulation, development, implementation and evaluation of enterprise policy’.

Business Advisers: There is a network for professional development of small business advisers. The Institute for Business Advisers has over 2000 members who have received accreditation and the right to use professional designatory letters AIBA, MIBA, and FIBA based on peer assessment of their business management experience, business advisory training, experience and performance and continuing professional development. The IBA has 20 branches, which cover the whole of the UK plus Ireland and South Africa. Each branch

76 www.centreforenterprise.co.uk.
77 www.enterpriseforum.co.uk/about.asp.
78 From the Institute for Small Business Affairs brochure (www.isbauk.org)
79 Dunsby, Brian L., Professionalism for Small Business Advisers – a model supporting the development of SMEs, 29th European Small Business Seminar, 16-17 September 1999, Portugal (www.iba.org.uk).
holds meetings, seminar, and training days covering subjects of topical, national and local
importance to all those concerned with SMEs. The IBA publishes a quarterly magazine, *The
Business Adviser*, and hosts an annual conference for members and others interested in SME
support ([www.iba.org.uk](http://www.iba.org.uk)

**Access to Financing and Seed Capital**

Opinions on the issue of access to financing for new and small businesses in the UK are
mixed. Access to short-term financing is not considered a major issue at present, however, the
picture with longer-term financing is less clear. In terms of venture capital, although there
does not appear to be a lack of funds, a large proportion of it has in the past been devoted to
management buy-outs and ‘safer’ forms of investment, and seed and start-up capital has
represented a small proportion of the total. Financing for projects in the latter category has
increased from 4.9% of the total amount of venture capital investment in 1996 to 9.1% in
1999.80 The government has recently addressed this problem by developing new regional
funds. The government is also encouraging the development of business angel networks.

Financial assistance programs include a government backed loan guarantee program,
business start-up and expansion subsidy programs, tax relief for business angels, and support
for the formation of venture capital companies.

**Small Firms Loan Guarantee Scheme**

The Small Firms Loan Guarantee Scheme is a 70% – 85% government-backed loan, which is
delivered through a network of 19 traditional banks and other financial institutions. The
objective is to reduce the risk from bank lending to a small firm which is commercially
viable, but which cannot offer the required collateral security. Clients pay an interest rate
premium for the loan of 1.5%. From 1981 – 1999 over 69,000 loans worth £2,420M have
been guaranteed.81 Loans are available for 2-10 years on sums from £5,000 to £100,000 for a
new business and up to £250,000 if the business has been operating for more than two years.
To be eligible a firm’s turnover must be less than £1.5 million (£3 million for manufacturers).
There are a number of restrictions on use of funds and eligible business activities.82 From
1997-1999, 27% of the guaranteed loans were made to new businesses but new businesses
received less than 20% of the total amount of loans funds guaranteed. ‘Established
businesses’ received 56% of the loans and 70% of the loan funds.83 Although KPMG
evaluation results have been favourable, there is a perception that the program is too
restrictive in its eligibility criteria and that it needs to be more flexible to meet the financing
needs of new business start-ups.

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82 [www.businessadviceonline.org/sflgs](http://www.businessadviceonline.org/sflgs/)
83 DTI statistics as reported in Quarterly Report on Small Business Statistics, July 2000, Domestic Finance
Division, Bank of England, p. 32.
Small Business Loan Schemes

The Business Start-up Scheme and the Business Expansion Scheme are government loan programs intended to increase the supply of small amounts of equity capital (up to £100,000) to manufacturing and tradable services firms.

Micro-Loan Initiatives

The UK does not appear to offer much in the way of micro-loan programs. The exceptions are a micro-credit program for women entrepreneurs in Scotland (Wellpark Enterprise Centre) and the Prince’s Youth Business Trust which is a major provider of micro-loans to people under 30 (described above).

Phoenix Fund

The £30 million Phoenix Fund was established in November 1999 to provide better access to finance and business support in deprived areas. It provides new development money for innovative initiatives such as 1) business incubator units, 2) a national network of mentors for start-ups and micro-enterprises, 3) resources for Community Finance Initiatives, and 4) Loan Guarantees to help co-finance commercial lending to Community Finance Initiatives. Through the Community Finance Initiatives (which will receive about 10% of the Phoenix Funds) funds will be channelled to local entrepreneurs who would normally be refused by banks. According to Patricia Hewitt, E-Commerce and Small Business Minister, ‘the Phoenix Fund will give entrepreneurs in deprived communities the financial boost they need to start-up and develop their businesses’.

Venture Capital

The UK venture capital market, although underdeveloped, has been growing rapidly. However, the majority of these funds are not channelled into new and early stage businesses but into management buy-outs and larger acquisitions. Also, venture capital funds tend to be concentrated in the Greater London area leaving gaps in lesser populated parts of the country. Thus the government has launched initiatives to increase the amount of venture capital financing and to channel more of it into smaller firms and in the regions.

Regional Venture Capital Funds: This fund was launched in December 1999 to encourage the establishment of venture capital funds in the UK with a particular focus on smaller firms at the regional level. The 2000 budget committed a further £100 million of new resources for the 2001-04 period to support an umbrella fund with a target of £1 billion for new economic development. The umbrella fund encompasses existing support for venture capital and will be operated by the SBS with the new Small Business Investment Task Force.

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in partnership with the RDAs. These venture capital funds specialise in small-scale equity investments of less than £500,000 for businesses with growth potential.

**High Technology Fund:** The UK High Technology Fund was set up to provide incentives for venture capital investments in early-stage high-technology enterprises. It is being managed by Westport Private Equity Ltd and will invest in existing UK high-technology venture capital funds – the fund target is £125 million, of which £20 million will be government investment.85

**Tax Relief for Venture Capital Investments**

Venture Capital Trusts (VCT) are pooled investment mechanisms to enable private investors to spread the risk of investing in small private companies. This government initiative aims to increase the supply of risk capital for businesses with growth potential by incenting venture capitalists with tax relief. Total investment to date from VCT is £1 billion. To promote investment in small higher risk trading companies, the government introduced the Corporate Venturing Tax Relief Scheme in 2000.

**National Business Angels Network**

Although not much is known about the informal investment market in the UK, GEM 2000 authors estimate that the size of this market could be five times that of the formal venture capital investment in seed, start-up, early and expansion stage firms in 1999 (Levie et al., 2000, p. 18). Additionally, the vast majority of angel investments are made in start-up and early stage ventures thus contributing more substantially to entrepreneurship development. The UK government is beginning to shift some of its policy attention to further development of this angel market. One way of doing this has been to support the development of a National Business Angels Network and to facilitate the flow of information and communication between angels and entrepreneurs looking for money. With support, the number of business angel networks in the UK grew from 26 in 1997 to over 50 in 1998. By the end of 2000, 730 businesses and 782 investors had been recruited.86 The level of activity is still considered to be low and the government is providing additional support to further stimulate activity in business angel networks ([www.businessadvisedirect.org](http://www.businessadvisedirect.org)).

**Tax Relief for Angel Investors**

The Enterprise Investment Scheme provides tax relief to business angels investing in qualified unquoted firms.

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The UK publishes an annual Statistical Bulletin, Small and Medium Enterprise (SME) Statistics for the UK. The 1999 report is available from the SBS. The Bulletin contains a size breakdown on the number of UK businesses and their contributions to employment and turnover by sector. The Bulletin is an aid to economic planning, marketing, business surveys and research. Summary data from the Bulletin can be downloaded from www2.dti.gov.uk/SME4/pn2000.htm. Copies of research reports, government program evaluation reports and other SME related information can also be obtained from the DTI website and the SBS website (www.businessadviceonline.org). Currently, because business start-up and exit data are compiled from VAT registration and deregistration files, it is not possible to obtain accurate information on the number of entries and exits on an annual basis. However, the UK is not the only country to have this problem.

In the past, SME/entrepreneurship has been somewhat fragmented in the UK. Recently there have been more efforts to develop databases of all UK small business/entrepreneurship research and researchers and one of the missions of the Institute for Small Business Affairs has been to bridge the gap between research and policy. The latest development, however, is a research initiative of the SBS, Research and Evaluation Section. This section wants to become known as the principal source of research and information on small businesses and entrepreneurship in the UK and to more strategically make use of research input in the policy-making and evaluation/review process. In addition, the SBS wants to ensure that research activities are more strongly focused on supporting SBS objectives, that research is more coordinated across all stakeholders, that the quality and relevance of the research is increased and that research findings are more accessible on a timely basis. The Research and Evaluation Section has laid out a strategy for achieving these objectives, including specific activities and performance measures (in Small Business Service Research Strategy 2000-1 to 2002-3). This report includes a list of research objectives, priority research areas, planned projects, and reporting deadlines in each of the areas.

Several universities are running SME/entrepreneurship research programs including the University of Warwick, Durham University and the London Business School. The University of Warwick is particularly known for its SME evaluation research. There are numerous internationally known SME/entrepreneurship researchers and credible academic journals coming out of the UK. The Centre for Enterprise is carrying out a survey to create a database which identifies all current SME research projects in the UK and a list of all researchers in the field of small business and entrepreneurship. The main output of this project will be a Microsoft Access database of current research and researchers. The Centre is also currently funding a small number of research grants summaries for which can be accessed at www.centreforenterprise.co.uk.

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88 www.enterpriseforum.co.uk/research.asp.
SECTION 2: EXPERIENCES/EVALUATION OF IMPACT

Evaluating the Effect of Programs and Policy Orientation

There is evidence of program evaluation efforts in the UK but little evidence of evaluation of policy orientations. The DTI has carried out evaluations of the Small Firms Loan Guarantee Scheme, the Business Links, the Mentoring Pilot program and other initiatives. Currently the government is setting Public Service Agreement Targets for all parts of its strategic plan and departments will be expected to deliver against these targets. Performance indicators are also being set for department activity. How well monitoring and measuring of performance indicators will be done remains to be seen. In the meantime, the SBS Website includes a regular updating of SBS Performance Information and produces a quarterly report quantifying client reach and penetration for a number of SBS services.

Performance Indicators for Entrepreneurship Agenda

Definitive performance indicators have been developed to monitor progress in implementing the Think Small First policy framework (see Figure 2). Measures have been identified to cover the extent to which the framework:

1. improves the opportunities for new and small businesses and motivates people to start a business, or grow an existing one;

2. influences small business behaviour, including owners’ attitudes (e.g., appreciating the value of external advice), take-up of desirable practices (e.g., the spread of e-commerce), capability (e.g., being ‘equity-ready’) and performance (e.g., productivity).

A distinction is made between three sets of outcomes: 1) the entrepreneurial culture and environment for small business, 2) the incidence of people motivated to start, trying to start, or actually running a business, and 3) the practices and performance of those businesses.

Several of these indicators are already in place through Public Service or Service Delivery Agreements, DTI Competitiveness Indicators or EU measures. Other measurement data will be obtained from GEM reports, SBS SME and household surveys, regular regulatory audits, VAT records, Labour Force Surveys, etc.

In summary, it appears that the SBS is interested in measuring 1) changes in the entrepreneurship culture, 2) changes in business entry, survival, growth and exit rates over time, 3) changes in barriers to entrepreneurship, 4) changes in performance of existing SMEs in a number of areas, 5) the extent to which business support impacts on socially excluded groups, 6) UK environment for small business start-up and growth relative to other countries, 7) and the use and impact of business support services.

Figure 2: Performance Indicators for ‘Think Small First’ Policy Framework

<table>
<thead>
<tr>
<th>A: Entrepreneurial Culture and Environment for SMEs</th>
<th>B: Entrepreneurial Motivation and Behaviour</th>
<th>C: Business Practices and Performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• UK’s ranking as the best place in the world to start and grow a business.</td>
<td>• People’s belief that opportunities are available.</td>
<td>• The number of fast growing firms.</td>
</tr>
<tr>
<td>• The level of respect for entrepreneurs.</td>
<td>• People’s entrepreneurial capacity.</td>
<td>• Job creation and sales growth of new small firms.</td>
</tr>
<tr>
<td>• The cost and time to start a limited company.</td>
<td>• The number of people considering going into business.</td>
<td>• The number of IPOs of firms.</td>
</tr>
<tr>
<td>• The tax burden on small firms and the ease and fairness of the tax regime for new and small firms.</td>
<td>• The number of people put off from going into business despite wanting to.</td>
<td>• SMEs willingness to use different sources of financing.</td>
</tr>
<tr>
<td>• The compliance burden of regulation and the ease and fairness of the regulatory environment towards new and small firms.</td>
<td>• The number of businesses registering for VAT.</td>
<td>• Net capital expenditure per employee in SMEs.</td>
</tr>
<tr>
<td>• Nascent entrepreneurs and SME managers satisfaction with the quality of service.</td>
<td>• The number of people trying in business for a second time.</td>
<td>• SMEs financial health, e.g., ratio of liquid assets to liabilities.</td>
</tr>
<tr>
<td>• Nascent entrepreneurs and SME managers views on the supply of suitable premises.</td>
<td></td>
<td>• Short-term loans as a share of SME liabilities.</td>
</tr>
<tr>
<td>• Administrative barriers to hiring the first employee.</td>
<td></td>
<td>• Number of sole traders taking on the first employee.</td>
</tr>
<tr>
<td>• The amount of formal venture capital supplied and business angel activity.</td>
<td></td>
<td>• Labour productivity of SMEs relative to large firms.</td>
</tr>
<tr>
<td>• The incidence of SMEs reporting harmful unfair competition.</td>
<td></td>
<td>• The incidence of SME training and IIP recognitions.</td>
</tr>
<tr>
<td>• Skills shortages and recruitment difficulties reported by SMEs.</td>
<td></td>
<td>• The number of SMEs exporting and the ratio of exports to sales.</td>
</tr>
<tr>
<td>• SME managers satisfaction with bank and professional services.</td>
<td></td>
<td>• SME use of e-commerce and connectivity.</td>
</tr>
<tr>
<td>• The number of closures caused by late payment and bad debt.</td>
<td></td>
<td>• SME managers awareness of the need and commitment to innovate</td>
</tr>
<tr>
<td>• The incidence of racial, sex, age or other discrimination reported by SME managers in running their businesses.</td>
<td></td>
<td>• The number of patents taken out by SMEs.</td>
</tr>
</tbody>
</table>

- The number of SMEs innovating
- The share of SME sales from new or improved products and processes.
- The number of SME managers making use of external advice
SECTION 3: OBSERVATIONS AND CONCLUSIONS

A: General View

The 1999 UK Executive Report of the Global Entrepreneurship Monitor provides some commentary on the overall situation of entrepreneurship development in the UK. In general, experts consulted in the GEM 1999 research agreed that:91

- Not enough attention is given to evaluating the impact of small business support programs and adapting them accordingly;
- Rivalry between government departments resulted in compromising the coherence of programs, creating overlap and confusion in the minds of users and making it difficult for entrepreneurs to obtain information on appropriate programs and their suitability;
- Business Links suffered from a poor ‘brand image’ reflecting mixed performance in the past and a lack of clarity about ‘who does what’. Only 10,000 firms a year are assisted compared with up to 1.4 million British adults attempting to start over 600,000 firms (GEM estimate based on a February 1999 survey of the population);
- There is a widely recognized need for greater networking between entrepreneurs, potential entrepreneurs and those providing relevant resources, such as financing;
- Entrepreneurship education needs to be taught in all schools at all levels; entrepreneurship should play a more central role in all university education and not be biased towards those taking business courses; and that inadequate basic education has had a depressing effect on the level of entrepreneurial activity in the UK;
- Significant progress is being made in improving the funding and fiscal environment for entrepreneurial firms in the UK.

Overall, the GEM report concluded that government commitment to entrepreneurship is strong and its policies and programs are viewed in a broadly favourable light. However, UK citizens have a lower perception of entrepreneurial opportunities and a lower level of respect for entrepreneurs than many other GEM countries. There are deficiencies in the overall level of educational attainment and the extent to which technology developed within research institutions is commercialized. To create a more entrepreneurial economy, the UK must focus

on entrepreneurial opportunity, entrepreneurial capacity and creating a more favourable culture for entrepreneurship.\textsuperscript{92} The report specifically makes five recommendations:\textsuperscript{93}

- government policy towards entrepreneurship should place greater emphasis on incentive pull measures (e.g., use of honors and awards, tax relief on investments) than support push measures (e.g., easing start-up process, reducing cost and risk of failure);
- a central aim of government should be to increase the total number of new firm start-ups of every kind;
- increasing the level of entrepreneurial activity requires substantial government commitment to boosting entrepreneurial capacity, particularly in terms of the skills required to exploit entrepreneurial opportunity;
- government has a key role to play in promoting and building entrepreneurial networks;
- government should focus its attention on creating and fostering an entrepreneurial culture.

The 2000 GEM report indicated that the key issues for the UK, which ranked 13\textsuperscript{th} on the Total Entrepreneurial Activity Index of 21 countries, were entrepreneurship education, favourable portrayal of UK entrepreneurs in the media, bankruptcy laws, unequal geographic distribution of new equity investment and a bias away from manufacturing industries.\textsuperscript{94} On the plus side, experts stressed a supportive business environment for entrepreneurs, a sustained government commitment to boosting entrepreneurship and a significantly improved tax regime (e.g., reduction in capital gains tax and additional tax relief on R&D).

**B: Assessment of Entrepreneurship Policy Emphasis**

In the past, UK government efforts to support small business and entrepreneurship have focused more on the \textbf{Skills} aspect – improving the management skills of small business owners. This was evident in the NVQ system set up for small business manager, the Investor in People initiative, and the Best Management Practice initiatives (The Benchmarking Index, the Business Excellence Model, etc.). Some emphasis was placed on business start-up training and development in the early 1990s (Enterprise Allowance Scheme and Business Start-up Scheme) but the priority has been on business counselling and consultancy services (Business Links, LEAs, and TECs). Until recently there have been no widespread efforts to integrate entrepreneurship in the education system but the new SBS has a mandate to encourage more of this. As well, university graduates have been targeted as a group from which new entrepreneurs will emerge.

\textsuperscript{92} Ibid, p. 22.
\textsuperscript{93} Ibid, pp. 23-24.
In terms of opportunity, the major emphasis has been on access to financing (guarantee scheme, start-up scheme, Enterprise Allowance) with a growing emphasis on additional venture capital for start-ups and angel networks. The provision of information and advice through a network of business support organizations has also been a priority. More recently, the government has been focusing on enhancing the regulatory ease of entry for new entrepreneurs, the ease of exit (revisions to the Insolvency Laws) and reduction of regulatory and tax burden for new and young firms. Increasing the threshold on VAT registration and reducing the taxation rates for new firms are two examples of this.

On the motivation side of the equation, not enough has been done in the past. The UK population still has a low level of respect for entrepreneurs, somewhat negative attitudes towards entrepreneurship and a low perception of entrepreneurial opportunities. These deficiencies in the UK culture can be overcome with strategic promotion of entrepreneurship through the media, government communication and targeted events. At the present time, entrepreneurship awards are the major promotion activity but it is not obvious that a lot of awards are given. A national campaign to promote entrepreneurship under the new SBS is underway but there is little information on precisely what is being done. There is quite a bit of promotion towards youth – well over 100,000 youth are being exposed to entrepreneurship and enterprise concepts and experience through Young Enterprise, The Prince’s Youth Business Trust, the Shell LiveWIRE program and the New Deal Self-Employment Scheme, but there is scope for considerable more activity.

As noted in Think Small First, the success of the UK strategy to make the UK the best place in the world to start a business is contingent on the following key factors:

- All parts of government should embrace the philosophy of Think Small First;
- Improved partnership between public, private and the education sectors;
- Improved standards and quality for all business support organizations, taking advantage of the benchmarking approach suggested;
- A focused marketing campaign to let all stakeholders and SMEs know about the opportunities in the new arrangement;
- Co-ordination of government support for small businesses by and through the Small Business Service (essential requirement).

C: Insights, Observations and Lessons Learned

- There are 3.7 million SMEs in the UK but the stock of businesses has not grown since 1989 – it is still at 3.7 million businesses. A high percentage of small firms do not have any employees. The majority of growth has been coming from businesses which have been ‘hiring one employee’. This raises a question about the extent to which entrepreneurs are ‘growing their firms’. It is not clear what is going on in the business dynamic.

95 Think Small First: A National Strategy for Supporting Small and Medium Sized Enterprises in the UK, 2000, Section 57.
• About 12% of the work force are self-employed but the number of self-employed has decreased by 10% over the past decade.

• The UK has a low rate of nascent entrepreneurship (ranking 5/10 in GEM 1999 and 10/21 in GEM 2000). GEM 1999 reported that 1 in 33 adults was trying to start a business (3.3%) compared to 8.4% in the US, 6.9% in Canada but higher than the 1.4% in Finland and 2.1% in Germany. GEM 2000 revealed a nascent rate of 3% (compared to 12% in Brazil) and a new firm prevalence rate of 2.1% (compared to 9% in Korea).

• Actually the support environment for small firms and new entrepreneurs is quite developed in the UK and has been in place for quite some time. It is strange that the level of entrepreneurial activity is still so low…

• The UK is big on benchmarking competitiveness, entrepreneurship and overall business climate against other countries.

• The UK is one of the few countries, which has set targets and accountability accords on performance in stimulating increased start-ups.

• The UK government has recently undertaken a complete review of SME policies to improve performance of the sector and to increase the business start-up rate. The SBS is a new structure to infuse entrepreneurship policy across all departments of government. It has accountability for activities of all government departments in areas that impact on small business.

• *Think Small First* is the first-ever national framework for supporting SMEs in the UK. It is a comprehensive policy approach that embraces entrepreneurship culture, the development of nascent entrepreneurs, facilitating the start-up process and improving the performance and productivity of existing SMEs.

• In examining best practice from other countries, the UK looked to the US. The Small Business Service is in some respects modelled after the Small Business Administration (SBA) concept.

• The government is adopting more of a marketing approach to small firm support – customer orientation, quality service, segmentation of the market (new, experienced, ethnic, young, etc.), tailored support to meet needs of individual customers/entrepreneurs (a more holistic approach) and partnerships with other members of the public-private network.

• Co-ordinating the delivery network for business support is seen by the UK government as a fundamental requirement of ‘getting it right’. Entry points will be segmented for new, inexperienced entrepreneurs (Information and Advisory Service for SMEs) and experienced entrepreneurs (Business Links).

• Target groups have been identified – entrepreneurship among immigrants, ethnic minorities, youth and women are priority issues.
• There are a number of initiatives targeted to the development of young entrepreneurs (e.g., LiveWIRE, Prince’s Youth Business Trust, Young Enterprise and New Deal Self-Employment, Enterprise Insight) but focused strategies for women and ethnic minorities have yet to be fully developed.

• Policymakers seem to be listening to the experts and SMEs about what needs to be done to improve the environment for new and existing small firms and they are acting on it with tax cuts for new businesses, tax relief for stock options plans for employees (very new economy), working on making it very easy to start a business, revising Bankruptcy Law to reduce the penalties of failure and rethinking how leasing is done to reduce risk for new businesses, etc.

• Work on the national integration of entrepreneurship education across and through the education system is just beginning, but enterprise and entrepreneurship are included as learning components in the National Curriculum Guidelines and Enterprise Guidelines have been developed for teachers. This is an important development. This has been achieved through a co-operative relationship between the DfEE and DTI, which is also significant. It is not obvious whether DTI has allocated funds in the 2001 budget to partner on entrepreneurship education initiatives. If not, budget lines may not be aligned well with priority objectives.

• Some of the piloting work to promote Graduate Business Start-ups is very interesting. There may be some lessons learned of interest to other countries.

• The UK is the only country that has put a strategic and national emphasis on improving the competence of small business advisers. DTI has adopted performance standards for advisers and is planning to launch a ‘virtual university for business support professionals’. This actually addresses the gap in knowledge of a growing cadre of people working in the area of small business support who need to be better oriented; this need has been raised in a number of country studies.

• The Institute of Business Advisers (IBA) as an organization is a leader in this field. Atlantic Canada also has a program and Canada has developed national occupational standards for small business counsellors but these standards are not enforced by government. This is a best practice in the UK and a growing, identified need in many countries – i.e., the orientation of small business advisers, counsellors, mentors and trainers for SMEs.

• The UK has invested some time and effort in developing good practice in mentoring services, given all the work done by the Prince’s Trust and the Mentor Network. There is also a Mentors Forum with online capability (www.Mentorsforum.co.uk). These are excellent models and more developed than in most of the other countries even though others are moving towards adoption of a mentoring approach.

• The major promotion of entrepreneurship is tied into the Enterprise Insight campaign. Will this be effective if the major approach is limited to co-ordinating and building on what is already being done to promote entrepreneurship among youth? Maybe there is different work to be done in improving attitudes of the general population – parents,
teachers, the media, etc – so the culture really is more embracing of entrepreneurship. If the major target group really is youth – then what evidence is there that the approach is working? To what extent are youth choosing careers as entrepreneurs? There does not appear to be much in the SBS work and research plan on youth entrepreneurship or tracking trends in this area.

• The SBS has defined a number of indicators to measure progress towards 1) creating a more entrepreneurial environment, 2) encouraging more people to become entrepreneurs, and 3) improving the performance of small firms.
ANNEX: OVERVIEW OF THE SME SECTOR

Definition of Small Business/SME

‘Size’ in the context of a business is defined in the Companies Act of 1985 as depending on one of three dimensions, turnover, balance sheet value, and number of employees. A business is deemed to be small, medium or large if it satisfies at least one of:*6

<table>
<thead>
<tr>
<th>Size</th>
<th>Turnover</th>
<th>Balance Sheet Value</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small</td>
<td>&lt; 2.8 M Pounds</td>
<td>&lt; 1.4 M Pounds</td>
<td>&lt; 50 employees</td>
</tr>
<tr>
<td>Medium</td>
<td>&lt; 11.2 M Pounds</td>
<td>&lt; 5.6 M Pounds</td>
<td>50 - 250 employees</td>
</tr>
<tr>
<td>Large</td>
<td>&gt; 11.2 M Pounds</td>
<td>&gt; 5.6 M Pounds</td>
<td>250 or more employees</td>
</tr>
</tbody>
</table>

The DTI uses an employment size definition employing the under 50, 50-250 and over 250 employee categories recommended by the EU. It defines a micro-enterprise as one with fewer than 10 employees. The definition varies depending on the objectives of the particular schemes targeted at SMEs. The British Bankers Association defines a small business as one with annual account turnover of less than £1 million.

Number of SMEs and SME Employment

In 1999 there were 3.67 million businesses in the UK, of which 99.8% were defined as small and medium sized enterprises. The total number of UK firms increased from 2.4 million in 1980 to 3.8 million in 1990 (almost 60%) but started to decrease during the recession of the 1991-92 period. Since 1995, the number of firms has remained constant at about 3.7 million. Most businesses are quite small. Over 60% are firms with no employees (63.2%) and 94.9% have fewer than 10 employees (Table 1). Only 0.8% have more than 50 employees (31,000 firms) however, this group of firms is the source of over half of the employment and over 60% of the turnover in the private sector. Only 0.2% are large firms with 250 or more employees.

In 1999 SMEs accounted for over 55% of private sector employment (and 41% of total employment) and large firms for 44.6%. The SME employment share increased from 54.3% in 1998. Employer firms are responsible for 87.5% of private sector employment; sole traders for only 12.5% (even though they comprise 63.2% of enterprises). The 0.2% of large firms employ 44.6% of the private sector work force. The average size of ‘all firms’ in the UK is very small, only six employees per firm. For the category of employer-firms, the average employee size is 14. Firms with under 20 employees have an average firm size of 2.2 employees and the largest groups of firms (500+ employees) employ an average of 2,440 employees.

Table 1 – Number of Enterprises and Employment by Size of Enterprise at the Start of 1999

<table>
<thead>
<tr>
<th>Employee Size Category</th>
<th>Number of Businesses</th>
<th>Share of number of businesses (%)</th>
<th>Employment (000s)</th>
<th>Share of Employment in each Size Category (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>2,324,340</td>
<td>63.2</td>
<td>2,708</td>
<td>12.5</td>
</tr>
<tr>
<td>1-4</td>
<td>963,615</td>
<td>26.2</td>
<td>2,395</td>
<td>11.0</td>
</tr>
<tr>
<td>5-9</td>
<td>201,835</td>
<td>5.5</td>
<td>1,459</td>
<td>6.7</td>
</tr>
<tr>
<td>Total Micro-firms</td>
<td>3,489,790</td>
<td>94.9</td>
<td>6,562</td>
<td>30.2</td>
</tr>
<tr>
<td>10-19</td>
<td>109,280</td>
<td>3.0</td>
<td>1,533</td>
<td>7.1</td>
</tr>
<tr>
<td>20-49</td>
<td>46,955</td>
<td>1.3</td>
<td>1,462</td>
<td>6.7</td>
</tr>
<tr>
<td>50-99</td>
<td>14,450</td>
<td>0.4</td>
<td>1,011</td>
<td>4.7</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3,660,475</td>
<td>99.6</td>
<td>10,568</td>
<td>48.6</td>
</tr>
<tr>
<td>100-199</td>
<td>8,165</td>
<td>0.2</td>
<td>1,131</td>
<td>5.2</td>
</tr>
<tr>
<td>200-249</td>
<td>1,570</td>
<td>-</td>
<td>349</td>
<td>1.6</td>
</tr>
<tr>
<td>Subtotal</td>
<td>3,670,210</td>
<td>99.8</td>
<td>12,048</td>
<td>55.4</td>
</tr>
<tr>
<td>250-499</td>
<td>3,220</td>
<td>0.1</td>
<td>1,121</td>
<td>5.2</td>
</tr>
<tr>
<td>500+</td>
<td>3,515</td>
<td>0.1</td>
<td>8,576</td>
<td>39.4</td>
</tr>
<tr>
<td>All Firm Sizes</td>
<td>3,676,940</td>
<td>100.0</td>
<td>21,746</td>
<td>100.0</td>
</tr>
<tr>
<td>All Employer-Firms</td>
<td>1,352,600</td>
<td>36.8</td>
<td>19,038</td>
<td>87.5</td>
</tr>
</tbody>
</table>

Source: Adapted from Statistical News Release, P/2000/561, Department of Trade and Industry.

Sector Distribution of Firms

Because SMEs comprise 99.8% of all firms, their distribution by sector almost mirrors the sector distribution of all firms (Table 2). However, the distribution of large firms by sector reveals that they are more heavily concentrated in the Manufacturing sector, in Financial services and in the Health and Social Work sectors. Compared to large firms, SMEs are more heavily represented in Construction, Agriculture, Forestry and Fishing, and Real Estate.

Large firm employment is over represented in Manufacturing, Health and Social Work and Financial Services while SME employment is over represented in Construction, Real Estate and Social and Personal Services. The SME share of private sector employment is 97.5% in Agriculture, Forestry and Fishing, 83% in Construction, 76.7% in Social and Personal Services employment, 84% in Education and 69.1% in Real Estate. Large firms dominate in employment in Electricity, Gas and Watersupply (94%), Financial Services (78.5%) and Transport, Storage and Communications (60%). Employment in the Manufacturing sector is almost 50-50.
Table 2- Employment by Size of Business and Industry Sector, 1999

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>All firms</th>
<th>SMEs &lt; 250 employees</th>
<th>Large enterprises 250+ employees</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% firms by sector</td>
<td>% share of employees</td>
<td>Distribution of SMEs by sector</td>
</tr>
<tr>
<td>Agriculture, forestry &amp; fishing</td>
<td>5.0</td>
<td>2.1</td>
<td>5.0</td>
</tr>
<tr>
<td>Mining</td>
<td>0.1</td>
<td>0.4</td>
<td>0.1</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9.0</td>
<td>20.0</td>
<td>8.9</td>
</tr>
<tr>
<td>Electricity, gas &amp; watersupply</td>
<td>-</td>
<td>0.6</td>
<td>-</td>
</tr>
<tr>
<td>Construction</td>
<td>18.6</td>
<td>7.0</td>
<td>18.6</td>
</tr>
<tr>
<td>Wholesale, retail &amp; repairs</td>
<td>14.5</td>
<td>20.3</td>
<td>14.5</td>
</tr>
<tr>
<td>Hotels &amp; restaurants</td>
<td>4.2</td>
<td>7.3</td>
<td>4.2</td>
</tr>
<tr>
<td>Transport, storage &amp; communication</td>
<td>6.1</td>
<td>7.1</td>
<td>6.1</td>
</tr>
<tr>
<td>Financial services</td>
<td>1.6</td>
<td>4.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Real estate</td>
<td>21.8</td>
<td>14.5</td>
<td>21.8</td>
</tr>
<tr>
<td>Education</td>
<td>2.9</td>
<td>1.2</td>
<td>2.9</td>
</tr>
<tr>
<td>Health &amp; social work</td>
<td>5.6</td>
<td>9.7</td>
<td>5.6</td>
</tr>
<tr>
<td>Other social &amp; personal services</td>
<td>10.5</td>
<td>5.1</td>
<td>10.5</td>
</tr>
<tr>
<td>All industries</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Compiled from Small Business Service, Research and Evaluation Unit based on Small and Medium Enterprises (SME) Statistics for the United Kingdom, 1999, Table 4.

Self-Employment Trends

There were 3.1 million persons self-employed in their main job in the Spring, 2000. This suggests about 12% of the 26 million private sector employees are self-employed. However, since 1990, there has not been any measurable growth in the overall self-employment rate. The number of self-employed persons peaked in 1990 at 3.562 million and has decreased by 10% over the decade. Male self-employment decreased by 12% and female self-employment by 4% (although women’s share of self-employment has increased from 24% in 1990 to 26% in 1999).

Growth Rates in the SME Sector

Growth in the number of firms has also been low. From 1998 to 1999, the total stock of firms increased by 0.5%; the number of SMEs grew by 0.5% and the number of medium-sized and large firms by 0.2% and 2.0% respectively. The largest growth was in the group of firms with 1-4 employees (4.4%); there was a decrease in the overall number of firms with no employees (-0.6%).

Total employment rose by 0.7%, but SME employment declined by 0.6% and employment in firms with over 500 employees grew by 3.2%. A closer look reveals that firms with 1-4 employees, 200-249 employees and over 500 employees saw the most positive increases, but it was the over 500 employee group that produced the greatest number of net jobs, 265,000 (compared to a net loss of 82,000 in the SME sector).

SME Start-up, Survival and Exit Rates

There is more than one source for counting the number of business starts and exits on an annual basis in the UK. The government counts new business entries from new VAT registrations and firm exits from VAT deregistrations. (It is important to note that this underestimates both start-up and exit rates because of the high threshold for VAT registration and deregistration; a new firm does not register for VAT until it is generating more than £52,500 in annual revenues.) Both NatWest Bank and Barclay’s Bank also publish regular estimates of the number of business start-ups and closures. For the first quarter of 2000, NatWest estimated there were 111,000 new start-ups in England and Wales, whereas Barclay’s estimated there were 107,000 new start-ups, both recording lower start-up rates than the year previous. Overall an estimated 500,000 new firms are started each year.

Using VAT data, the start-up rate has been fairly consistent over the past five years (ranging from 10.2% in 1994 to 11.5% in 1999) as has the exit rate (ranging from 9.6% to 10.8%). (See Table 3). In the mid-1990s, however, there were more deregistrations than new registrations so the total stock of firms actually decreased in 1994 and 1995. Since then, entries have exceeded exits. The turbulence rate for the UK (entry rate plus exit rate) exceeds 20%.

Table 3 - Business Entry and Exit Rates, 1999*

<table>
<thead>
<tr>
<th>Year</th>
<th>New VAT Registrations</th>
<th>Start-up Rate (%)</th>
<th>VAT Deregistrations</th>
<th>Exit rate (%)</th>
<th>Net Change (%)</th>
<th>Turbulence Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>168,200</td>
<td>10.2</td>
<td>188,100</td>
<td>10.8</td>
<td>(-0.6)</td>
<td>21.0</td>
</tr>
<tr>
<td>1995</td>
<td>164,000</td>
<td>10.5</td>
<td>173,200</td>
<td>10.3</td>
<td>0.2</td>
<td>20.8</td>
</tr>
<tr>
<td>1996</td>
<td>168,200</td>
<td>11.4</td>
<td>165,100</td>
<td>10.3</td>
<td>1.1</td>
<td>21.7</td>
</tr>
<tr>
<td>1997</td>
<td>182,600</td>
<td>11.5</td>
<td>165,500</td>
<td>9.6</td>
<td>1.9</td>
<td>21.1</td>
</tr>
<tr>
<td>1998</td>
<td>186,300</td>
<td>10.8</td>
<td>155,900</td>
<td>10.4</td>
<td>0.4</td>
<td>21.2</td>
</tr>
<tr>
<td>1999</td>
<td>178,500</td>
<td></td>
<td>172,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Statistical News Release, P/2000/600, DTI. *Based on VAT-registrations and de-registrations so excludes businesses that fall below the VAT threshold.
VAT data suggest that more than half of UK start-ups cease to exist before they are five years old (Table 4). Over 18% cease to exist before the end of their first year in business, 18.6% before the end of the second year in business, 12.7% before the end of the third year and another 8.5% close before the end of the fourth year in business. The three-year survival rate is 51%; 42% of new firms enter a fifth year of business.
Table 4 – Lifespan of Businesses Registered for VAT

<table>
<thead>
<tr>
<th>Time Since Registration (months)</th>
<th>Percentage of all Registrations Surviving to the End of the Period (%)</th>
<th>Firms Ceasing to Operate on Period Basis (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-6</td>
<td>92.2</td>
<td>7.8</td>
</tr>
<tr>
<td>6-12</td>
<td>81.7</td>
<td>10.5</td>
</tr>
<tr>
<td>12-18</td>
<td>71.1</td>
<td>10.6</td>
</tr>
<tr>
<td>18-24</td>
<td>63.1</td>
<td>8.0</td>
</tr>
<tr>
<td>24-30</td>
<td>56.2</td>
<td>6.9</td>
</tr>
<tr>
<td>30-36</td>
<td>50.4</td>
<td>5.8</td>
</tr>
<tr>
<td>36-42</td>
<td>45.5</td>
<td>4.9</td>
</tr>
<tr>
<td>42-48</td>
<td>41.9</td>
<td>3.6</td>
</tr>
</tbody>
</table>

Job Gains and Losses in UK SMEs

Nearly 75% of the net increase in employment between 1995-99 came from SMEs. During this period, 5.8 million jobs were created and 5.1 million were lost, resulting in a net gain of 700,000 jobs. New firms were, by far, the greatest single source of new jobs, responsible for creating 2.3 million of the gross new jobs, 85% of these in new SMEs (Table 5). New SMEs created about a third of gross new jobs and the SME sector (new and expanding firms) two-thirds. SMEs were responsible for two-thirds of gross job losses. The 2.2% of firms considered as large, produced a third of gross job gains and a third of gross job losses.

Table 5 – Jobs Gained and Lost in New and Existing Firms for the 1995-1999 Period

<table>
<thead>
<tr>
<th></th>
<th>SMEs Number</th>
<th>Large Enterprises Number</th>
<th>Total Number</th>
<th>(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Jobs Gained</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>New firm entry</td>
<td>1,955,000</td>
<td>345,000</td>
<td>2,300,000</td>
<td>(35.6)</td>
</tr>
<tr>
<td>Expanding SMEs</td>
<td>1,925,000</td>
<td>1,575,000</td>
<td>3,500,000</td>
<td>(64.4)</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>3,880,000</td>
<td>1,920,000</td>
<td>5,800,000</td>
<td>(100.0)</td>
</tr>
<tr>
<td><strong>Jobs Lost</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exits and contractions</td>
<td>3,366,000</td>
<td>1,734,000</td>
<td>5,100,000</td>
<td></td>
</tr>
<tr>
<td><strong>Net Change</strong></td>
<td>514,000</td>
<td>186,000</td>
<td>700,000</td>
<td></td>
</tr>
</tbody>
</table>


Regional Variations

As in the other countries in this study, there is considerable variation in the enterprise density and SME dynamic among UK regions. Enterprise density per 1000 resident population ranges from a high of 93 in London to a low of 35 in the Northwest (Table 6). Although SMEs

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account for more than 99% of businesses in all regions, the share of employment in SMEs also varies considerably, from 78.7% in Northern Island to 42.5% in London region. The SME share of turnover is highest in Northern Island and lowest in London.

Table 6 - Population, Enterprise Density and SME Share of Employment by Government Office Region at the Start of 1999

<table>
<thead>
<tr>
<th>Government office region</th>
<th>Population</th>
<th>Population %</th>
<th>Share of UK enterprises (%)*</th>
<th>Total number of enterprises</th>
<th>Enterprise per 1000 population</th>
<th>SME share of employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>7,187,000</td>
<td>12.1</td>
<td>16</td>
<td>665,725</td>
<td>93</td>
<td>42.5</td>
</tr>
<tr>
<td>South East</td>
<td>8,004,000</td>
<td>13.5</td>
<td>17</td>
<td>606,010</td>
<td>76</td>
<td>58.2</td>
</tr>
<tr>
<td>South West</td>
<td>4,901,000</td>
<td>8.3</td>
<td>10</td>
<td>360,530</td>
<td>74</td>
<td>68.6</td>
</tr>
<tr>
<td>East of England</td>
<td>5,377,000</td>
<td>9.1</td>
<td>10</td>
<td>352,200</td>
<td>66</td>
<td>56.1</td>
</tr>
<tr>
<td>East Midlands</td>
<td>4,169,000</td>
<td>7.0</td>
<td>6</td>
<td>234,920</td>
<td>56</td>
<td>56.8</td>
</tr>
<tr>
<td>West Midlands</td>
<td>5,333,000</td>
<td>9.0</td>
<td>8</td>
<td>288,715</td>
<td>54</td>
<td>54.9</td>
</tr>
<tr>
<td>North West</td>
<td>6,891,000</td>
<td>11.6</td>
<td>8</td>
<td>356,180</td>
<td>52</td>
<td>60.3</td>
</tr>
<tr>
<td>Yorkshire &amp; the Humber</td>
<td>5,043,000</td>
<td>6.5</td>
<td>7</td>
<td>259,225</td>
<td>51</td>
<td>49.4</td>
</tr>
<tr>
<td>North East</td>
<td>2,590,000</td>
<td>4.4</td>
<td>3</td>
<td>91,250</td>
<td>35</td>
<td>55.2</td>
</tr>
<tr>
<td><strong>Sub total</strong></td>
<td><strong>49,495,000</strong></td>
<td><strong>81.5</strong></td>
<td><strong>87</strong></td>
<td><strong>3,214,750</strong></td>
<td><strong>65</strong></td>
<td><strong>54.1</strong></td>
</tr>
<tr>
<td>England</td>
<td>49,495,000</td>
<td>81.5</td>
<td>87</td>
<td>3,214,750</td>
<td>65</td>
<td>54.1</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>1,689,000</td>
<td>2.8</td>
<td>2</td>
<td>84,620</td>
<td>50</td>
<td>78.7</td>
</tr>
<tr>
<td>Wales</td>
<td>2,933,000</td>
<td>5.0</td>
<td>4</td>
<td>144,135</td>
<td>49</td>
<td>66.1</td>
</tr>
<tr>
<td>Scotland</td>
<td>5,120,000</td>
<td>11.6</td>
<td>7</td>
<td>233,430</td>
<td>46</td>
<td>60.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>59,237,000</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100</strong></td>
<td><strong>3,676,935</strong></td>
<td><strong>62</strong></td>
<td><strong>55.4</strong></td>
</tr>
</tbody>
</table>

Source: Adapted from Table 2, Statistical News Release, P/2000/561, DTI; population figures from data sets HSQ714, ST30102, National Statistics UK.

Organizations Consulted

2. Centre for Small and Medium Enterprises, University of Warwick
3. Management Development Centre, University of Ulster, Northern Ireland
4. Institute of Business Advisers

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CHAPTER TWELVE

THE CASE OF THE UNITED STATES

INTRODUCTION

The US has an estimated population of 275.6 million of which 139.4 million are in the labour force. The population growth rate for the past year was almost 1%. GDP totalled $9.26 trillion in 1999 and grew at an annual rate of 4.1% from 1995-99. GDP per capita is the highest of the countries in this study, at $33,900. Private sector contribution to GDP was 66% in 1999. The US is heavily driven by the service sector, the output from which totals 80% of GDP. Manufacturing output to GDP is 18%, by far the lowest for countries in this study, and agricultural output to GDP is 2%. The labour force participation rate is 72%; 75% for men and 60% for women. By September 2000, the unemployment rate was just under 4%.

Small businesses (with less than 500 employees) make up 99.7% of all private sector enterprises, employ 53% of the private workforce, account for 47% of sales, 51% of private sector GDP and in 1998 created an estimated 64% of the 2.5 million new jobs in the economy. There are about 23 million taxfilers who report some income from self-employment activity but only about 16 million who report it as the main source of income. About six million of these are employer businesses. Almost 40% of small businesses are owned by women, the highest for countries in this study, although only 15% of women-owned firms have employees.

In 2000, the US ranked third of 21 countries, after Brazil and Korea, on the Global Entrepreneurship Monitor’s Total Entrepreneurial Activity (TEA) index. Twelve point seven percent (12.7%) of adults were either involved in trying to start a business or the ownership of a new firm of less than 42 months existence. The female TEA rate was 8.8%; for men it was 16.7%.

RISEbusiness predicts that self-employment rates to 2006 may be adversely affected by a decrease in the 25–44 age group (projected decrease of 2 million workers by 2006) and by a

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4 Ibid.
large number of existing business owners who are approaching retirement age. Self-employment is expected to be positively influenced by an increase in immigration, a surge in Internet-related business opportunities, a lowering of entry costs and an increasing labour force participation rate among married women with children. One of the major trends likely to impact entrepreneurship is the fact that immigrants will account for as much as half of net population growth over the next decade. Between 1996-2006, white non-Hispanics will make up 49% of new labour force entrants. Of the projected 15 million-worker increase during the 1996-2006 period, about 7 million will be Hispanic or Asian. By 2020, the immigrant workforce will reach 32%. This is expected to be a major source of new business start-ups.

There are a number of US studies on the various problems, barriers and challenges facing SMEs. The most recent and representative of these is a National Federation of Independent Business survey of over 4000 SMEs conducted in 2000. Taxes (i.e., complexity and rates), costs (e.g., labour costs, health insurance costs, regulatory burden) and finding qualified employees are the three biggest categories of problem areas for SMEs; least problematic are the areas of competition, financing, and markets (e.g., procurement, exporting). It is interesting to note that the areas of most concern to public bodies are of the least concern to SMEs!

SECTION 1: DEVELOPMENT & EVOLUTION OF SME POLICIES AND PROGRAMS

A: US Industrial Development Policy

The U.S. Department of Commerce has the major role for development of industrial economic policy. According to the department’s strategic plan for 1997-2002, its role is ‘to help keep America as the world’s technology leader, to help American companies compete globally, to enable communities to conquer economic challenges, to stimulate the growth of high-pay, high-quality jobs, to preserve and protect the environment and our natural resources as well as safeguarding the public from environmental changes, and to provide information vital for good business and policy decisions’. Thus, its major policy focus is on strengthening scientific research, technological R&D and innovation, promoting increased US export activity, and stimulating private sector growth by rebuilding deprived and economically depressed communities.

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For over a decade, the US has experienced unprecedented growth and development but this success has not been shared by all communities. Numerous communities still lack the critical building blocks for economic development – ‘the modern economic infrastructure and community capacity to marshal the public and private resources for lasting development’. While the US government benefits from years of experimentation and investment in areas such as microenterprise development, incubators, business retention, technology transfer, and export development, communities still need to remain cognizant of changes in the economy and adjust for the future.

Economic development is defined in the US as the process of ‘enhancing the factors of productive capacity – land, labour, capital, and technology – of a national, state or local economy’. Key areas of focus for doing this are the labour force, infrastructure, business and community facilities, environment (including ‘entrepreneurial environment’), economic structure, and institutional capacity to support economic development and growth. Consideration of the trade-offs between the economic development goals of job creation and wealth creation, and increasing productivity (which may eliminate some types of jobs in the short-run) is recognized. Currently, ‘there is a lively debate within the field about the differing goals for place-based development strategies and also about whether place-based or people-based is best’ – this debate involves examination of the value differences and ideological beliefs about how economic development occurs and how it should be practiced. This dilemma exists in the US as in other countries.

A key element of the Commerce Department’s policy framework is building interagency linkages to focus on the unique needs of small-and-medium-sized businesses and local communities in need of their products and services, and to communicate with other agencies to strengthen their mutual abilities to set ‘common denominator’ objectives and performance measures.

B: SME Policy Development

In some respects, entrepreneurship is built into the American Constitution. The essence of the American system of private enterprise is free competition. Only through full and free competition can free markets, free entry into business, pursuit of opportunities for expansion and growth of personal initiative and individual judgement, be exercised. Well-being cannot be realized unless the actual and potential capacity of small business is encouraged and developed. Having said that, the US does not really have a small business policy. Rather, it has a Competition Policy based on neutrality between competitors. However, tax policy, employment policy, environmental policy, regional policy and social policy all impact on aspects of small business development in the US. Thus many government departments are

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12 Challenges and Opportunities, US Department of Commerce, Economic Development Administration.
14 Ibid.
implicated. The basic premise of the US system is that government should remain neutral in allowing businesses to compete fairly in the marketplace.\textsuperscript{16}

The US Congress Small Business Act of 1953, establishing the US Small Business Administration (SBA), is the closest thing the US has to a framework for policy governing American entrepreneurial and small business.\textsuperscript{17} The Act was passed to address imperfections in financial markets that erected barriers to small business growth. However, it was not until the late 1970s or early 80s that the US government started to take specific notice of the small business sector. Until the seminal work of David Birch in 1979, which uncovered the small business sector as the major generator of new jobs in America, the US government believed that large manufacturing corporations were the economic engines of the economy. And while that may have been true from an output perspective, large manufacturing firms were shedding jobs and new small firms were picking up the slack. In fact, Birch’s research revealed that the economic structure of the industrial base was starting to change.

In any event, the major policy focus in the US has been Competition Policy, which has increasingly focused on reducing or eliminating barriers to entry for new firms. According to Dennis (2000), the small business programs and activities that exist in the US are not intended to offset economies of scale derived from markets as much as they are to offset economies of scale due to government interventions/demands. Government distorts the market for small firms through the undue burden placed on them by government-imposed administrative procedures and various forms of regulations and legislation. Small business exemptions, phase-ins, and alternative sets of rules for various government burdens were the government policy response to the equity argument.\textsuperscript{18} Another policy area affecting the small business sector is Social policy, particularly attaining equity among social groups, like African-Americans, immigrants and women. For example, the development of micro-loans, affirmative action for procurement and other target group support programs have been a central feature of SBA activity in the 1990s. One could argue that technology policy is the other area impacting on the small business sector.

Following the establishment of the Small Business Act (which has been amended several times) the government passed the Small Business Investment Act (1958), authorizing the SBA to establish small business investment companies (SBICs). SBICs were a category of private investment company involved in the provision of long-term capital, loans and management assistance to SMEs. Support for minority enterprise started early in the US. The Department of Commerce established the Minority Business Development Agency in 1969 to encourage the creation, growth and expansion of minority-owned enterprises. A Presidential Advisory Council on Minority-Owned Business was formed in 1970; this was replaced by a Commission on Minority Business Development in the 1980s. In 1974, the Indian Financing Act allowed for the creation of a Loan Guaranty Program to stimulate and increase entrepreneurship and employment through the establishment, acquisition or expansion of

\textsuperscript{17} Ibid, pp. 64-82.
\textsuperscript{18} Ibid, p. 66.
Indian-owned economic enterprises. The Office of Advocacy was created within the SBA in 1976 to produce entrepreneurship and small business research and to serve as an in-house advocate for small business interests. The Small Business Development Center program started in 1978; at that time they were located only on university campuses. By 1999, this network embraced about 1000 SBDCs in each of the 50 states. The first national and comprehensive research on women entrepreneurs was commissioned by the US President in 1979.

The 1980s began with the hosting of the second White House Conference on Small Business. The purpose was to begin conversations with small business owners about their concerns and to develop constructive solutions. Congress and the Executive Branch acted on about two-thirds of the recommendations of this first conference. The same year, the Small Business Economic Policy Act was passed with a requirement that the President provide an annual report to Congress on the State of Small Business. The first report was published in 1982. The Regulatory Flexibility Act of 1980 required federal agencies to produce small business impact statements on any new major proposed regulations. In 1982, the Small Business Innovation Development Act was passed, requiring federal agencies with R&D budgets of over $100 million to allocate a small percentage (1.25%) to small R&D firms. The objective was to stimulate technological innovation among small firms. The Small Business Innovation and Research Program (SBIR) still exists today and has been credited with stimulating a significant amount of innovation in small firms over the past 20 years. The third White House Conference on Small Business was held in 1986; this time 43% of the final 60 recommendations were implemented by government. By 1987, women’s business ownership had become an issue. The National Association of Women’s Business Advocates, an organization of state government officials, was formed to aid in the co-ordination of state government programs for women entrepreneurs. It served an important role in sharing best practices, fostering greater awareness of the economic role of women-owned businesses and serving as a liaison between local groups of women business owners and national organizations. In 1988, Congress established the Women’s Business Center Program, administered by the SBA’s Office of Women’s Business Ownership.

The 1990s focused heavily on minority business issues, further reinforcement of the Regulation Flexibility Act and new forms of small business financing, both debt and equity. In 1993, the President issued an Executive Order 12866 Regulatory Planning and Review requiring all federal agencies to analyze the impact of major regulatory undertakings and to take actions to achieve the desired result with minimal societal burden. A major objective was to reduce the disproportionate share of regulatory burden falling on small businesses. The National Black Business Trade Association was established to encourage entrepreneurship among the African-American community. Temporary self-employment legislation was enacted as part of the North American Free Trade Agreement to encourage unemployment.

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20 The first White House Conference was held in 1934 during Roosevelt’s presidency.
22 Ibid.
insurance recipients to create their own jobs through self-employment (later discontinued). In the mid-90s, the SBA started to introduce new micro-loan products targeted at groups who were having more difficulty accessing capital. The SBA Micro-Loan program was introduced followed by the Women’s Pre-Qualification Pilot Loan Program in 1994. The objective of this pilot program was to provide support and assistance to women who could benefit from help in the small business loan application process. It was extended to minority groups shortly thereafter (the Minority Pre-Qualification Pilot Loan Program). LowDoc SBA loans, which reduced a multi-page loan application to a single double-sided sheet, were also introduced. The fourth White House Conference was hosted in 1995. In 1997, Congress passed the Small Business Regulatory Enforcement and Fairness Act to reinforce the Regulatory Flexibility Act of 1980. The SBA launched an initiative to increase SBA lending to Hispanic-owned businesses. In 1998, the SBA launched the Small Business lending to African-American Community Initiative to double the annual level of loan guarantees to African-Americans over the 1998–2001 period. In 1999, the SBA announced the nation’s first SBA Venture Capital Company to target low-moderate income areas and in 2000 funded the establishment of the nation’s first venture capital funds targeted at women-owned firms. The Milken Institute is now lobbying that the government set up venture capital funds targeted at minority-owned businesses.

The Small Business Administration

The major national government departments and agencies with responsibility for areas of the small business agenda seem to be the Department of Commerce, the Department of Defence, the National Aeronautics and Space Administration, the Treasury, the Department of Labour, the Department of Agriculture, the Department of Energy, the Bureau of Indian Affairs and the Small Business Administration, although there are others. Individual states have many of their own policies and programs to stimulate economic, small business and entrepreneurship development.

The SBA, the main federal government agency for developing and implementing small business policy, has been in existence for almost 50 years. It has the following legal functions:

- To examine the role of small business in the American economy and the contributions which small business can make to improving competition, encouraging economic and social mobility for citizens, restraining inflation, spurring production, expanding employment opportunities, increasing productivity, promoting exports, stimulating

innovation and entrepreneurship, and providing an avenue through which new and untested products and services can be brought to the marketplace;

- To assess the effectiveness of existing Federal subsidy and assistance programs for small business and the desirability of reducing the emphasis on such assistance programs and increasing the emphasis on general assistance programs designed to benefit all small businesses;

- To measure the costs and other effects of government regulation on small businesses and to make legislative and non-legislative proposals for eliminating excessive or unnecessary regulations on small business;

- To determine the impact of the tax structure on small businesses and make legislative and other proposals for altering the tax structure to enable all small businesses to realize their potential;

- To study the ability of financial markets and institutions to meet small business credit needs;

- To determine the availability of financial resources, and recommend methods for delivery of, financial assistance to minority enterprises and for providing effective business education, more effective management and technical assistance and training;

- To evaluate the efforts of Federal agencies, business and industry to assist the development and strengthening of minority and other small business enterprises;

- To recommend specific measures for creating an environment in which all businesses will have the opportunity to compete effectively and expand to their full potential, and to ascertain the common reasons, if any, for small business successes and failures.

The SBA is headquartered in Washington and delivers its policy and programs through a network of 10 regional offices and numerous partner organizations throughout the United States, including more than 1000 Small Business Development Centres, and subcentres. There are several Memorandums of Understanding (MOUs) in place between the SBA and various kinds of business and community based associations to provide counselling and advice, training, information and capital to diverse clients, including women, minorities, African-Americans, youth, veterans and the unemployed. In 2000, the SBA employed about 3,000 employees. The Administrator of the SBA is appointed by the President. Thus, the view of the SBA tends to be influenced by the party in power.

In 1976 Congress set up the SBA Office of Advocacy to examine the role of small business in the economy, present historical and current data on the small business sector, and identify economic trends affecting the small business sector and the state of competition. The Office of Advocacy has regional advocates in the ten SBA regions. The Office of Advocacy funds economic and small business research, publishes reports such as the State of Small Business, Small Business Economic Indicators, the Small Business Answer Card, and Small Business Profiles. Another role of the Office of Advocacy is to build relationships among

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small business activists who develop small business policy at the state and local levels and to organize and sponsor state and local conferences on small business issues. In 2000, the Office of Advocacy employed about 50 people.

In 1998, the Office of Advocacy initiated an awards program to recognize Models of Excellence in small business support and for the past two years has created awareness of ‘best practice’ initiatives in all of the US States through a national conference and publication of the ‘best practice’ examples in 10 categories, including access to capital, government procurement, minority business development, women’s business development, small business development, rural business development, support for small technology businesses, leadership in small business issues and innovative programs for the future.29

There is a Senate Committee on Small Business and a House Committee on Small Business, both of which hold public hearings on small business and act as ‘watch-dogs’ for small business within the federal system. However, they exercise legislative authority only over the SBA. In March 2001, the Senate Small Business Committee held a forum to examine the federal role in promoting entrepreneurship across the country. (For information on the US Senate Committee on Small Business Forum on Encouraging and Expanding Entrepreneurship: Examining the Federal Role and other hearing topics, see www.senate.gov. A copy of the SBA submission to the Entrepreneurship Forum30 can be accessed at www.sba.gov/advo/laws/test01_0301.html).

C: Current SME Policies, Programs and Structures

The SBA helps small businesses succeed by:

- being the voice for small businesses inside government - identifying, monitoring and reporting on agency regulatory impacts on small businesses and ensuring compliance with the Regulatory Flexibility Act and the Small Business Regulatory Enforcement and Fairness Act;
- providing access to capital and credit;
- ensuring access to Federal procurement markets; and
- providing business entrepreneurial development assistance.

Under the Clinton administration, the SBA had specific objectives to increase the number of new businesses, particularly among minority and under-represented groups of the entrepreneurial population (e.g., women, minorities, American-Indians). It also sought to introduce small firms to export opportunities and promote commercialization of innovation and transfer of technology from within the small business sector. The provision of small

business information through electronic means and the implementation of one-stop shops are recent innovations. Priorities under the Bush administration may change.

The major federal small business programs and services fall into the categories of 1) small business development centers (SBDCs), one-stop shops and business information centers (e.g., BICs, one-stop capital shops); 2) analysis of regulatory impact; 3) procurement; 4) financing (e.g., loan guarantee program, micro-funds, SBA-backed private sector venture capital companies); 5) minority business development (women and ethnic minorities); 6) export development, 7) technology development (e.g., SBIR program) and 8) knowledge websites and portals. The Small Business Innovation Research (SBIR) program, administered by the Office of Technology, provides over $1 billion in high-risk capital for the most advanced technology programs for small businesses. This represents about 60% of the amount of all public small business financing programs. The SBIR program is funded by 11 federal government agencies and produces some of the highest quality commercialisable research for the nation. Small business access to government procurement contracts is another large program initiative in the US. This is done through the adoption of ‘set-asides’ for small businesses, women-owned business and minority-owned businesses. Special efforts are made to ensure these targeted groups have access to procurement information and to assistance with the process of completing procurement documentation. The SBA also undertakes efforts to ‘unbundle’ contracts.

The Entrepreneurship Agenda

The US is one of the only countries in this study where there is a strong private-sector movement to advocate for the interests of entrepreneurship (as opposed to small business) with government, and as such, is worthy of mention. Involved in this are the Kauffman Foundation Center for Entrepreneurial Leadership (see www.entreworld.com), the National Commission on Entrepreneurship (www.ncoe.org), the National Governors’ Association (www.nga.org) and other Foundations such as the Coleman Foundation.

In 1998 the Kauffman Foundation underwrote the formation of the National Commission on Entrepreneurship (NCOE) to examine the policy environment for entrepreneurs in the US and to educate policymakers and thought leaders about the ways in which the public and private sector could enhance the climate for successful entrepreneurial ventures. One of their first studies was an examination of State governments’ efforts to support entrepreneurs and the ways in which they differentiated between SME policies and those geared to developing entrepreneurship. The Kauffman Foundation published this review of State entrepreneurship policies and programs in 1999. The purposes of the report, entrepreneurship was defined as ‘individuals who blend innovation with sound business practices to commercialize new products and services that result in high-growth firms.’ What constitutes ”entrepreneurship policy” was categorized into five general groups: 1) general perspective of entrepreneurship.
2) tax and regulatory climate, 3) access to capital, 4) entrepreneurship education and 5) intellectual capital.

The findings concluded that while state funding for entrepreneurial development lagged behind other economic development activities, many states had created programs or policies that had a positive impact on entrepreneurs. Certain states had clearly defined entrepreneurship development objectives focused on the emergence and growth of new firms while others ‘draped their existing economic development programs in the mantel of entrepreneurship’. The bottomline conclusion was that while positive trends are emerging in several states, there is considerable room for improvement. While over 90% of the responding states indicated they considered entrepreneurship a part of their economic development strategies, only four (just over 10%) had a clearly articulated statement of entrepreneurship policy in their strategy documents. In contrast, the remaining states presented the view that their programs are designed to serve a broad range of businesses and, while they do not address the unique needs of start-up companies with high-growth potential, entrepreneurs are a segment of the economy which can take advantage of these generic state programs. When asked what initiatives they believed best supported entrepreneurs, states responded with a long list that, for the most part, included initiatives targeted at existing businesses with a heavy emphasis on technology development.

In terms of measuring the importance of entrepreneurship in state economic development strategies, the Kauffman Foundation report reviewed 1) references to entrepreneurship in governors’ policy statements, 2) the percentage of state economic development funding devoted to entrepreneurial development, and 3) the extent to which state public officials recognize the contributions of entrepreneurs. Only 25% of governors’ policy statements mentioned entrepreneurship and, in most cases, these were references to the entrepreneurial spirit or efforts to reduce the tax burden on entrepreneurs (as examples). Of the $2.6 billion reported for state expenditures on economic development in 1998, less than $19 million was spent on state activities that support start-up businesses or provide seed-capital to emerging companies, less than 1%! On average, it was $399,060 per state, although this ranged from a low of $0 (nothing) for 53% of the states to a high of over 11%. This is not to say that new businesses are not assisted by generic economic development programs, they most assuredly are, but as the Kauffman Foundation report suggests ‘in states where entrepreneurship is truly a central element of economic development, one might expect to see an increase in state expenditures that encourage entrepreneurs to take the step into self-employment and provide the support to raise the probability of their success’ (p. 12). In the area of recognizing the contributions of entrepreneurs, most states celebrate entrepreneurs through awards programs such as the Young Entrepreneur of the Year award, the Entrepreneur of the Year, Business Plan of the Year or small business awards.

States use tax policy to support entrepreneurs in two ways – the general tax structure (e.g., reduction in tax rates, sales tax exemptions on machinery and equipment, absence of income tax) and special tax incentives to stimulate certain kinds of behaviour (e.g., employment tax

34 Ibid, p. 32.
credits, R&D tax credits and capital investment tax credits).\(^{37}\) On the regulatory side, almost all of the states mentioned activities to reduce paper burden and compliance costs – one-stop centres, unified reporting, paperwork reduction, electronic records, and publishing information on the Internet.

The report highlights the results of a 1994 Gallup poll of American high school students in which 65% stated they were interested in starting a business of their own, but only 18% felt their knowledge and understanding of entrepreneurship was good or excellent. Most rated their capacity to start and manage a business as fair or poor. This begs the question as to what extent this lack of capacity is preventing youth from actually venturing into entrepreneurship! The Kauffman Foundation included specific questions on the State survey to find out if states were supporting entrepreneurship education in the schools, either by including it in education guidelines and standards or by providing resources for K-12 programs. Just over half of the states (54%) responded that they include references to entrepreneurship in their education guidelines, but only 35% provided specific program funding. State support at the post-secondary level was more apparent. Most of the states have university and college entrepreneurship centres, programs or endowed Chairs in entrepreneurship.

In conclusion, the report suggests there is a need for evaluation of the impact of entrepreneurship programs and initiatives, but since most of them have been in existence for such a short time, it is difficult to gauge their effectiveness. It also suggests that much more can be done at the state level in the US ‘to promote public innovations that contribute to the realization of a truly entrepreneurial economy’, an interesting conclusion given that the US is viewed as the most entrepreneurial country in the world!

The National Commission on Entrepreneurship (NCOE)

NCOE was formed with funding from the Kauffman Foundation to examine the role of public policy on entrepreneurship, to ensure policymakers understand the unique role that entrepreneurs play in the economy and the community and to educate them about policies that most effect entrepreneurial growth. Its mission is to ensure that policymakers consider entrepreneurship when they make crucial public policy decisions and to help them fashion a policy agenda that will protect and promote an entrepreneurial economy. Their focus is on entrepreneurial firms that grow fast, incorporate innovation and deliver productivity gains to consumers. Their emphasis is on high growth companies, not sectors. In this way, the NCOE differentiates traditional small business policy from policy for entrepreneurial growth companies.\(^{38}\) The NCOE holds the view that an effective innovation system requires entrepreneurs who can help increase competitive pressures and spawn new industries and that entrepreneurship as a public policy issue in the US is lacking the sustained attention to ensure its continued growth.\(^{39}\) NCOE produces research, holds conferences, issues a regular electronic newsletter (E-News) and examines the federal government role in promoting entrepreneurship across the country. It lobbies on behalf of entrepreneurship on Capital Hill,

\(^{37}\) Ibid, p. 15.
\(^{38}\) See www.ncoe.org for more detail.
prepares policy briefs at Senate small business hearings and organizes high-profile policy seminars, roundtables and conferences. A case in point was the March 2001 NCOE Entrepreneurship Policy Conference hosted by the Kennedy School at Harvard University.

National Governors Association Policy Academy on Entrepreneurship

The other significant development is the US is the recent focus of the National Governors’ Association (NGA) on entrepreneurship issues. The NGA helps state governments develop and implement innovative solutions to the governance and policy challenges facing them in their states. In their 2000 study of how state economies can nurture entrepreneurial growth, the NGA noted that policies affecting entrepreneurs are often scattered throughout state government and do not fall completely within the purview of economic development.40 What it found missing was comprehensive state economic development policy that encourages cross-agency co-operation and program development that fosters entrepreneurship. Most economic development programs prioritize development of certain industry sectors and favour technology companies. They invest heavily in R&D efforts and commercialization of technological innovations, but miss the larger picture of specifically responding to the needs of entrepreneurial growth. The NGA report proposes that, in the future, state governments should strategically focus on the following key policy areas:41

1. Access to capital and financing mechanisms
2. Securities regulations
3. Promotion of state programs to entrepreneurs
4. Recognition of entrepreneurial contributions to the state economy
5. Building intellectual capital
6. Regulatory reform
7. Business registration and licensing
8. Tax policy and compliance

With funding from the Kauffman Foundation Center for Entrepreneurial Leadership, the NGA Center for Best Practices has launched a new initiative to support the efforts of ten states to increase entrepreneurial activity in their economies and communities. This is being done within the context of an 18-month Policy Academy on Entrepreneurship.42 These ten states are developing a better understanding of the perceptions of the general public, policymakers, advocates and key stakeholders related to entrepreneurship and then developing strategies and plans for encouraging and supporting entrepreneurship. These strategies and plans could include creating a culture in which more people view entrepreneurship as a career option, address the needs of start-up businesses, improve access to capital, ease tax and regulatory polices affecting entrepreneurs, meet the workforce needs

40 Rubel, Thom and Scott Palladino, Nurturing Entrepreneurial Growth in State Economies, National Governors’ Association, 2000, p. 22.
41 Ibid, p. 22.
42 Encouraging Entrepreneurship: Good Policy, Good Business, National Governors’ Association Center for Best Practices, Washington (www.nga.org/center).
of entrepreneurial companies and address regional variations in entrepreneurial activity. Specific initiatives might include entrepreneurship education (K-16), education and training, technical assistance in business planning and management, public-private partnerships to foster support networks and the involvement of universities to more effectively build the culture of technological entrepreneurship.43

D: Description of Existing Programs and Services in Support of Entrepreneurship

The Regulatory Environment for Start-Ups

There is evidence of continuing efforts to reduce regulatory and tax burden and to simplify administrative and reporting requirements.

Ease of Entry and Exit

It is relatively easy to start a business in the US. The recent study of the regulation of entry in 75 countries ranked the US as 4th in terms of ease of entry, measured by the number of procedures required to start a business.44 Four procedures, for which seven days are required to gain approval at a cost of 0.0096 of per capita GDP, puts the US near the top of the list. The US is also viewed as being legally less harsh than other countries on entrepreneurs who go through bankruptcy, making it easier for bankrupt business owners to restart a business after failure. Both the UK and the Netherlands have examined US Bankruptcy Laws for lessons on how to create more of a ‘rescue culture’ and reduce the stigma of failure.45 This is particularly true at the local level, e.g., zoning, occupational licensing to protect incumbents.

However, regulation is still seen as the major problem for start-ups in many sectors. More accurate data is needed if regulators are to study the real costs and benefits of regulation.46 This is particularly true at the local level, e.g., zoning, occupational licensing to protect incumbents.

Reduction of Administrative and Regulatory Burden

Reduction of the regulatory and administrative burden for small businesses has been an issue in the US since the early 1980s and still is. The Regulatory Flexibility Act was passed in 1980. This was followed by the Regulatory Enforcement Fairness Act in 1997 because of the need to more strongly reinforce the 1980 Act. The SBA has set up Small Business Regulatory Enforcement Fairness Boards in each of its 10 regions to act as ‘watch-dogs’ at the state and federal level.

43 For more detail, see www.nga.org/entrepreneurship.
regional level to ensure compliance with these Acts. In the 1997 Act, a provision was made for judicial review of an agency’s compliance with the Regulatory Flexibility Act. The SBA Office of Advocacy insists that close monitoring is required because some departments will still not always voluntarily subject their new regulations to in-depth small business impact analysis. This work is paying off. For the first time in 1999, the SBA was able to report to Congress on the cost savings to small businesses from increased compliance with the Regulatory Flexibility Act. From 1997-1999, the Office of Advocacy reviewed approximately 2,600 proposed and final rules and reported a regulatory cost savings estimated at $5.3 billion in fiscal year 1999.47

Barriers to departmental/agency compliance with the federal laws include a lack of visibility of the SME sector among many government departments, a lack of understanding of the disproportionate impact of regulation on small firms and a resistance to cultural change within departments. To deal with these barriers, the Office of Advocacy produces and disseminates research and economic data and offers training and orientation sessions to government employees from a wide range of departments.48 Improving the sensitivity of government officials to the undue burden that could be potentially caused to SMEs from new legislation/regulations is an important objective and major challenge. The range of possible legislation/regulations and departments/agencies involved is large – ranging from environmental protection to packaging and labelling to new licensing to taxation to transportation safety. The US Office of Advocacy’s review process encompasses approximately 20 agencies.49

Another barrier to compliance with federal laws is the lack of ability to measure the possible impacts of new legislation on small business. Both processes developed by the Office of Advocacy and instruments developed by the NFIB can now be used to assist with this challenge. The NFIB Regulatory Impact Model (RIM) is unique in that it allows measurement of the direct and indirect costs of regulations and provides estimates of the costs of regulations for different categories of labour, capital and paperwork costs, depending upon the specific regulation.50

It appears that some progress has been made in the area of paperwork reduction for small businesses. The Economic Growth and Regulatory Paperwork Reduction Act was passed by Congress in 1996, followed by the Paperwork Elimination Act.

**Simplified Reporting**

Simplification can result in significant savings for both the government and small businesses in a number of areas, for example, the consolidation of reporting for state unemployment insurance and the federal wage-based tax forms. A 1996 consultant’s report indicated that

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49 Ibid.
such simplified reporting would result in annual savings of $3.2 million to the State of Montana and $13 million to employers.  

To simply tax reporting for small firms, the Internal Revenue Service (IRS) has implemented two significant changes. In January 2000, it reduced the requirement for small firms to use the Electronic Federal Tax Payment System unless they had annual tax deposits greater than $200,000. The previous threshold was $50,000. In January 2001, the IRS ended the monthly tax deposit requirement for small businesses with less than $2,500 in quarterly employment taxes (raised from $1,000) and replaced it with a quarterly requirement. It is estimated that this will affect a million small businesses, help reduce paperwork by eliminating complex filing requirements and reduce IRS notices by 70%. Thus, it will free up valuable resources for both the IRS and small firm owners.

To further simply reporting, the Office of Advocacy is working with the IRS to establish a single form that will satisfy the wage and tax reporting obligations of the very smallest businesses under both federal and state law (State Tax and Wage Reporting System). The single form would have the effect of ‘tiering’ reporting requirements and dramatically easing the reporting process.

**Taxation**

Tax policy can have a considerable impact on small businesses. In the NFIB Small Business Policy Guide (2000) the point is made that there are better and worse ways to tax small businesses, ways that are more or less consistent with their capabilities and the way they conduct operations (p. 63). NFIB officials state that policymakers at all levels often fail to appreciate the cumulative tax requirements placed on small firms, feeling responsible for only ‘their share’ of the burden while not fully recognizing the scope of total tax responsibilities faced by small business owners (NFIB Small Business Policy Guide, p. 64). This Guide outlines four canons as a starting point for analysing tax policy initiatives:

1. Tax policy should alleviate small business cash problems, not exacerbate them.
2. Tax compliance and administration should be kept as simple as possible, even if it occasionally allows someone to legally slip through a hole in the system.
3. Since small firms tend to be more labour intensive than large firms, taxes on labour fall disproportionately heavy on small firms and should be minimized.
4. Over 85% of small business owners are taxed as individuals so changes in tax policy affecting individuals directly impact the finances of the business.

In addition to direct taxation costs, governments should also consider the indirect costs of filing requirements and paper burden. NFIB advocates for simplification of the Federal Tax Code in a number of areas, including expensing versus depreciating of capital costs, the

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treatment of home-office deductions, the determination of an employee’s tax status as distinct from that of an independent contractor and treatment of federal estate and gift taxes.

The Taxpayer Relief Act of 1997 made some revisions to simply taxes for small firms by exempting small corporations (with revenues less than $5 million) from calculating the alternative minimum tax (AMT). Capital gains taxes were reduced from 28% to 20% on property held for at least 18 months. Individual investors were allowed to rollover gains from an investment in qualified small business stock held for at least six months into another qualifying stock, tax-free. Further tax changes are required to encourage small firms to offer pensions to their employees and to allow deductions for the owner of the firm as well.

The 1998 Internal Revenue Service Restructuring and Reform Act provided for the establishment of a Small Business and Self-Employed Operating Division to serve all small business taxpayers. The primary focus of the unit is to work with small businesses to teach them about their federal responsibilities and to develop less burdensome and more practical means of compliance. The IRS has added ‘The Small Business Corner’ to its website to provide information necessary to comply with federal tax responsibilities and ‘plain English’ descriptions of all tax regulations.

Promotion of Entrepreneurship

Promotion of entrepreneurship in the US is very strong. Most States name a Small Business Person of the Year as part of the President’s Small Business Person of the Year Program. Ernst&Young, Merrill Lynch and Inc. Magazine host an annual Entrepreneur Of The Year Award, which honors top entrepreneurs in a number of awards categories. In addition, several other organizations and state governments sponsor their own programs to recognize the achievements of all kinds of entrepreneurs – women, blacks, other minorities, youth, etc.

There are several magazines dedicated to covering and presenting the ‘entrepreneurial story’ – *Inc. Magazine*, *Success*, *FastCompany*, and *Entrepreneur* serve as examples. Newspapers like the *Wall Street Journal*, as well as state dailies and weeklies, also devote attention to the activities of small business owners and entrepreneurs. Coverage of entrepreneurship has exploded in the 1990s. As reported in Zacharakis et al. (2000, p. 15) the word ‘entrepreneur’ or ‘entrepreneurship’ appeared just shy of 24,000 times in the mainstream media in 1990; by 1999, this has increased to 115,000 times.

For most of the past 15 years, there have been examples of television series, which focused on telling the story behind the nation’s entrepreneurs. One of the earliest was The Financial News Network (FNN) series *The American Entrepreneur*, which aired in the late 1980s and early 1990s. Since then, *Small Business 2000*, *Business Unusual*, *Managing*, and *CNNfn.com* have all been produced. It is not unusual for local and regional television networks to also

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54 Pages 74-75 of the *NFIB Small Business Policy Guide* lists the 20 factors used by the Internal Revenue Service to rule on whether someone is an employee or an independent contractor.


profile local entrepreneurs in their regular programming activity. In 1990, a woman entrepreneur who had the vision of promoting entrepreneurship ‘as a way of life, not just a way of making a living’ started SBTV (Small Business Television) as a news service to provide multimedia coverage of entrepreneurial life. It is the first online and broadcast network devoted exclusively to covering entrepreneurial stories (www.sbtv.com). SBTV produces broadcast-quality video, available for watching on the SBTV website at no charge (using Real Media, Windows Media or QuickTime), or as a licensed product to other television shows and networks. Its streaming video and audio content can be accessed 24 hours a day and can be watched even using a 56K modem. SBTV has five new small business cable shows in development for 2001. It is safe to say that American households are reasonably well penetrated with the ‘entrepreneurial’ message on a weekly basis and have been for some time.

Radio has also been used to promote entrepreneurship. The most distinctive among these is NPR, a private non-profit organization, which provides leadership in national newsgathering and production and a nation-wide interconnection of non-commercial stations (www.npr.org). Since 1995, Chris Arnold, a young reporter, has been crossing America to do interviews with entrepreneurs who are featured in ‘entrepreneurial stories’ on NPR. From cutting-edge technologists to farmers to small business owners, Arnold’s reports focus on people who start and run all kinds of businesses. Over a million people listen to each broadcast, which is also aired via the Internet and can be downloaded using simple software (Real Media). Print profiles of each featured story can be accessed on the NPR website. This initiative is partly funded by the Kauffman Foundation Center for Entrepreneurial Leadership to fill a ‘gap’ in the promotion of entrepreneurship through radio broadcasts. Another recent example of radio programming is the effort of the Young Entrepreneur’s Organization (YEO) and the Radio America Network to produce a world-wide Internet webcast called *Entrepreneurs! Living the American Dream with Richard Tavener*. This series profiled 300-340 entrepreneurs during 258 hours of live webcasting.  

Finally, there are a wide range of conferences and high profile entrepreneurial events held across parts of the US on a frequent basis. These are organized and hosted by Inc. Magazine, banks, universities, Small Business Development Centers and a myriad of entrepreneur associations, like the National Association of Women Business Owners, the Collegiate Entrepreneurs’ Organization, the Young Entrepreneurs’ Organization, the Kauffman Foundation’s Center for Entrepreneurial Leadership, etc. These events are targeted at novice entrepreneurs, growth entrepreneurs, women, youth, students, the unemployed, African-Americans and the list goes on. Each year since 1983, the President has proclaimed the first full week in October as national MED Week to honor the contributions of minority entrepreneurs, individuals and organizations that support minority business development. In addition, the SBA holds an annual Small Business Week, which involves themed activity in every part of the US, serving to raise the profile of small business and entrepreneurship in the economy and to educate practitioners and policymakers about this growing force.

It is safe to say that the US does a very good job of promoting entrepreneurship, recognizing the achievements of entrepreneurs and raising overall awareness of this ‘American Dream’ in the public domain. Having said that, the GEM 2000 report recommends that more needs to be done to identify and celebrate role models, especially for under-represented groups. One initiative to promote entrepreneurship in inner cities is the Inc. Magazine Inner City 100, a project to identify and celebrate fast-growing entrepreneurial firms in America’s inner cities. This is intended to encourage the private sector to think differently about inner cities as economic spaces.59

Awareness of entrepreneurship in American society is raised by the presence of such organizations as the Kauffman Foundation Center for Entrepreneurial Leadership, the National Commission on Entrepreneurship, the National Governors’ Association Policy Academy on Entrepreneurship and a range of other private sector foundations and organizations, including the Coleman and Lowe Foundations.

The US also provides an example of how the media can be nurtured to profile the ‘entrepreneurial story’. The SBA Office of Advocacy takes time to send press releases and story ideas to newspaper reporters. Representatives of the Kauffman Foundation hold seminars with national print and broadcast reporters as a way of educating and informing them of the information value of stories about and on entrepreneurship. The National Commission on Entrepreneurship also plays this role. These efforts may be of interest to other countries where media coverage of the entrepreneurial story is lacking because of limited awareness or interest.

Entrepreneurship Education

In the US, entrepreneurship education is defined by the Centre for Entrepreneurial Leadership Clearinghouse on Entrepreneurship Education (CELEE)60 as ‘the process of providing individuals with the concepts and skills to recognize opportunities that others have overlooked, and to have the insight, self-esteem and knowledge to act where others have hesitated. It includes instruction in opportunity recognition, marshalling resources in the face of risk, and initiating a business venture. It also includes instruction in business management processes such as business planning, capital development, marketing and cash flow analysis.’ 61

K-12

There are no national policies or government programs to implement entrepreneurship education in the K-12 system, although entrepreneurship is taught in some schools and in many college and university programs. A recent NCOE presentation to the Senate Small Business Committee recommended that K-12 curriculum should include more

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60 CELEE was established as a joint project with the University of California, Los Angeles and the Kauffman Foundation Centre for Entrepreneurial Leadership in January 1996 to compile information and resources related to entrepreneurship education (from K-12 to post-graduate studies) in a massive online database.
61 www.celee.edu/general.html#CELEE.
entrepreneurship education and that Congress should urge the promotion of entrepreneurship education in the schools and strengthen the Elementary and Secondary Education Act.

It is difficult to determine the extent to which US students in the K-12 school system are currently exposed to entrepreneurship in the classroom. States are responsible for education curriculum guidelines and, in the past, there has been some resistance to including entrepreneurship content. But there are some excellent examples of initiatives to develop resources and pedagogical approaches, which enable the integration of entrepreneurship modules within existing curriculum. One of the best examples of this, at the elementary level, is Kinder-Economy and Mini-Society material which was initially developed in the 1970s by Marilyn Kourilsky, an ex-Vice-President of the Center for Entrepreneurial Leadership at the Kauffman Foundation. These materials have been modified and refined through experimentation and are currently available to schools across the US, supported by teacher training and interactive websites. Mini-Society is an experience-based instruction system which introduces elementary students (8-12 year olds) to entrepreneurship concepts and experiences. The curriculum can be delivered in 10 or 20-week increments of three 45-60-minute sessions per week and integrated with the teaching of citizenship, language, science, math, etc.

Evaluations of the impact of a Mini-Society program on students reveal that students exhibit measurable increases in positive attitudes towards school and learning. The program encourages creativity and self-directed learning, reinforces the importance of co-operation, motivates students to set goals and to marshal their creative and logical resources, and enhances their sense of empowerment and self-sufficiency. More information on Mini-Society and YESS! (Youth Empowerment and Self-Sufficiency) can be accessed from www.minisociety.org. Mini-Society and YESS! Programs have been implemented in 43 states – both in classroom settings and out-of-school venues, such as summer camps and 4-H. The Center for Entrepreneurial Leadership offers 20 hour teacher orientation sessions to support these entrepreneurship learning programs. From January-August 2000, more than 45 workshops were held in states all over the US. However, there is still a long way to go before every student in every school is exposed to entrepreneurship in the classroom!

Making a Job: A Basic Guide to Entrepreneurship Readiness is an experience-based awareness and readiness curriculum for youth aged 12-17 that can be taught as part of regularly scheduled classes, such as social studies and business, or as part of an after-school program (www.entreworld.org). This, too, has been developed by the Kauffman Foundation. It includes a Student Guide, a Personal Journal and an Instructors Manual with lesson outcomes, lesson outlines, advance lesson preparation notes and worksheet test-answer keys. In addition, students identify business opportunities that may become business ventures they can start after school or during the summer.

Recently the Kauffman Foundation has joined with the US Department of Education to focus on linking entrepreneurship with the national school-to-career movement, but considerable work remains to be done to integrate entrepreneurship education throughout the US school system.
Post-secondary Level

The US has years of experience in the teaching of small business and entrepreneurship to both undergraduate and graduate students although the proliferation of entrepreneurship courses is more recent. Unfortunately the majority of university students do not have the opportunity to take entrepreneurship courses. Even in the US, which is the world leader in university entrepreneurship education, these courses are mostly restricted to business students, of which only 16% nationally are enrolled. Having said that, in 1997 it was estimated that over 400 university business schools offered entrepreneurship courses and 125 had organized programs. This number increases substantially when small business management courses at both the college and university level are included. Since 1979, Professor George Solomon, George Washington University has conducted national surveys of post-secondary entrepreneurship education (www.nationalsurvey.org). In 1994, the Survey moved online. The findings from this survey report on pedagogical methods, types of courses offered, evaluation techniques and innovations in course delivery (e.g., use of the Internet). When exploring how to build entrepreneurship courses and programs, universities around the world will look at the best practice examples in the US, notably Babson College, Baylor University and the Wharton Business School, although there are many others.

Research suggests that the propensity to be self-employed is positively correlated with the number of entrepreneurship/small business courses a student takes. The greater the number of courses taken, the greater the likelihood of self-employment, but there has been relatively little research on the actual impact of entrepreneurship education. In their recent survey of almost 2,500 alumni of the Berger Entrepreneurship Program at the University of Arizona, Charney and Libecap (2000) found that, compared to other business graduates, entrepreneurship graduates were three times more likely to start new businesses, were three times more likely to be self-employed, had annual incomes that were 27% higher, owned 62% more assets, and were more satisfied with their jobs. In other words, entrepreneurship education increased the probability of being instrumentally involved in a new business venture by 25% and increased the annual incomes of graduates by $12,000. Entrepreneurship graduates were more likely to found or work for high-technology companies and be involved in new product development, R&D activities and products with shorter life spans. The study also found that small firms employing entrepreneurship graduates had greater sales and employment growth than those that employed non-entrepreneurship grads. The Kauffman Foundation spokesperson stated that the ‘study goes well beyond any other analysis of its kind and underscores the advantage of entrepreneurship education – for both graduates and the companies they work for’. The researchers hope that their methodology can be used as a template for other universities to evaluate their entrepreneurship education programs.

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In terms of curriculum models and resource materials for the teaching of entrepreneurship at all levels of the education system, private foundations, particularly the Kauffman Foundation and the Coleman Foundation have made significant contributions. Examples of elementary school materials have been described above, but the Kauffman Foundation has also launched the Jump$tart Initiative to help community colleges develop and offer entrepreneurship education to those who have not historically had access to venture creation skills and knowledge. This is a partnership between twelve community colleges from across the country and the Center for the Study of Community Colleges. The goal is to develop audience specific programs that can be adopted by community colleges across the nation and serve rural and urban populations and target groups such as low-income housing residents, women, African-Americans, Native Americans and Hispanic Americans (www.emkf.org/Entrepreneurship/programs/jumpstart.cfm).

**Youth Entrepreneurship Programs**

Youth entrepreneurship programs are being initiated at the state and local level all over the US. Many of these are sponsored and supported by community and local development organizations. Materials, resources and ‘best-practice’ programs are in the process of being implemented. Some of these are described below although the complete range of examples is extensive. CELEE enables a search of prominent websites to search out the enormous field of programs to encourage youth entrepreneurship (www.edtecin.com/nye/index.htm; www.opens.org/start-up; www.triedge.com; www.youngbiz.com). Some of the most prominent youth entrepreneurship programs are highlighted below.

- The National Foundation for Teaching Entrepreneurship (NFTE), The Entrepreneurial Development Initiative (TEDI), An Income of Her Own (AIOHO), and the Center for Tribal Entrepreneurial Studies offer programs targeted at specific demographic groups – at-risk youth, children and youth of colour, young girls and women and Native Indians. NFTE offers a package of teaching materials and systematic approaches to teaching entrepreneurial skills to at-risk youth. It has programs running all over the US, in Belgium, the UK and Argentina (www.nfte.org).

- Rural Entrepreneurship Through Action Learning (REAL) sponsors programs through rural high schools and community colleges and provides curriculum for youth entrepreneurship classes which are co-ordinated by an interested teacher in each district. Real Enterprises have set up shop in 13 States and in the UK (www.realenterprises.org).

- Junior Achievement has been in existence for over 80 years. In recent years, it has developed new products specifically targeted at exposing youth to the principles and practice of running their own small businesses (www.ja.org). In many other countries this program is known as Young Enterprise.

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• Biz World is a California organization that provides curriculum and volunteer teachers to teach mini-units on entrepreneurial skills to elementary and middle school students (www.bizworld.org).

• The Center for Entrepreneurial Leadership hosts an online magazine for teen entrepreneurs and a website which provides a Start-Up Guide, self-assessment instruments, resource listings, discussion groups for junior and senior high school students, and advice on how to get a mentor (www.entreworld.org/ye). This site also includes leadership guides which give ideas to teachers, camp counsellors and youth group leaders on entrepreneurship-oriented projects and activities which are fun to do.

• The SBA has developed A Guide for Young Entrepreneurs on its website, Discover Bu$iness! (www.discoverbusiness.com). This contains knowledge about starting a business, a young entrepreneurs’ hosted message board, a calendar of events for young entrepreneurs and success stories of kiddie, teen and young entrepreneurs.

Small Business Support: Training and Counselling

Small business support is offered through online sites and resources, one-stop business information centers, Small Business Development Centers and SCORE advisory services.

Online Support

The SBA website (www.sba.gov) is an extremely well organized and comprehensive source of small business information for both small businesses and their support providers. It has developed a number of portals geared to the needs of aspiring, starting and early stage entrepreneurs. SBA-NET is the gateway to resources, opportunities and networks (www.sba.gov/sbanet). From this site, one can access ACE-NET (electronic angel capital network), BusinessLINC (best-practices in business-to-business relationship strategies), PRO-NET (electronic gateway to procurement information), TECH-NET, TradeNet, SUB-NET, an online business adviser (www.business.gov), and on online classroom (www.sba.gov/classroom/courses/html). One of the SBA’s newest innovations is its online Small Business Startup Kit which is an extensive resource of ‘everything you need to know’ to start a business including information on all government assistance programs and local support networks. It even includes online applications for SBA loans (www.sba.gov/library/forms.html). New SBA portals target youth, matchmaking services and international trade opportunities. The SBA site receives 9 million hits a week and has 4 gigabytes of information.

One-Stop Shops

In terms of ‘one-stop’ shops, 100 Business Information Centers (BICs) have been set up in US states (SBA program) to provide assistance and information to new and existing entrepreneurs. Services include use of a reference library, videos, computer access, seminars and workshops and counselling on topics ranging from business planning and financing to marketing and management. BICs are equipped with the latest self-help hardware and
software so potential entrepreneurs can do market research and work on their business plans. SCORE counsellors provide on-site counselling and the services of Small Business Development Center staff are also accessible. The SBA is now opening a series of targeted BICs, for example Tribal BICs, which are opening on Native reserves to meet the needs of American Indians.

One-stop Capital Shops

One-Stop Capital Shops have been opened to address the financial and technical assistance needs of small business. This is a major inner city economic development tool for Empowerment Zones or Enterprise Cities. Federal, state and local agencies and institutions are gathered together in one location to provide services. These centers are staffed by small business professionals and are affiliated with dozens of other government, public and private organizations, universities and service providers, including financial analysts and commercial loans officers. They are often located in distressed areas, offering multi-functional, intergovernmental assistance to the entrepreneurs who need it most. By mid-2001, there were 22 one-stop capital shops and 10 more were planned. These centers improve the capacity and skills of small business owners to access capital, often through a loan guarantee.

Small Business Development Centers

The Small Business Development Center (SBDC) is the SBAs premier technical assistance program for small businesses. There is at least one SBDC in each of the 50 states and a network of over 1000 service locations which provide management assistance and act as one-stop shops to meet the needs of new and existing small business owners. These centers, often located on university campuses or in local economic development offices, are funded through $82 million in federal appropriations and matching funds from state and local resources. Over the past 20 years, they have helped more than 8 million entrepreneurs to start or grow a business. In 1999, over 600,000 clients were trained and counselled. An Association of Small Business Development Centers was started in 1979 to provide a vehicle for continuous improvement of the SBDC program and for the exchange of information among members concerning objectives, methods and results in small business management and technical assistance (www.asbdc-us.org).

There are also a series of enterprise centers specifically targeted to meet the needs of minorities and women. Minority enterprise centers are funded under the Minority Business Development Agency, an agency of the Department of Commerce; women are served by a network of over 80 SBA-funded Women’s Business Centers; Native Americans are served by the National Center for American Indian Economic Development (NCAIED).

SCORE

The Service Corps of Retired Executives (SCORE) is a 11,700-member volunteer association of retired executives sponsored by the SBA to provide counselling and advice to small

businesses in need of assistance. It has a budget of $3.5 M per annum. SCORE counsellors provide about 1.1 million counselling sessions to over 375,000 clients per year. SCORE counselling is free but a nominal fee is charged for pre-business workshops and other seminars. Online counselling is accessible at www.score.org. Over 80,000 online consultations are completed each year. This program inspired the UK’s recent Volunteer Mentor Program.

Professional Development for Business Advisers

The US is a partner in the APEC Training and Certification of Small Business Counsellors Program being funded by the Asia-Pacific Economic Cooperation. The process of identifying the US Economy Institute for the APEC network has not been concluded, but in the meantime, the Small Business Institute Directors Association (SBIDA) has launched its own Certified Small Business Counsellor Designation Program (www.SBIDA.org). The purpose is to raise the standards of SBIDA members, enhance professionalism and performance of SBI Directors and case supervisors and recognize those who achieve a higher level of knowledge within the small business counselling field. The designation requires that individuals acquire proficiencies and knowledge in six key areas and the ability to apply this knowledge and skills according to minimum standards. Candidates can have up to four years to complete the requirements. They can earn credits from conferences and workshops, small business consulting, professional development and presentations or publication of articles, and must submit an annual report of their professional development activities. The Certification Board of SBIDA meets annually to approve certification requirements. Certified Small Business Counsellors must agree to operate within SBIDA’s Code of Professional Conduct.

FASTTRAC Entrepreneurial Training Program

The US is also a leader in the piloting and standardization of self-employment and entrepreneurship training programs. Premier among these is the FastTrac program delivered by the Entrepreneurial Education Foundation (EEF), a licensee of the Kauffman Center for Entrepreneurial Leadership. EEL provides FastTrac materials and resources through a network of associate organizations and universities/colleges throughout the US (36 states), Australia and Sweden. The training programs offered are FastTrac NewVenture (a 9-session course for people considering starting a business), FastTrac Planning (an 11-session course for existing entrepreneurs who want to refine their management strengths and take their business to the next level), FastTrac Manufacturing and FastTrac First-Step (a 9-session program for low-income individuals interested in starting a business). EEL has also developed two 45-hour, 3-credit hour FastTrac courses, which can be delivered at the college level to both undergraduate and graduate students. Instructors receive comprehensive training from EEL and full web-based support. Over 40,000 people have received FastTrac instruction. In 2000, the SBA recognized FastTrac as a ‘Model of Excellence for Entrepreneurship Education’.

**Incubators**

In 2000, there were over 800 incubators in the US, up from 12 in 1980. About 75% of existing incubators are non-profit, but for-profit incubators have recently begun to open at the rate of four per week. Business incubators catalyze the starting and growing of companies by providing entrepreneurs with the expertise, networks and tools they need to make their ventures successful. In return, they diversify the economy, commercialize technologies, create jobs and build wealth.

In terms of economic impact, National Business Incubator Association members report that 87% of all firms that graduate from their incubators are still in business and that start-up firms annually increase their sales by an average of $240,000 and add an average of 3.7 full-and-part-time jobs. It is also reported that for every $1 of annual public operating subsidy provided to an NBIA incubator, its clients and its graduates, $45 in local tax revenues is produced. Since 1980, it is estimated that over 500,000 jobs have been created by incubated firms. The cost per job of incubator funding is about $1,100, much lower than the $10,000 per job for other publicly supported job creation mechanisms.

Recent research suggests that ‘networked incubators’ is one of the most successful initiatives to foster rapidly growing firms. Privately funded, venture capital-backed incubators ‘built on networks’ are fundamentally a new organisational model supporting growth of new technology-based firms. These incubators offer strategic counselling, equity financing, and access to a rich network of marketing, technical and management expertise and potential partners. Increasingly, this new form of incubator is becoming the nucleus for regional economic growth.

**Private Sector Business Services**

Most companies in the US benefit from the well-developed business advisory service industry. The industry comprises management consultants, accountants, business lawyers and a whole range of government and non-profit bodies that cater to the needs of small businesses and start-ups. Zacharakis et al. (1999) make two interesting remarks concerning business services. They note that all ‘big five’ accounting firms have established small business practices and that to attract potentially prospective growth firms, they are accepting deferred fees, reduced fees or equity in lieu of fees. In addition, firms like American Express and Wells Fargo develop and target services and innovations to new and small businesses.

**Identification of Target Groups**

The US places a priority on the entrepreneurial development of several minority groups including women, Hispanics, Asians, African-Americans, Native Indians and veterans.

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Women Entrepreneurs

Critical to the growth of women-owned enterprise in the US was the Equal Credit Opportunities Act of 1975 and the Affirmative Action Act of 1978. These helped to remove structural barriers faced by women who wanted to start businesses. Over the 1987-99 period, women were starting firms at 1.5 times the rate of all firms. There was a 103% increase in the number of women-owned firms compared to a 62% increase in the number of all firms. Employment in women-owned firms increased four-fold. There are now an estimated 9.1 million women-owned businesses in the US, representing almost 40% of all businesses, employing 27.5 million people and generating more than $3.6 trillion in sales.

However, the self-employment rate among women is still lower than that for men (13% versus 7.6%), women-owned firms start smaller, grow more slowly, and are less likely to have other employees. Just over half of their firms are in the Services sector and 18% in Retail Trade. However, women-owned firms are small – 84% generate less than $100,000 in annual sales and 80% have no paid employees. Less than 3% of their firms generate more than $1 million in annual sales! Almost 80% of their firms operate as sole-proprietorships. The major motivations of women in becoming entrepreneurs are to be their own boss, to make things better for themselves and their families and to do for themselves what they had been doing for others. Women find it difficult to attract venture capital for their firms and are not plugged into many of the male-dominated networks, which would improve their access, both to information and resources.

The Office of Women’s Business Ownership in the SBA is the only office in the federal government dedicated to supporting women’s entrepreneurship, functioning with a National Women’s Business Council and the National Association of Women’s Business Advocates. The National Women’s Business Council was formed by an act of Congress to serve in an advisory capacity on legislative and regulatory issues affecting women business owners. The National Association of Women’s Business Advocates is an organization of state government officials who are advocates for women’s entrepreneurship in more than 20 states. The SBA supports and encourages the creation and development of women-owned firms through a number of programs and initiatives. These include:

- The Women’s Business Center Network – there are over 80 centers nation-wide which offer training, counselling and mentoring services to existing and potential women entrepreneurs. These centers serve about 15,000 clients per year; the collective budget for this program in 2000 was $8 million. The key service is a 14-week training program that helps women get started in business. These centers are hosted by non-profit organizations, many of which are micro-lenders.

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72 Ibid p. 265.
73 Ibid, p. 271.
74 See www.sba.gov/womeninbusiness/wbcsites.html for a list of centers.
An Online Women’s Business Center at www.onlinewbc.org offers information on ‘best practices’, management techniques, networking, counselling, industry news and research, and other information useful to women who want to start and grow firms (in English, Spanish, and Russian). It includes information under the following headings: Starting Your Business, Growing Your Business, Expanding Your Business, Finance Center, Management Institute, Marketing Mall, Procurement Place, Technology Tower Directory, Welfare to Work Website, and Success Stories. It also includes several online training and ‘how-to’ resources for women who are starting their first business (www.onlinewbc.org/docs/starting/index.html).

WNET – the Women’s Network for Entrepreneurial Training Mentoring Program is a year long, one-to-one program where seasoned women entrepreneurs act as mentors for less experienced women who want to grow their firms. The WNET Roundtable, an offshoot of WNET, offers mentoring and support for women business owners, but in a group setting.75

SBA-backed loans - in 1999, the SBA backed 10,244 loans for women, totalling more than $1.9 billion, tripling the number and dollar value of these approved loans to women since 1992.76 In addition, women have received 41% of the SBA’s MicroLoan Program for start-up businesses since its inception. In 1998, the SBA licensed three women-managed venture capital companies under the Small Business Investment Company program, to base their investment strategies on helping women-owned businesses. These were the first in the country.

In addition to SBA loan programs geared to women, both the Wells Fargo Bank and Bank One offer preferred loan programs to women entrepreneurs.

All federal agencies are mandated by Executive Order of the President to award 5% of all procurement contracts to small women-owned firms.

To complement SBA support, there are numerous associations for women entrepreneurs both on a national and local level. The National Association of Women Business Owners (NAWBO) has established a foundation to conduct research on the growth of women business owners in the US and to use this information for advocacy purposes. Several initiatives have been undertaken on a national and global level (see www.nfwbo.org) and private sector sponsors like IBM are major partners in NFWBO efforts. Conferences and summits for and on women entrepreneurs are frequent.

An area where the US excels is the creation and reporting of research and statistical information on the development of women-owned firms. This is done through the SBA and the National Foundation for Women Business Owners. However, the conclusion of Weeks (1999) is that existing programs and initiatives are not sufficient.77 She advocates for more

77 Weeks, 1999, p. 278.
frequent statistical reporting on the status of women-owned firms and more awareness raising and recognition activities.

**Minority Entrepreneurs**

The SBA Office of Advocacy collects and reports data on firms owned by a number of minority groups including African-Americans, Hispanics, Asians, Pacific Islanders, American Indians, and Alaskan Aleut Americans. In 1997 the non-white population in the US represented 28.3% of the total population. By 2000, this share had increased to 28.6%. However, non-Whites made up only 16% of self-employed persons in 1997 and are thus under-represented as owners of businesses. There were an estimated 3.25 million self-employed minorities in 1997. Of 11.2 million people with self-employment earnings, about 5.8% were Hispanic, 5.8% African-American and 4.5% Asian and other.\(^{78}\) Over the 1987-97 decade, the number of minority-owned firms increased by 168%, with employer-firms representing 16% of the total number (the remainder being firms with no employees). The greatest increase was in the Hispanic population where the number of self-employed grew by 235%.

Minority owned businesses are less likely to be employers than the average US business, less likely to have bank financing, and more likely to use credit cards. In an effort to improve opportunities for minorities to become business owners, the federal government, including the Department of Commerce, the SBA and the Bureau of Indian Affairs have taken measures to improve access to procurement opportunities, financing and counselling and advisory services. There are set-aside allotments for minority procurement, a Minority Pre-Qualification Pilot Loan Program, a Loan Guaranty Program for American Indians, dedicated agencies to provide counselling services to minority groups, and targeted efforts to promote entrepreneurship among this segment of the population. These efforts appear to paying off with significant growth occurring in the self-employment rates of minority groups.

The MBDA\(^ {79}\) was specifically created to encourage the creation, growth and expansion of minority-owned businesses in the United States. The MBDA headquarters is in Washington, D.C. and there are five Regional Offices and four District Offices where staff members oversee assistance services in multi-state regions. Assistance is provided to socially or economically disadvantaged individuals who own or wish to start a business. Target groups include: Asian Pacific Americans, Asian Indians, Black Americans, Eskimos/Aleuts, Hasidic Jews, Native Americans, Spanish Speaking Americans, and Puerto Ricans. The MBDA provides funding for over 100 Minority Business Development Centers (MBDC), Native American Business Development Centers (NABDC), Business Resource Centers (BRC) and Minority Business Opportunity Committees (MBOC) located throughout the country. These centers are operated by private firms, state and local government agencies, Native American tribes, and educational institutions. They provide minority entrepreneurs with one-on-one assistance in writing business plans, marketing, management & technical assistance and financial planning. The 1999 MBDA budget was $31.38 million.

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\(^{78}\) The Facts about Small Business 1999.

\(^{79}\) Based on the MBDA website ([www.mbda.gov](http://www.mbda.gov)).
The Agency and its network has no authority to make grants, loans or loan guarantees to any individual or organization wishing to purchase, start or expand a business but offers assistance in identifying sources of financing and in the preparation of financial proposals. Business referral services are provided free of charge, generally charging nominal fees for specific management and technical assistance services.

**African-Americans** – there are a number of SBA initiatives targeted at increasing the number of black-owned enterprises. Although the growth rate of new African-American businesses is twice the rate for the overall business community, blacks are underrepresented as business owners and the average black-owned business is substantially smaller than the average small business. The National Black Business Trade Association, established in 1983, aims to support, encourage and inspire entrepreneurship in the African-American community. It was initially intended to help reverse the trends, at that time, of a low and even decreasing amount of black entrepreneurship. Since then, considerable progress has been made. In 1998, the SBA launched the Small Business Lending to African-American Community Initiative. Through it, the SBA hopes to double the annual level of SBA-backed loans from 1,903 guarantees in 1997 to 3,900 by 2000, an estimated value of $588 million.

**American Indians** – as of August 2000, there were an estimated 2,438,000 American Indians, Eskimo and Aleut in the US, 0.9% of the population. Native eDGE (Economic Development Guidance and Empowerment) is an interagency initiative of the federal government to facilitate sustainable economic development with American Indian and Alaska Native communities. It serves as a one-stop shop for access to information, grants, loans, loan guarantees and technical assistance to these groups. Through co-operation with the Minority Business Development Agency, Native American Business Development Centers are operated by the National Center for American Indian Enterprise Development to provide management and technical assistance for Native Americans in key states – from start-up through expansion. Financial and loan packaging, business plan preparation, procurement assistance, minority certification assistance and 8(a) assistance are included in the array of services provided. Consulting services are offered through a Native American Business Consultant Program and a Marketing and Procurement Services Program. The Bureau of Indian Affairs of the Department of the Interior operates a Loan Guaranty Program to stimulate entrepreneurship through the establishment and growth of Indian economic enterprises. The maximum loan that can be guaranteed for individuals is $500,000 and for Tribes, up to $5.5 million. Other special programs are targeted to Hispanics, Vietnamese and others.

**Veterans**

The SBA hosts an Office of Veterans Business Development, which serves veteran entrepreneurs by formulating, executing and promoting SBA policies and programs to provide

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80 Based on the NBBTA website (www.myfreeoffice.com/nbhta/nbhta3.html).
82 www.ncaid.org.
assistance to veterans who want to start a business. In 1999, Congress passed the Veteran’s Entrepreneurship and Small Business Development Act to qualify all veterans for SBA assistance programs (www.sba.gov/VETS/acts.html). The passing of this Act was a response to strong lobbying by Veteran Advocate Groups.

**Networks**

There are dense networks for entrepreneurship in the US – for entrepreneurs, for researchers and educators, and for practitioners and policymakers. Practically every group of ‘entrepreneurs’ – women, youth, students, Hispanics, African-Americans, home-based business owners, micro-entrepreneurs, growth-oriented entrepreneurs, etc. have started an association for the purposes of networking and exchanging experiences. Some examples are the National Association for the Self-Employed (NASE), the American Association of Home-Based Business (AAHBB), the National Association of Women Business Owners (NAWBO), the National Federation of Independent Business (NFIB), the National Indian Business Association, the Collegiate Entrepreneur’s Organization (C-E-O) and the Entrepreneur Of The Year Institute, to name only a few.

There are also extensive networks for service providers like the National Business Incubator Association (NBIA) and the Small Business Institute’s Directors Association (SBIDA), and for researchers and educators such as the United States Association for Small Business and Entrepreneurship (USASBE). These organizations hold annual events, provide information to members, and promote the exchange of knowledge and ‘best practice’.

At the policy level, the White House Conference on Small Business is an example of networking between and among entrepreneurs, policymakers and service providers to enhance a better understanding of each other’s perspectives and positions.

**Access to Financing and Seed Capital**

The US is very advanced in addressing the financial start-up needs of entrepreneurs. The SBA, the largest single financial backer of small businesses, does this by funding several financing programs, ranging from loan guarantees to micro-loans for women and minority entrepreneurs, to community venture capital programs for emerging businesses (504 loans, MicroLoan Program, Loan Pre-Qualification Loan Program, SBA 7(a) Loan Guaranty Program, etc.). The SBA does not, however, do any direct lending to businesses. In 1998, the SBA offered technical and management assistance to over one million small business owners and had a portfolio worth more than $45 billion in business loans, loan guarantees and disaster loans. It should be noted that according to Federal Reserve Statistics only 1% of loans to small business come from government sources. The SBA also improves the search process between entrepreneurs looking for private investment and the ‘angel-investor’ community through initiatives like ACE-Net. It has innovated in its approach to improve

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access to financing, to reduce the cost of micro lending and to simplify the loan application process.

The private banking industry in the US is also very competitive. Several of the thousands of bank have targeted the small business sector and have innovated to meet their needs. Some of them, like Wells Fargo, have adopted credit-scoring schemes to reduce the transaction costs of small loans, while others have moved to small business credit cards with pre-approved limits. The government requires banks to report regularly on their small business lending practices and to monitor the share of loans to small firms versus large firms. For the past five years, the Office of Advocacy has published Bank Lending Studies, which enable banks to benchmark themselves against competitors.

**Loan Guaranty Program**

Through the SBA 7(a) Loan Guaranty Program\(^7\), the SBA provides an 85% guarantee to over 7,000 banks and private lenders for small business loans in the range of $25,000 to $2 million (85% guarantee for up to $150,000 and 75% over $150,000). Interest rates are pegged at no more than 2.25% over the lowest prime rate for loans that mature within seven years and up to 2.75% for loans of over seven years. The nominal fee charged to the entrepreneur by lenders for this service ranges from 0.25% - 3%. Most sectors are eligible. In 1999, the SBA guaranteed $9.5 B in loans to almost 40,000 small businesses. The SBA also guarantees export working capital loans, international trade loans, and CAPLines to help small businesses meet their short-term and cyclical working capital needs. These loan guarantee programs fill a financing gap for small firms that lack the collateral security to obtain traditional bank financing and also serve to help novice entrepreneurs and lenders gain experience in small business lending.

The most popular of the SBA loan programs, the LowDoc Loan, uses a one-page application form and promises rapid turnaround on the approval process for loans up to $150,000 (2-3 days).\(^8\) The SBA guarantees 85% of the loan.

**Micro-Loans**

The 7(M) Microloan Program is a program whereby the SBA licenses a network of approved intermediaries to make microloans (from $100 to $35,000) to small businesses for the purchase of machinery, equipment, fixtures, inventory and working capital.\(^9\) The intermediaries also provide technical and management assistance to the owners. This program was started to ‘fill the financing gap’ for micro-enterprises with loan needs below the threshold that traditional banks like to consider (i.e., loans of less than $35,000). The average loan size is $10,500. About 45,000 loans were made in 1999; the goal was to double the size of the program in 2000. In addition to SBA programs, several local and state governments provide micro-loan programs to stimulate economic development in economically

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\(^7\) Financing Your Business: SBA Loan programs, [www.sba.gov/financing/indexloans.html](http://www.sba.gov/financing/indexloans.html); The Small Business Startup Kit, SBA Assistance at [www.sba.gov/starting/sbaassis.html#services](http://www.sba.gov/starting/sbaassis.html#services).

\(^8\) [www.sba.gov/financing/frlowdoc.html](http://www.sba.gov/financing/frlowdoc.html).

\(^9\) [www.sba.gov/financing/frmicro.html](http://www.sba.gov/financing/frmicro.html).
disadvantaged regions and to increase the participation of women and minorities in entrepreneurship.

**Venture Capital**

There are both publicly supported and private sector sources of venture capital in the US. The government supports the development of venture capital funds through the Small Business Investment Corporation Program (SBIC) which is administered through the SBA. Almost 400 privately organized and managed SBICs have been licensed by the SBA. With their own capital and funds borrowed at a favourable rate from the federal government, SBICs provide venture capital to small businesses. In 1997, almost $2.5 million was disbursed.

To fill the gap for a more equal distribution of venture capital funds across the country, the SBA has launched the SBA New Market Investment Fund. This is for SBA-backed private sector venture capital companies that will invest in small businesses located in low and moderate-income areas. This is part of the ‘New Markets Initiative’ aimed at equalizing economic opportunity for small businesses located in lower opportunity areas. To provide more opportunities for women to compete for venture capital funds, the SBA backed three women-managed venture capital companies in 2000. The Milken Institute (2000) is advocating for the development of venture capital funds targeted at minority-owned businesses.

The amount of classic venture capital (venture capital invested in start-up and growing companies) has increased dramatically in the 1990s from $2.4 billion in 1991 to $45.9 billion in 1999. Almost all of the 1999 investments were in technology firms. Two-thirds of 1999 venture capital investments were made in five states, 43% in California alone. Zacharakis et al. (2000) conclude that regions with little or no venture capital typically lack both opportunities and entrepreneurs. The average venture capital investment is about $13 million and does not meet the need for the smaller amounts of risk capital normally required by new start-ups. In 1999, less than a quarter of US venture capital found its way into early stage firms (Zacharakis et al., 2000, p. 18). Thus, there are venture capital gaps on the basis of geography, size of firm, sector and stage of business development.

**Angels**

Zacharakis et al. (2000) estimate that angels invested more than $54 billion in new ventures in 1999, suggesting that this is a major source of funds for new start-ups. One of the challenges is how to increase the probabilities of an angel investor matching with an entrepreneur who needs risk capital for a new or early stage venture.

Asymmetry of information is seen as the major problem and thus government is carving out a brokering role. ACE-NET is such a new initiative. ACE-NET is an electronic capital network that lists the securities offerings of small companies on an Internet site and can be accessed by both investors and entrepreneurs. The network includes universities, state

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91 Zacharakis et al., 2000, p. 18.
governments, small business development centres and venture capital companies. ACE-NET is governed by simplified securities rules, which save entrepreneurs and investors significant time and money in doing deals.

In addition to ACE-NET, there are many web-based angel networks and matchmaking services in the US. All one has to do is spend a little time on the Internet. The more difficult part of the process may be making the ‘right’ contacts with the ‘right’ chemistry and ‘right’ deal structures.

According to the SBA, there is still a need for targeted tax incentives to stimulate private sector angel investments.92

Research: Entrepreneurship/SME Issues

There is probably more research on the American entrepreneur than in any other country in the world. The SBA is required by Congress to produce an annual report on The State of Small Business, and special reports on women-owned and minority-owned business are also prepared. The SBA and the Office of Advocacy also contract a large amount of small business research, which can be accessed on the SBA website (www.sba.gov). There is extensive research on the demographics of business owners and self-employed persons and the characteristics of new and existing firms. As of 1996, a new longitudinal database has been developed, the Business Information Tracking Series (BIT), which covers all US establishments with employers and allows a study of the underlying dynamics of business births, deaths, expansions and contraction over time.

The Entrepreneurship Research Consortia (led from Babson College) is researching the incidence of nascent entrepreneurship in the US and the gestation process involved in the starting of a new firm. The Global Entrepreneurship Monitor is investigating the level of entrepreneurial activity in the US compared to a number of other countries. A new national research project to monitor entrepreneurial activity by region, the Regional Entrepreneurship Monitor, will be launched later in 2001. Research studies on growth firms, micro-firms, family firms, ethnic firms and women-owned firms are numerous, as are the opportunities for sharing research findings.

The existence of foundations, such as the Kauffman Foundation Center for Entrepreneurial Leadership, the NFIB Education Foundation and private sector research institutes, some of which are located in banks (e.g., Wells Fargo) have contributed substantially to the funding and conduct of entrepreneurship-related research. The NFIB Education Foundation, the research and organization arm of the National Federation of Independent Business, also produces a significant amount of research on small business problems and priorities, business starts and stops and small business policy issues.

The US is rich in entrepreneur-oriented research and researchers and is the home to several entrepreneurship and small business journals and annual research conferences.

SECTION 2: EXPERIENCES/EVALUATION OF IMPACT

Evaluating the Effect of Programs and Policy Orientation

The US government has introduced several programs aimed at facilitating enterprise start-ups and development. These include programs administered by the Departments of Agriculture, Commerce, Defense, Energy, Transportation and independent agents such as the Export-Import Bank, the National Institutes of Health and the SBA. The goals of these various bodies tend to differ because the target groups are different. The Cato Institute has estimated that the federal government spends roughly $65 billion each year (close to 1% of GDP) on more than 125 programs that provide direct assistance to USA firms. However, little is known about the economic impact of these programs. Little of these programs are evaluated, in part because of the methodological difficulties involved.

Zacharakis et al. (1999) suggest that the US government is not that serious about tracking and measuring entrepreneurial activity and thus there is no way to measure the impact of changes in federal or state policies on entrepreneurial activity. They cite three private sector initiatives to fill this gap, the GEM project, the Wells Fargo/NFIB time series and Cognetics, Inc.

However, the SBA does conduct research to measure the reach and impact of SBA programs and initiatives. They have developed measurements and indicators for:

a. small business sector outcomes, such as increased diversity in business owners, increases in the number of small businesses, increase in the number of small business jobs, increase in small business growth in HubZones and rural and tribal areas, increases in small business export sales and reduced regulation cost to small businesses;

b. customer (client) outcomes, such as number of start-ups, growth in jobs and sales, increases in survival rates, growth in export sales and level of customer satisfaction;

c. product line outcomes for each of its program areas. For example under ‘Financing’, they measure the number of SBA loans, small businesses financed, surety bonds guaranteed, firms graduated from procurement certification and SBIR grants. Under ‘Entrepreneurial Assistance’, they measure the number of assisted clients and clients counselled and trained. Under ‘Voice for Small Business’, they measure the volume of information disseminated, the number of conferences organized and the number of hearings attended.

SBA performance measures and evaluation plans are outlined in the FY 2001-2006 SBA Strategic Plan.

Evaluations of counselling assistance have been carried out by the Association of Small Business Development Centers and the Small Business Institute Directors. These evaluations bode for the positive impact of counselling interventions on job creation, firm start-up, survival, and growth.

SECTION 3: OBSERVATIONS AND CONCLUSIONS

A: General View

The USA is often described as having a strong entrepreneurial culture. The focus on a free-market economy, a relatively small role for government and the social importance attached to self-reliance have made entrepreneurship a respectable, indeed admired, pursuit. A national poll of adult Americans showed that over 90% would approve of their children starting their own businesses.\(^{94}\) A more recent survey estimated that an adult in almost a quarter of households were either starting a business, owned a business or was informally investing in someone else’s business.\(^{95}\) There also appears to be no stigma attached to failure, and failure is not automatically assumed to be the owners’ fault. Evidence suggests that many (successful) entrepreneurs have failed in the past; in one study of bankruptcy more than one-third of the entrepreneurs had owned another business before starting the bankrupt business.\(^{96}\) The strong pro-entrepreneurial culture has helped to shape institutional characteristics of the US economy that facilitate business start-ups, reward firms based on their economic efficiency and allow rapid, low-cost exit for entrepreneurs who succeed, fail or simply want to move on to a new venture (OECD, 1998). However, in the past, no specific policies were aimed at improving the cultural aspects of entrepreneurship. Most SBA initiatives, at the moment, are aimed at specific groups (e.g. women and minorities) or regions. Only recently do politicians seem to have taken a keen interest in this.

The most recent general views of the situation in the US are presented in the 1999 and 2000 Global Entrepreneurship Monitors. Although overall, the 1999 GEM report authors reported that the entrepreneurial economy in the US functions well, they recommended some adjustments that may facilitate a smoother working and enhanced system.

- Entrepreneurship education – GEM’s assessment is that the level of entrepreneurship education at the post-secondary is increasing rapidly but is not sufficiently interdisciplinary. Only 16% of college students major in business and not all business students take entrepreneurship electives, so the number of students actually exposed to entrepreneurship is quite low. The GEM report states a need to expand entrepreneurship education to engineering and technical schools within the universities


\(^{96}\) The State of Small Business 1996.
and also in primary and secondary schools. The majority of high school students do not immediately go on to post-secondary education so they have no possibility of being exposed to entrepreneurship, even though they may have ‘potential’ to start a business. By integrating entrepreneurship curriculum in the public school system, all students will have the opportunity to learn about entrepreneurship.

- Government Assistance Programs – the view is that there are too many departments, agencies and levels of government offering small business support assistance and because of this, people actually have difficulty finding out what is available and how it might meet their needs. GEM interviewees recommended that a ‘clearing house’ for government programs be established to reduce the confusion and complexity in the minds and experience of entrepreneurs and that compliance pressures be simplified for new business start-ups (complaints about the difficulty of ‘keeping on top of all the reporting requirements’).

- Response to Cultural Shifts – rural communities where resources are scarce are in particular need of help in adjusting to the new economic realities. Governments can do a lot to facilitate local adaptation by providing new educational programs, infrastructure and assistance with regulatory policy changes.

- Gap in ‘Seed-Stage’ Financing – there is confusion about whether a financing gap exists. If so, it is seen to apply to certain sectors, like high-tech, or to certain groups like women or minorities. More research is needed in this area.

- Successful Role Models – (even in a country like the US!), there needs to be more activity in create role models at the local level. The GEM report authors expressed the view that the US may, in fact, becoming complacent.

Acs and Audretsch (2001) observe that the most salient shift in SME policy over the past fifteen years has been a shift from trying to preserve SMEs that are confronted with a cost disadvantage due to size inherent scale disadvantages, towards promoting the start-up and viability of small entrepreneurial firms involved in the commercialization of knowledge. The second fundamental shift is the locus of enabling policies, which are increasingly at the state, regional and local level.  

**B: Assessment of Entrepreneurship Policy Emphasis**

The US is strong in the Motivation area. There is widespread awareness of entrepreneurship in society through the mainstream media (television and print coverage) and through entrepreneurship awards and recognition programs. The culture of entrepreneurship is embedded in the social system through a dense network of people who have owned, currently own, are trying to start a business or are investing in the start-up of someone else’s business. This totals about 40% of the adult population, much higher than for other countries involved in the nascent entrepreneurship study. The US is weak on integrating entrepreneurship in the

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school system. Almost 70% of American youth would like to have their own business someday but have weak perceptions of their ability to actually do it. There are limited opportunities for them to be exposed to the required knowledge and skills in traditional classroom environments. Although some innovative initiatives exist at the elementary and secondary school levels, they are not pervasive and thus are not preparing the future generation of entrepreneurs. Much work needs to be done to ‘entrepreneurialize’ the learning environment.

On the Opportunity side, it is relatively easy to start a business in the US and not difficult to restart should a venture fail. There is an extensive business support system, lots of knowledge websites, micro-loan programs, small business guarantee programs, angel investors, business advisory services and entrepreneur-related associations and networks. How evenly these supports are distributed across the country is questionable. Regional disparity seems to be a challenge, e.g., entrepreneurializing inner cities, native reserves, etc.

On the Skills side, as mentioned above, more could be done to promote entrepreneurship in the K-12 system. Although post-secondary students have more potential to be exposed to entrepreneurship in the classroom, this is limited primarily to business students and thus eliminates most students; in fact the majority of students who will ultimately be the ones to start businesses! For the most part, entrepreneurship education has yet to find its way into non-business areas of education. Entrepreneurship training programs exist but there is no evidence of the extent of these on a local level and to what degree potential entrepreneurs are engaged in them.

C: Key Success Factors

Establishment legislation makes it relatively easy to start a firm in the US: Compared with other countries, relatively few procedures must be carried out before and after the registration, and the registration process is not very time-consuming. Enterprise creation involves few regulations; in some European countries craft related activities require qualifications such as an apprenticeship or specific post-apprentice experience, which can take several years to acquire.

Legislation also allows easy exit from business: The US system offers the bankrupt individual a ‘clean state’ by way of discharge: the entrepreneur loses his assets to his creditors but cannot be pursued for any remaining claims which have not been met. While this approach has some disadvantages, it does allow for considerable flexibility and may help to reduce any stigma attached to business failure. In other countries, by contrast, legislation places more emphasis on creditor protection and, in some cases, the absence of discharge clauses means that failed entrepreneurs can be pursued for several years, a situation which is not conducive to risk-taking activity (OECD, 1998).

Antitrust legislation fosters competition: The country’s antitrust legislation fosters free competition as the most efficient means of allocating social resources. It is recognized that competition is more likely to occur in an industrial structure characterized by a large number of competing firms than in concentrated industries dominated by a few large competitors.
Antitrust legislation creates the environment for this kind of industrial structure to develop and be maintained.

**Labour market conditions favour entrepreneurship:** Widely observed features of the US labour market, such as high degrees of flexibility and mobility, assist the process of entrepreneurial activity. Little formal regulation of labour contracts and light-handed employment protection legislation facilitate the adjustment of labour inputs associated with high rates of turbulence. Moreover, decentralized wage agreements with limited union presence (except in a few sectors) make employee compensation flexible, and this trend is reinforced by a greater use of performance-based pay, particularly in new business ventures, where stock options are often offered (OECD, 1998).

**Taxation and the regulatory burden:** Entrepreneurs in the US benefit from a relatively low overall tax burden. Moreover, because of a generous carry forward and backward of losses some 40% of companies have no taxable profits. American entrepreneurs cite the tax burden and the complexity of the tax system among the most severe problems they face but the effective tax rate is still lower than in other major countries. Although the tax burden remains a concern, attention has turned to focus on the high compliance burden. Research by the SBA shows that, in 1992, the average annual cost of regulation, paperwork and tax compliance amounted to $5000 per employee in firms with fewer than 500 employees and $3400 per employee in large firms (OECD, 1998).

**Financing a (starting) business is relatively easy in the US:** This is the result of SBA policy and the positive attitude of banks towards lending the capital needed. The ACE-Net project provides a precedent-setting solution to the problem of raising equity capital for small companies seeking investments.

**D: Insights, Observations and Lessons Learned**

- Over 99% of all US firms are small businesses: 80% have fewer than 20 employees. Small firms employ 53% of the private sector labour force and 48.5% of the total labour force.
- The self-employment rate is less than 10%. Own-account self-employment has been growing slowly compared to Canada. Employment growth is coming from employer firms.
- The business entry rate averages just over 11% per year; the exit rate has been averaging about 9.5%.
- US data on the number of entrepreneurs, self-employed persons and small businesses is confusing. For example, some statistics report only employer firms, some supplement this with full-time self-employed numbers, some report on all persons filing business tax returns, some make references to establishments and others to firms. Zacharakis et al. (1999) call attention to this problem in the US GEM report.
• The services sector is the primary contributor to employment growth in the US economy – the top eight entrepreneurial industries are all in the services sector. This is where majority of new firms’ births are.

• Large firms (over 500 employees) account for a high share of employment compared with most other OECD countries.

• Ten percent of American adults were involved in trying to start a business in 2000, much higher than the average for 21 countries in the 2000 GEM study.

• Exposure to entrepreneurship in the US is extensive – the nascent entrepreneur study indicates that as many as 40% of households have somebody in them who are currently own a business, are in the process of trying to start a business, have owned a business in the past or have invested in a small business. Since the more exposed one is to entrepreneurship, including to small business owners, this penetration of entrepreneurial experience in the economy contributes to the favourable culture.

• One of the major trends that will impact entrepreneurship is the fact that immigrants will account for as much as half of net population growth over the next decades.

• The US started early with support for the small business sector. This was driven by anti-trust, competition policies. The SBA was legislated in 1953 under the Small Business Act. It has primary authority for advocating for the interests of small business within government and for addressing market failures that prevent small firms and entrepreneurs from competing fairly in the economy. While the SBA provides an umbrella for small business advocacy and business assistance, other federal departments and state governments have their own small business programs. The US system may not be as integrated and co-ordinated as it at first appears and, from the point of view of the NFIB, would benefit from consolidation (NFIB Small Business Policy Guide, Chapter 12).

• According to the 1998 State of Small Business report, ‘the crucial barometer for economic and social well-being is the continual high level of creation of new and small firms in all sectors by all segments of the economy’ (p. 75).

• The country has no single policy or large program to foster entrepreneurship. However, there are many small programs and policies that aim at promoting small business, rather than entrepreneurship per se. As is the experience elsewhere, not many of these programs are subjected to systematic evaluation.

• It is relatively easy to start a business and the cost of failure is not too high. The US meets the criteria for the ease of entry and exit necessary for an entrepreneurial economy.

• There are lots of vehicles to promote entrepreneurship – magazines (Inc, Success, Entrepreneur, etc), television (Small Business 2000, The American Entrepreneur, Business Unusual, SBTV, etc.), radio (NPR’s Entrepreneurial Stories segments), conferences (White House Conference on Small Business, Ernst&Young Entrepreneur
of the Year events), awards (EOY program, President’s Small Business Person of the Year), etc. This is one area where the US excels – creating positive images of entrepreneurs and building credible role models; the entrepreneur as hero.

- There are lots of entrepreneur-oriented business networks and associations of entrepreneurs: these grow everyday and also help build the profile. One of the lessons learned from the US example is that density and proximity matter in the development of entrepreneurship!

- It is interesting, that even in the US, the most entrepreneurial country in the world, that the Kauffman Foundation and the National Governors’ Association are advocating that more focus be directed to new start-ups in each State’s economic development policies. A tiny portion of economic development funds (less than 1%) is currently supporting entrepreneurship development activities. It seems that the ‘new economy’ is an opportunity to ramp up the entrepreneurship agenda.

- There is a need to educate and advocate with state economic development agents and policy makers about what is needed to create the entrepreneurial economy. They need more orientation, knowledge and tools. This is a big need in all of the countries in this study.

- The US is very advanced in targeting entrepreneurship programs for women and minority groups. **This may be the best practice in this area.** There are numerous women-focused support organizations and programs in the US which have contributed substantially to the rise of female entrepreneurship – Women’s Business Centers, training and mentoring programs, business networks, loan programs and government offices. In addition to SBA loan programs geared to women, both the Wells Fargo Bank and Bank One offer preferred loan programs to women entrepreneurs. There are also several initiatives targeting minority enterprises.

- Financing a (starting) business is relatively easy in the USA. This is the result of SBA policy and the positive attitude of banks towards small business lending.

- The SBA seems to have responded to the need to help small businesses present themselves properly to increase their chances of attracting financing – e.g., the one-stop capital shops and the pre-qualification loan process geared to guiding clients through the loan packaging process and simplifying the application and approval process.

- The US is big on small business access to procurement contracts – this is an area where small firms are disadvantaged. There are 5% set asides for women and minority-owned businesses and serious efforts are made to ensure that 23% of all federal procurement contracts are awarded to small firms.

- The SBIR Program has been an important contributor to the commercialization of small business research leading to significant innovations and rapidly growing entrepreneurial firms.
Entrepreneurship education is not widely integrated in the K-12 education system although there are recent advocacy efforts calling for a national initiative to introduce entrepreneurship curriculum. Post-secondary opportunities to take entrepreneurship courses are primarily limited to Business students. There are a number of community-based youth entrepreneurship programs but no national strategic policy frameworks to promote entrepreneurship as a career option for young people, similar to those being initiated in other countries (e.g., Canada, Taiwan, Sweden, the UK, the Netherlands). Private foundations, such as the Kauffman Foundation Center for Entrepreneurial Leadership, the Edward Lowe Foundation and the Coleman Foundation are major players in promoting and supporting entrepreneurship education initiatives and activities.

The US is home to the only incidence of major private sector driven advocacy efforts in support of entrepreneurship, per se. These are the Kauﬀman Foundation for Entrepreneurial Leadership and the National Commission on Entrepreneurship.

The National Governors Association Center for Best Practices is supporting a Policy Academy on Entrepreneurship to help ten states develop and implement policies and plans to encourage and foster higher levels of entrepreneurship activity in their economies. Research, conferences, newsletters and sharing of good practice is hoped to lead to more intensive policy support for entrepreneurial growth in the future.

The private sector community is generally supportive of small business; large companies and banks promote small business/entrepreneurship and target this sector with products and innovative services designed to meet their needs.

There are some measurements of the importance of entrepreneurship in state economic development strategies – governors’ policy statements for references to entrepreneurship, the percentage of state economic development funding devoted to entrepreneurial development, and the extent to which state public officials recognize the contributions of entrepreneurs.

The US has innovated in the development of measures for ‘entrepreneurial hot-spots’ and ‘entrepreneurial industries’ to see where growth is coming from (Cognetics, Inc.).

There is considerable regional variation in the level of entrepreneurial activity and a somewhat uneven allocation of resources to support entrepreneurship. Some parts of the US are definitely more entrepreneurial than others and have more access to venture capital, entrepreneur-networks, technology, and other opportunity resources. Implementation of the Regional Entrepreneurship Monitor project should prove to be very interesting.
ANNEX: OVERVIEW OF THE SME SECTOR

Definition of Small Business

In the US, a small business is defined as one with under 500 employees. A large business is one with 500 or more employees.

Number of Small Businesses and Small Business Employment

In 1998, there were an estimated 5,744,900 employer-firms.\(^98\) In addition, there were an estimated 10 million self-employed persons (where self-employment was a primary activity)\(^99\), bringing the total to something like 16 million businesses, of which 99.7% had under 500 employees. Only about 15,600 of these businesses had more than 500 employees (less than 0.3%). Data for 1996 (the latest year for which employment size breakdowns are readily available from the SBA) indicates that just over 60% of businesses employed fewer than four employees, almost 80% employed under 10 employees, 90% employed less than 20 employees, 98% employed fewer than 100 employees and only 0.3% employed more than 500 employees (Table 1). The distribution of employer firms by size categories was fairly consistent over the 1988-96 period with a small shift towards a larger share of employment in large firms.

Table 1 - Employer firms and employment by firm size category, 1996

<table>
<thead>
<tr>
<th>Firm Size Category (number of employees)</th>
<th>Number of firms</th>
<th>Distribution of Firms (%)</th>
<th>Employment</th>
<th>Distribution of Employment (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 4</td>
<td>3,327,783</td>
<td>60.7</td>
<td>5,484,712</td>
<td>5.4</td>
</tr>
<tr>
<td>5-9</td>
<td>996,356</td>
<td>18.2</td>
<td>6,541,288</td>
<td>6.4</td>
</tr>
<tr>
<td>10-19</td>
<td>585,844</td>
<td>10.7</td>
<td>7,854,502</td>
<td>7.7</td>
</tr>
<tr>
<td>20-99</td>
<td>476,312</td>
<td>8.7</td>
<td>18,643,192</td>
<td>18.2</td>
</tr>
<tr>
<td>Subtotal &lt;100</td>
<td>5,386,295</td>
<td>98.3</td>
<td>38,524,694</td>
<td>37.7</td>
</tr>
<tr>
<td>100-499</td>
<td>76,136</td>
<td>1.4</td>
<td>14,649,808</td>
<td>14.3</td>
</tr>
<tr>
<td>Subtotal &lt;500</td>
<td>5,462,431</td>
<td>99.7</td>
<td>53,174,502</td>
<td>52.0</td>
</tr>
<tr>
<td>Over 500</td>
<td>15,616</td>
<td>0.3</td>
<td>49,012,795</td>
<td>48.0</td>
</tr>
<tr>
<td>Total</td>
<td>5,478,047</td>
<td>100.0</td>
<td>102,187,297</td>
<td>100.0</td>
</tr>
</tbody>
</table>


Small firms contributed 52% of the jobs in employer-firms; the less than 1% of large firms were responsible for the remaining 48%. (Eighty-five percent of total US employment is in the private sector; 15% in government. Small business share of total employment was 48.5%

\(^98\) Small Business Economic Indicators 1998, Small Business Administration, p. 4.
\(^99\) Ibid, p. iii.
in 1999.\textsuperscript{100} By 1998 employment in small businesses reached 55.4 million while large firm employment grew to 50.6 million.

Firms with less than 10 employees, which make up almost 80% of all firms, employ less than 12% of the private sector. This is a smaller employment share than for other countries in this study. The 98% of firms with less than 100 employees, employ less than 40% of the private sector.

The average firm size in the US is 18.6 employees, however, this ranges from an average of 9.7 employees for small businesses to an average of 3,138 employees for large firms. Since 1990, the average employment size of a small firm has decreased (from 9.9 employees) while the average employment size of a large firm has increased (from 3,087 employees).

Over 53% of US businesses are home-based;\textsuperscript{101} this decreases to about 18% for employer-firms.

\textbf{Sector Distribution of Businesses}

The majority of small businesses are in the services sector (40%) followed by retail trade (20%) and construction (12%). See Table 2.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|}
\hline
\textbf{Sector} & \textbf{Distribution of Small Businesses by Sector (%)*} & \textbf{Share of Small Business Employment by Sector (%)**} \\
\hline
Agricultural Services & 2 & 1.1 \\
Construction & 12 & 9.7 \\
Manufacturing & 6 & 13.0 \\
Transportation & 4 & 4.3 \\
Communications & & \\
Wholesale Trade & 8 & 8.1 \\
Retail Trade & 20 & 21.0 \\
Services & 40 & 37.0 \\
Finance, Insurance & 8 & 5.6 \\
& Real Estate & & \\
\hline
\end{tabular}
\caption{Sector Distribution of Small Employer-Businesses and Small Business Employment}
\end{table}

The largest share of small business employment is in the Services sector followed by Retail Trade and Manufacturing, but the distribution of employment by sector differs for the small and large-firm sectors. The Services and Retail sectors employed about 58% of all small business employees. About 53% of employment in large firms were in Services and Manufacturing.\textsuperscript{102} Small firm employment is more heavily distributed than large firm

\textsuperscript{100} NFIB \textit{Small Business Policy Guide}, p. 25.
\textsuperscript{102} Small Business Economic Indicators 1998, p. 2.
employment in the Services sector (37% versus 32%) and Construction (9.7% versus 1.2%) while large firm employment is more highly represented in Manufacturing (22.7% versus 13.0%) and Transportation, Communications and Public Utilities (8.3% versus 4.3%). From 1997-98, business services and personal services generated the most net new jobs.

Self-Employment Trends

According to analysis by the NFIB, there were 12,382,000 non-agricultural self-employed persons in March 1999, 9.6% of all working people.\textsuperscript{103} (About 1.5 million additional persons are self-employed as farmers or ranchers.)\textsuperscript{104} The number of self-employed people peaked in 1994 at 12.8 million, an increase of over a million between 1988 and 1994. From 1994 to 1999, it declined by more than a half a million. Since 1979, self-employment in Canada has grown by 80% and in the US by just under 40%. By 1997, the self-employment rate in Canada was 18% – 21% for men and 13.9% for women (self-employment as a percent of total employment) and in the US it was about 11% (13% for men and 7.6% for women).\textsuperscript{105} Very little US employment growth came from increases in self-employment during the 1990s. Depending on the data set analysed, the contribution of self-employment to overall employment has been about 1% or less than 11%, whereas in Canada, for example, self-employment has accounted for about 80% of the net employment gain from 1989-1997.\textsuperscript{106}

The percentage of self-employed women is higher in the US than in any other country in this study, an estimated 38% of American small business owners in 1999.\textsuperscript{107}

Growth Rates in the SME Sector

The total number of firms in the US has been growing every year since 1992 at an average annual rate of 1.6%, but the growth rate in the number of large firms has been slightly higher than that for small firms. The number of firms grew by 2.6% between 1997-98.\textsuperscript{108} Most of the growth has been coming from firms with employees, rather than firms with no employees, and from Service sector and Retail Trade. Private sector employment grew by 1.5% a year from 1990-1996; this varied from 0.9% per year for small firm employment to 2.2% per year for large firm employment. Between 1998-99, small business employment grew by 0.5%.

Self-employment numbers decreased by 1.9% between 1997-98.\textsuperscript{109} The reasons for this have likely been the tight labour market and a decline in the influx of women into the labour market, a major contributor to the rise in self-employment during the 1970s and 80s.\textsuperscript{110}

\textsuperscript{104} Ibid, p. 12.
\textsuperscript{106} For discussion of this, see Marilyn E. Manser & Garnett Picot, April 1999, p. 12.
\textsuperscript{107} Weeks, 1999.
\textsuperscript{109} Ibid, Table 1.2, p. A-2.
\textsuperscript{110} Ibid, p. 5.
SME Start-up, Survival and Exit Rates

A high rate of business entry and dissolution is seen as characteristic of a dynamic economy. Changing tastes preferences and new technologies and changes in demography and geography are all accommodated by the entry and exit of firms. The turbulence of business, defined as the effect of business entries and terminations on the total stock of firms, is significant in the US. In 1998, the annual rate of new employer business entries was 11.2% and the rate of terminations was 9.4%. By 1998 it was still not possible to track the level of churning in the ‘self-employed persons’ category; data was only available on the net increase in the total number of self-employed persons.

Both entry and termination rates have been fairly consistent since the early 1990s with annual formation rates ranging from 10.7% to 11.5% and annual termination rates ranging from 9.4% to 10.8% (Table 3).

Table 3 – Business Entry and Termination Rates, 1991-1998

<table>
<thead>
<tr>
<th>Year</th>
<th>Entry Rate (%)</th>
<th>Termination Rate (%)</th>
<th>Net Change (%)</th>
<th>Turbulence Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>10.7</td>
<td>10.8</td>
<td>-0.1</td>
<td>21.5</td>
</tr>
<tr>
<td>1992</td>
<td>10.8</td>
<td>10.3</td>
<td>0.5</td>
<td>21.1</td>
</tr>
<tr>
<td>1993</td>
<td>11.1</td>
<td>9.7</td>
<td>1.4</td>
<td>20.8</td>
</tr>
<tr>
<td>1994</td>
<td>11.0</td>
<td>9.7</td>
<td>1.3</td>
<td>20.7</td>
</tr>
<tr>
<td>1995</td>
<td>11.3</td>
<td>9.4</td>
<td>1.9</td>
<td>20.7</td>
</tr>
<tr>
<td>1996</td>
<td>11.3</td>
<td>9.7</td>
<td>1.6</td>
<td>21.0</td>
</tr>
<tr>
<td>1997</td>
<td>11.5</td>
<td>9.4</td>
<td>2.1</td>
<td>20.9</td>
</tr>
<tr>
<td>1998</td>
<td>11.2</td>
<td>9.4</td>
<td>1.8</td>
<td>20.6</td>
</tr>
</tbody>
</table>


Zacharakis, Reynolds and Bygrave (1999) propose that, in spite of the lack of good and consistently reported data, it is safe to assume that more than 600,000 new employer firms are started each year and that about 2 million business entities in the form of self-employment come into existence, i.e., 2.6 million new firms each year. This means approximately one new employer firm for every 300 adults in the US every year. Another one in 12 (8.3%) are involved in trying to launch a new venture.

Not all of the 525,000 employer-firm terminations in 1998 were the result of business failures. It is estimated that of every seven businesses that close, only one actually closes leaving unpaid obligations (14.2%). The rest close for voluntary reasons – the desire of the owner to enter a new field, for reasons of retirement or poor health, or other reasons.

Fewer than half of all new firms survive their first five years in business. Twenty percent are gone by the end of their first year in business, another 20% cease to exist by the end of year two, and by the end of the ninth or tenth year, about 25% remain. The three-year survival

\[ \text{111 Ibid, p. 7.} \]

rate is about 54%; the five-year survival rate is about 40%. According to RISEbusiness, the average age of a single location business is five years.

### Job Gains and Losses in the US Economy

The dynamic nature of the US economy is revealed by examining changes in the number of establishments and jobs over time. Establishment and employment changes are caused by establishment births and deaths and by employment expansion and contraction in existing establishments. Between 1990 and 1995, small businesses created three-quarters of net new jobs. Almost 70% of employment growth came from net establishment births – almost half from new firms created as part of existing establishments and 22% from net births of new firms. In other words, small firms added most of their new jobs through growth in existing firms while large firms added theirs through new establishments (The State of Small Business 1998, p. 62).

Table 4 shows where jobs came from during the 1995-96 year. It indicates that over one-third of new jobs were generated by new establishments and just less than two-thirds from the growth of existing establishments and that a third of jobs were lost due to firm deaths and two-thirds due to downsizing of existing firms. Overall, the number of jobs increased by almost 1.9 million because the number of jobs created by births exceeded the number lost due to deaths (by 915,000) and the number created by expanding firms exceeded those lost due to contracting firms (by 954,000).

### Table 4 – Changes in US Employment due to Establishment Births, Expansions, Deaths and Contractions, 1995-96

<table>
<thead>
<tr>
<th>Establishment Change</th>
<th>Number of Establishments</th>
<th>Number of Jobs</th>
<th>Job Creation Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Firm Births</td>
<td>697,460</td>
<td>5,908,300</td>
<td>36.5</td>
</tr>
<tr>
<td>Expanding Firms</td>
<td>1,714,600</td>
<td>10,284,770</td>
<td>63.5</td>
</tr>
<tr>
<td><strong>Net job gain</strong></td>
<td><strong>16,193,070</strong></td>
<td></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Terminating Firms</td>
<td>606,430</td>
<td>- 4,995,220</td>
<td>34.8</td>
</tr>
<tr>
<td>Contracting Firms</td>
<td>1,571,830</td>
<td>- 9,330,600</td>
<td>65.2</td>
</tr>
<tr>
<td><strong>Net job loss</strong></td>
<td><strong>- 14,325,820</strong></td>
<td></td>
<td><strong>100.0</strong></td>
</tr>
<tr>
<td>Overall job gain</td>
<td>1,867,230</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Adapted from Bednarzik, Robert W., The role of entrepreneurship in the U.S. and European job growth, Monthly Labour Review, July 2000.

It appears that the birth of new establishments is unrelated to the business cycle – employment growth from new establishments was consistently between 5.6% to 7.1% during the 1989-96 period, whereas employment in existing establishments does seem to be cyclical

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(i.e., affected by recessionary periods). Firm deaths also appear to be affected by business cycles – job dissolution is more concentrated because manufacturing plants are more likely to shutdown in recessionary periods.

It is also interesting to note that there are two kinds of birth establishments – those establishments which are original companies and those which are new businesses started by existing establishments (i.e., some form of corporate spin-off or additional location). During 1995-96, of the 5.9 million new jobs, 3.3 million were created by the birth of original firms (56%) and 2.7 million by new activities of existing establishments (44%).

The highest net job creation rates are in the services sector, accounting for 20% of the job increase. Because the survival and expansion rates of service businesses are also higher than that of manufacturing businesses, service businesses are very important to employment growth in the American economy.

An effort is also made in the US to identify ‘entrepreneurial industries’, those industries where: 1) the number of jobs created by establishment births is greater than the average, 2) where the ratio of births to deaths is greater than the rate for all industries and 3) where the ratio of jobs created by establishment births to jobs lost by establishment deaths is greater than or equal to the ratio for all industries. Eight ‘entrepreneurial’ industries were responsible for 43% of all jobs created by establishment births from 1990-95, including (in order of importance) business services, health services, eating and drinking places, engineering and management services, social services, real estate, amusement and recreation services, and communications/telecommunications. Interestingly, these are not industry sectors which government programs normally target.

Regional Variations

There are considerable variations in the number of employer firms and self-employed persons by state, i.e., in the dynamics of the small business sector by state. First of all, growth in the number of firms differs. The largest yearly growth in number of employer firms in 1998 occurred in the District of Columbia (9.2%), Kentucky (8.3%) and California (5.2%); Delaware, North Dakota and Vermont experienced the largest decreases (2.4%, 1.6%, and 0.2% respectively). However, it is interesting to note that for the same year there was a 21.1% increase in the number of reported self-employed persons in Delaware, while states like the District of Columbia, Kentucky and California saw decreases in the number of self-employed persons. This suggests that to give a true picture of growth in the small business sector, one has to combine the statistics for employer firms and the self-employed, even though there may be some overlap.

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121 Small Business Economic Indicators 1998, p. 4.
Secondly, there are wide regional differences in firm formation and termination rates. In 1998, Washington had the highest rate of new employer firm formation (21.4%), followed by Nevada (21.1%) and Utah (20.4%) while North Dakota had the lowest at 8.1% (Table 5). Generally, it also appears that states with the highest formation rates have positive net increases in the total stock of firms, while states with the lowest firm formation rates often experience a net decrease in the stock of firms, even though high formation rate states also tend to have high termination rates. Thus, high start-up rates matter.

Table 5 - States with Highest and Lowest Formation Rates by Termination Rate, 1998

<table>
<thead>
<tr>
<th>Top 10</th>
<th>Firms at beginning of 1998</th>
<th>Rate of firm formation (%)</th>
<th>Rate of firm terminations (%)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington</td>
<td>174,516</td>
<td>21.4</td>
<td>20.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Nevada</td>
<td>39,518</td>
<td>21.1</td>
<td>19.7</td>
<td>1.4</td>
</tr>
<tr>
<td>Utah</td>
<td>47,465</td>
<td>20.4</td>
<td>15.3</td>
<td>5.1</td>
</tr>
<tr>
<td>California</td>
<td>837,802</td>
<td>18.9</td>
<td>14.0</td>
<td>4.9</td>
</tr>
<tr>
<td>Colorado</td>
<td>120,898</td>
<td>17.1</td>
<td>13.7</td>
<td>3.4</td>
</tr>
<tr>
<td>Georgia</td>
<td>173,643</td>
<td>16.9</td>
<td>15.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Florida</td>
<td>355,429</td>
<td>16.7</td>
<td>15.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Idaho</td>
<td>36,003</td>
<td>15.7</td>
<td>17.8</td>
<td>-2.1</td>
</tr>
<tr>
<td>N. Carolina</td>
<td>159,745</td>
<td>15.7</td>
<td>14.8</td>
<td>1.1</td>
</tr>
<tr>
<td>Maryland</td>
<td>125,755</td>
<td>15.5</td>
<td>16.1</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bottom 10</th>
<th>Firms at beginning of 1998</th>
<th>Rate of firm formation (%)</th>
<th>Rate of firm terminations (%)</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Massachusetts</td>
<td>162,792</td>
<td>10.3</td>
<td>10.8%</td>
<td>-0.5</td>
</tr>
<tr>
<td>Ohio</td>
<td>228,772</td>
<td>10.2</td>
<td>10.7%</td>
<td>-0.5</td>
</tr>
<tr>
<td>Minnesota</td>
<td>121,688</td>
<td>10.1</td>
<td>9.9%</td>
<td>0.2</td>
</tr>
<tr>
<td>Connecticut</td>
<td>94,289</td>
<td>9.7</td>
<td>12.9%</td>
<td>-3.2</td>
</tr>
<tr>
<td>Vermont</td>
<td>20,014</td>
<td>9.7</td>
<td>13.0%</td>
<td>-3.3</td>
</tr>
<tr>
<td>Nebraska</td>
<td>43,344</td>
<td>9.5</td>
<td>12.5%</td>
<td>-3.0</td>
</tr>
<tr>
<td>Arkansas</td>
<td>58,526</td>
<td>9.2</td>
<td>11.8%</td>
<td>-2.6</td>
</tr>
<tr>
<td>S. Dakota</td>
<td>21,370</td>
<td>9.1</td>
<td>11.0%</td>
<td>-1.9</td>
</tr>
<tr>
<td>Iowa</td>
<td>67,453</td>
<td>8.1</td>
<td>9.9%</td>
<td>-1.8</td>
</tr>
<tr>
<td>N. Dakota</td>
<td>18,831</td>
<td>8.1</td>
<td>12.7%</td>
<td>-4.6</td>
</tr>
<tr>
<td>U.S. total</td>
<td>5,601,200</td>
<td>11.2</td>
<td>9.4%</td>
<td>1.8</td>
</tr>
</tbody>
</table>


David Birch, through his company Cognetics Inc, continues to advance knowledge about the emergence of entrepreneurial vitality in American States. Each year, he publishes a series of Corporate Demographics reports, including one called ‘Entrepreneurial Hot-Spots’. Birch et al., 1999. The goal of the report is to compare places in terms of their success in fostering start-up and growth companies. This is done by measuring the actual frequency with which new firms start, and young firms grow, in different places. The 1999 report ranked all 50 States according to Cognetics’ index measures (Table 6).

123 Birch et al., 1999.
### Table 6 – Highest and Lowest Entrepreneurial Hot-Spots

<table>
<thead>
<tr>
<th>State</th>
<th>Top Ten Hot-Spots</th>
<th>State</th>
<th>Bottom Ten Hot-Spots</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nevada</td>
<td>1</td>
<td>Iowa</td>
<td>50</td>
</tr>
<tr>
<td>Utah</td>
<td>2</td>
<td>Montana</td>
<td>49</td>
</tr>
<tr>
<td>Arizona</td>
<td>3</td>
<td>Hawaii</td>
<td>48</td>
</tr>
<tr>
<td>Georgia</td>
<td>4</td>
<td>South Dakota</td>
<td>47</td>
</tr>
<tr>
<td>Colorado</td>
<td>5</td>
<td>Wyoming</td>
<td>46</td>
</tr>
<tr>
<td>Maryland</td>
<td>6</td>
<td>North Dakota</td>
<td>45</td>
</tr>
<tr>
<td>Tennessee</td>
<td>7</td>
<td>New York</td>
<td>44</td>
</tr>
<tr>
<td>Virginia</td>
<td>8</td>
<td>Pennsylvania</td>
<td>43</td>
</tr>
<tr>
<td>Florida</td>
<td>9</td>
<td>Connecticut</td>
<td>42</td>
</tr>
<tr>
<td>North Carolina</td>
<td>10</td>
<td>Oklahoma</td>
<td>41</td>
</tr>
</tbody>
</table>

The most entrepreneurial states appear to be clustered in the southern and western regions of the US, areas where the general population is also increasing.
Organizations Consulted

1. Babson College ([www.babson.edu](http://www.babson.edu))
2. Center for Entrepreneurial Leadership Clearinghouse on Entrepreneurship Education ([www.celee.edu](http://www.celee.edu))
3. George Washington University
4. Kauffman Center for Entrepreneurial Leadership ([www.entreworld.com](http://www.entreworld.com))
5. Milken Institute
9. National Governor’s Association ([www.nga.org](http://www.nga.org))
12. Small Business Institute Directors’ Association ([www.SBIDA.org](http://www.SBIDA.org))

Bibliography and References


Small Business Administration. ‘Marketing Loans to Vietnamese Entrepreneurs.’ ([www.sba.gov/financing/vietnam.html](http://www.sba.gov/financing/vietnam.html)).


PART THREE
CHAPTER THIRTEEN

PATTERNS AND TRENDS IN THE SME SECTOR – SOME SELECTED COMPARISONS

In this chapter we examine patterns and trends in the small business sector of these economies, including a discussion of their SME definitions and patterns of entrepreneurial activity.

GDP Growth Rates

Over the 1995-99 period, the countries in this study experienced different rates of GDP growth. This ranged from a low of 2.5% in Sweden and the UK to a high of 9% in Ireland.\(^1\) Compared to the EU average annual growth of 2.7%, these countries are below average, above average and ‘high’ growth. Sweden and the UK fall in the below average group, Canada, Spain, the Netherlands, the US and Finland are in the above average group and Taiwan and Ireland are in the ‘star’ category (Chart1). It is interesting to note that of EU countries, Germany, Austria, Switzerland, Denmark and Norway were also in the below average group; Iceland, Luxembourg, Portugal and Belgium in the above average group, and France at the same rate of GDP growth as the EU average (OECD Employment Outlook, 2000).

*Chart 1: Five-Year GDP Growth Rates, 1995-99*

GDP Per Capita

These economies range in per capita GDP from a high of US$33,900 to a low of US$16,100 in Taiwan (Chart 2).

chart 2: GDP Capita for 10 Cases


Income Dispersion

Some research attempts to draw a relationship between the level of entrepreneurial activity and the level of income inequality in an economy. Income inequality is measured by the proportion of total household income controlled by the wealthiest 10% of the population divided by the proportion of total household income controlled by the bottom 10% of the population. The proposition is that higher levels of income inequality may provide higher levels of demand for goods and services, as well as a pool of financial resources for private investments in new firms (Reynolds et al., 2000, p. 20). The income inequality index for each of the countries in this case study is presented in Chart 3. The US has the highest level of income dispersion, with almost 30% of household income controlled by the top 10% of the population, compared to only 20% in Sweden.
Chart 3. Level of Income Inequality

Source: CIA World Fact Book, 2000 (based on data from 1990 – 1997). Income inequality index is derived by dividing the top 10% by the bottom 10%.

Industrial Structure Output to GDP

The Appendix provides data for the output from the agricultural, manufacturing and service sectors relative to GDP in each country. These figures are reproduced here because of the large differences between countries (Chart 4). Ireland’s manufacturing sector output, at 39% of GDP, is much more important to its economy than in the US, where it is 18% of GDP. In the US, service sector output is dominant at 80% of GDP. In fact, growth in the US economy has been heavily driven by service sector growth, both in terms of employment and output, compared to the European countries where it is under-developed. This has occurred as a result of globalization, technological developments, off-shore manufacturing (large manufacturers follow wage rates around the world) and a rising standard of living. This has created room for new service firms in both the personal/household and business sectors. Opportunities in the service sector have been readily pursued by Americans. Because start-up costs in the service sector are low and government has a policy of deregulation and minimal intervention, there are few barriers to entry. According to the Small Business Administration, the highest net job creation rates are also in the services sector, accounting for 20% of the job increase in the 1995-96 period. Because the survival and expansion rates of service businesses are higher than those in manufacturing businesses, service businesses are very important to employment growth in the US economy.

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Ireland has had as its major growth strategy to generate inward foreign investment. This has been the primary driver of exports and employment. The government has used its tax system to be globally competitive in this endeavour, offering tax concessions and relief to multinationals and investing heavily in workforce skills. It now boasts a high degree of technological literacy in the general labour market and is at full employment. Although government support is offered to help new, local enterprises, priority is placed on the manufacturing and internationally traded services sectors. Over the past decade, most of the employment growth has come from locally traded services, but most of the output growth has come from the manufacturing sector. Small, local and micro-enterprise firms contribute significantly to job creation, but productivity gains are most likely to come from larger firms, particularly foreign-owned firms. In its enterprise policy, the Irish government is targeting higher-potential, technology-focused start-ups in the manufacturing and internationally traded services sectors.

The private services sector is also not well developed in countries like Finland, the Netherlands and Sweden. The government itself provides many services that are offered by the private sector in other countries. Recognizing that the service sector is under-developed, the Finnish government is undertaking efforts to promote entrepreneurship in the social services sector (e.g., care provision) by bringing service procurers (municipalities) and service provider companies together to discuss opportunities (‘Hovia 2000’). To promote opportunities for new businesses in the personal services sector the Finnish government experimented with offering temporary tax relief to households interested in hiring the services of domestic service firms. Over 1,600 domestic service companies registered for the business

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**Chart 4: Industrial Structure Output to GDP**

![Chart 4: Industrial Structure Output to GDP](image)

aid experiment and over 23,000 households took advantage of the tax relief. Measures such as this are important in countries with low dispersion of incomes and a high tax wedge because people cannot afford to pay for many personal services, thereby limiting opportunities. The Swedish government is also heavily involved in providing services, again limiting opportunities for individual entrepreneurs.

**Labour Force Structure**

Although there is not a great degree of difference between countries on the age distribution of the population, we do note that Sweden and Spain have slightly older populations (65 and older) and Ireland and Taiwan have slightly younger populations (under 15). This, of course, means differences in the percentage of the population who are in the age group most likely to start businesses. Reynolds et al. (2000) provide a more detailed breakdown of age group distributions for 21 countries.

*Chart 5: Age Structure of Population*


We do see quite a large difference between labour force participation rates among our ten cases, particularly the rates for women (Chart 6). This ranges from a high of 72% in Sweden to a low of 37% in Spain. Although the labour force participation rate of Swedish women is very high, the majority of them are employed in the public sector. Increasing the labour force participation rate among women may be an effective strategy for increasing entrepreneurial activity levels (Reynolds et al., 2000). However, high female labour force participation rates do not necessarily lead to higher female self-employment rates (see the case of Sweden below). Governments in Finland and the Netherlands are currently attempting to identify

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barriers to women’s labour force participation, including ways to encourage higher levels of female entrepreneurship.

**Chart 6: Labour Force Participation Rates, Male and Female**

![Chart showing Labour Force Participation Rates, Male and Female](chart-image)


**Defining Small Business/SME**

Although all governments in this study refer to the small business or SME sector, they use different definitions for what size businesses are included (Table 1). This, of course, makes it very difficult to make cross-country comparisons. A SME can be defined according to both quantitative and qualitative criteria. Generally these countries, like most others, employ up to three quantitative criteria to define a small business, a medium-sized business and a large business. The primary criteria used by all countries in this study is the number of employees in the firm. The SME category includes both small and medium-sized firms – this captures firms with up to 250 employees in the European Union; up to 500 employees in Canada and the US; up to 200 employees in Taiwan and Australia; up to 100 employees in the Netherlands. Consequently, large firms have thresholds of 200, 250 or 500 employees, depending on the country in question. A small business could have up to 10 employees (the Netherlands), 20 (Australia) or 50 (the rest of the countries). Inconsistencies in the employee thresholds used to define a micro-enterprise, a small business, and a medium-sized business understandably cause some problems when trying to make SME sector comparisons across countries. The OECD has undertaken an initiative to harmonize and standardize the various SME definitions, as has the EU. Currently there does not seem to be good logic for the cut-off points. In fact the Australian Bureau of Statistics (ABS) has examined financial data from its
database of small and medium-size firms looking for some logical cut-off point. After rigorous examination, the ABS determined that something happens when a firm moves beyond 17 employees, so concluded that their threshold of 20 employees for a small business was justified. It is also interesting to note that in several of the countries, the Small Business Office, the Tax Office, and government funding agencies may adopt their own operational definitions, which may be different from the official one. In *Entrepreneurship Policy for the Future* (Lundström and Stevenson, 2001) we argue for the unimportance of SME definitions and the meaningless of existing employment size definitions for effective policy development in the entrepreneurial economy.

The two other quantitative criteria in use are the annual sales of the firm (mentioned in the cases of Taiwan, Finland and the United Kingdom) and the balance sheet total of the firm (Finland and the UK). For manufacturing, mining and construction firms, Taiwan also makes reference to capital investment. In terms of qualitative criteria, it is assumed that a small business is one that is independently owned (not the subsidiary of another company) and where ownership and management are not separate.

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SME Employment Shares

Almost all private sector firms in these economies fall within the SME definition. SMEs make up 97.7% to 99.9% of private sector firms (Appendix). This means that large firms make up 1.2% to 2.3% of all firms. Using their own SME definitions, these SMEs account for a low of 53% of private sector employment in the United States to a high of 81% in Taiwan (see the Appendix). Governments are using thresholds of from 10 (the Netherlands) to 500 (the US) to define the category of ‘small business’, but in some senses, it does not matter much because more than 80% or so of all firms in each country have less than 10 employees. This ranges from 95% in the UK, 94% in Spain and Finland, to 79% in the US. However, SME employment shares in the under-10 employee firm-size category vary considerably across countries. For example, in Ireland, firms with less than 10 employees account for 85% of private sector businesses, but less than a quarter of private sector employment, whereas in Spain this group of firms accounts for 94% of firms and almost half of employment (Chart 7). In the US, under 10-employee firms make up almost 80% of firms, but employ only 12% of the private sector workforce. Countries with lower employment shares in the smallest firm-size categories obviously have larger ‘large firms’.

Chart 7: Share of firms and employment in the under 10-employee size category

Source: Individual country statistics. * Employment share data was not available for NL.

In their employment reporting statistics, governments generally report the SME share of private sector employment. This ranges from a share of 81% in Taiwan to 53% in the US. But this ignores the employment share of their respective public sectors.1 We observe that over 30% of total employment in Finland, the Netherlands, and Sweden is in the public sector, compared to less than 20% in the US, Taiwan, Australia and Ireland. When one considers the impact of SME employment on total employment, a different picture emerges. SME share of

1 Countries with the highest government revenue per capita have higher shares of public sector employment and lower shares of SME employment (see the Appendix).
total employment drops from a 59% share in the private sector to less than 32% in Finland, from a 60% share in the private sector to less than 40% in Sweden and from 55% to 37% in the Netherlands. But this only drops from 54% to about 42% in the US, from 81% to 78% in Taiwan, and from 78% to just under 70% in Spain (see Chart 8).

Countries with relatively large public sectors tend to have a lower density of SME employment (Sweden, Finland, the Netherlands). The size of the public sector depends on a government’s decision about its role in education, health care, social welfare, defence, regional development, etc. This varies substantially across the economies in this study.

*Chart 8: SME Share of Private Sector Employment and of the Labour Force*

![Chart showing SME share of private sector employment and total employment]

Source: Individual country statistics.

**Growth of SME Sector in the Economy**

Big sector differences are found across countries with respect to small firm versus large firm dominance. Large firms tend to be more heavily concentrated in manufacturing than SMEs, although there are differences between countries. Over 20% of large firms tend to be in the manufacturing sector; in the SME sector this could be as low as 5-6% (Canada and the US) and as high as 13.45% (Taiwan). A higher percentage of SMEs tends to be in the Services and Construction sectors, as well as in Primary Industries. It is difficult to make direct country comparisons on a sector basis because of differences in the way SIC codes are combined and the way data is reported in each country. The majority of new firms and of employment growth are in the Services sector.

In most of these cases, the net growth in number of SMEs and SME employment on an annual basis is relatively modest. The fastest rates of growth in the number of SMEs have been in the Netherlands, followed by Sweden, Spain and Ireland (see the Appendix). With the exception of Finland, which experienced SME employment growth rates of 6% in the latter part of the 1990s, SME employment has been growing at annual rates of between 0.5% (US)
to 3.8% (Spain). The UK is the only instance where SME employment decreased (by .06% between 1998-99). Recent statistics in several countries suggest that large firm employment is growing at a faster rate than SME employment, although to get a true picture, one has to look at each firm-size category within the SME sector. Growth rates tend to highest in the smallest firm-size categories.

A look at available job creation and loss statistics for case countries reveals that:

1) SMEs have been generating new jobs at a faster rate than large firms; the smaller the firm-size, the higher the employment creation rates.

2) small firms have been creating jobs at a faster rate than they have been losing them and thus have been major contributors to overall employment growth (Australia, Canada, Finland, the Netherlands, the UK).

3) new firms have been very important to both gross and net job creation (the US, the United Kingdom, Canada, Australia, the Netherlands, and Finland). New firms were responsible for a third of gross new jobs in the UK (1995-99 period), 45% of the gross new jobs in Australia (1997-98), and a third of gross new jobs in the United States (1995-96). Half of the gross job gain in the Netherlands from 1992-97 came from new, young firms less than five years of age. In Canada, 75% of net employment gains from 1990-97 came from new self-employment, three-quarters of which was attributable to the increase in self-employed persons with no employees.

### Regional Variations

There are regional variations in every country. Enterprise density, measured in terms of new enterprises per 1000 population, reveal that there can be wide variations. The US, UK, Finland and the Netherlands are examples. New business formation rates also vary widely within regions of a country. These disparities in enterprise density and business entry rates suggest a need to emphasize disadvantaged communities and regions, and provide a strong rationale for regional entrepreneurship policies and activities.

### SME Density

These economies differ substantially on the density of SMEs per 1000 inhabitants. The highest SME density is in Spain, the UK and the US, followed by Canada and Australia (Chart 9). The lowest density is in the Netherlands and Finland.
The Level of Self-Employment

Self-employment rates are over 20% in Taiwan and Spain and less than 10% in the US and Finland (see Chart 10). The level of self-employment is an important variable to measure and monitor in the ‘entrepreneurial economy’ for a couple of reasons. First of all, Audretsch and Thurik (2001) found that increases in self-employment, over time, lead to reductions in the unemployment level, particularly when longer time spans of 8-12 years are analyzed. Secondly, Audretsch and Thurik hypothesize that there may be an optimal level of business owners in a country. Having too few or too many could lead to growth penalties; in the first case, due to underdeveloped innovation and economic opportunities, and in the second case, due to suboptimal economy of scale efficiencies. They state that differences in institutions, policies and history may combine to produce different optimal degrees of entrepreneurship in each country.

It is noted that most countries do not report changes in the self-employment rates in their official economic statistics, as they do changes in total employment and unemployment. As an important measure of entrepreneurial activity, this should be added to the official list and tracked over time.
Countries also differ substantially on the percentage of self-employment accounted for by women (Chart 11). The highest female share of self-employment is in the United States (38%) followed by Canada (36%). The lowest share is in Ireland (16%). Female business ownership growth rates have been particularly high in the US and Canada. Women’s entry into entrepreneurship has been facilitated by changing social norms (vis-à-vis women’s role in society and in the economy), increased female labour force participation rates and specific targeted efforts to promote entrepreneurship as an option. These changes have taken place in Canada and the US to a much greater degree than in the other countries in this study.
One notes that the female labour force participation rate varies considerably (Chart 6). However, one does not find a direct relationship between female labour force participation rates and female self-employment rates. Self-employed women account for 26.8% of total self-employment in Spain and 25.6% in Sweden, even though labour force participation rates were almost twice as high in Sweden.

It is also noted that the percentage of employed women who are self-employed is much lower than for men; this too varies across countries (Chart 12). For example, in Canada, which has the highest percentage of employed men who are self-employed, the self-employment rate among employed women is 13.9%. This compares with 5% in Sweden and 7% in Finland. Of course, one can not discount inconsistencies in country reporting of data to explain some of these differences.

In all countries, women are less likely than men to be self-employed on a full-time basis, are less likely to have employees and less likely to have growth firms. Women-owned firms are smaller and grow more slowly.

*Chart 12: Employed men are more likely to be self-employed than employed women*

![Chart showing percentage of employed women and men who are self-employed across countries](image)

Source: Individual country statistics

**Business Entry, Exit and Turbulence Rates**

It is now widely believed that a high rate of business entry and business exit is correlated with economic growth. While the jury may still be out on the precise relationship between turbulence rates and economic growth, given other contributors to economic growth (e.g., export growth, direct inward investment, etc.), it is interesting to briefly examine the differences in business entry, exit and survival statistics for the countries in this study.
Problems comparing cross-country data were mentioned earlier and nowhere are they greater than in the start-up and exit rate data. So the objective here is not to provide a comprehensive analysis, but to look at patterns.

Countries are beginning to benchmark themselves against others on entry and exit rates\(^2\) (e.g., the Netherlands, Taiwan, the UK are prime examples). Several things can be done with these two rates. They can be added together to produce the ‘turbulence rate’;\(^3\) they can be subtracted from each other to produce the ‘net entry rate’ (entries will normally exceed exits); or they can divided into each other to produce an exit to entry rate index. Interestingly enough, exit rates seem to be relatively stable over time, so increasing entry rates may be primarily responsible for net growth in the stock of firms. It is difficult to compare turbulence rates across countries because of the different data sources used (e.g., total business entries based on actual counts of active new firms versus new VAT/GST registrants). However, it looks like there are two country groupings – those with high entry and exit rates and those with low entry and exit rates.

<table>
<thead>
<tr>
<th>Country</th>
<th>Entry Rate</th>
<th>Exit Rate</th>
<th>Net Entry Rate</th>
<th>Turbulence Rate</th>
<th>Exit to Entry Rate</th>
<th>3-year Survival Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CA (1996)</td>
<td>15.7%</td>
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<td>1.2%</td>
<td>30.2%</td>
<td>.90</td>
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<td>.88</td>
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<td>10.8%</td>
<td>10.4%</td>
<td>0.4%</td>
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<td>.96</td>
<td>63%</td>
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<td>US (1998)</td>
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<td>54%</td>
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<td>17.0%</td>
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<td>IR (EU)</td>
<td>10.0%</td>
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<td>5.0%</td>
<td>15.0%</td>
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Thus, some countries have higher ‘turbulence’ rates than others, Canada and Spain versus Sweden and Taiwan, as examples (Chart 13 and Chart 14). It is increasingly believed that in order to drive higher levels of innovation and productivity in an economy, the higher the better. However, it is also possible that the turbulence rate ‘caps’ at a certain point. One notes from country data that in the case of the United States the turbulence rate hovered between 20.6% and 21.5% from 1991-98. In the Netherlands, this rate has been about 15% for the past five years.

Net growth is the result of new firm entry rates minus firm exit rates and will be influenced by survival rates. Sweden, for example, has a low turbulence rate, but a high net entry rate, and a relatively high survival rate compared to the other countries (see Table 2 and Chart 15). However, Audretsch and Thurik (2001) suggest that a country with low business entry and exit rates and high survival rates may have lower levels of innovation in the economy. Barriers to free and open competition may be impeding economic renewal.

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2 Entry rates are derived by dividing the number of new business entries during the year by the total stock of existing firms at the beginning of the year and multiplying by 100%. Exit rates are calculated in the same way.

3 Turbulence is defined as the sum of the number of companies entering and exiting the market as a percentage of the total number of companies in the period in question (Ministry of Economic Affairs, the Netherlands).
**Chart 13: Enterprise Turbulence – Business Entries and Exit**

![Chart 13: Enterprise Turbulence – Business Entries and Exit](image)

Source: Individual country statistics; Finland and Ireland from the EU.

**Chart 14: Entry to exit rates**

![Chart 14: Entry to exit rates](image)
Several factors could be at play in explaining why some countries seem to have higher three-year survival rates than others - the level of support for new firms, better entry preparation, inter-firm co-operation and mutually supportive networks, barriers to business exit, restrictive competitive practices, the stigma of failure in the society, etc. Research in several countries reveals that the larger the firm start, the higher its chances for survival. Brander et al., (1997) found that only 19% of new Canadian firms with less than 10 employees survived their first ten years in business, but this increased to 50% for firms with 10-100 employees and to 60% for firms that started with over 100 employees. (However, only 0.02% of firms that started with fewer than 10 employees grew to more than 100 employees over a ten-year period, i.e., 2 out of 10,000!)

Research in Australia found that failure peaks at year three and then again at year five, but that professional advice improves the odds for success and that screening prior to start-up reduces the probability of failure (Business Longitudinal Study, Australia). The other point here is that to prevent troubled firms from failing, some governments have put additional supports in place. Taiwan has the Small Business Integrated Assistance Center (SBIAC) that provides special consultancy services to small firms with financial problems. They also have mentoring programs and mutual guidance systems. Of course, one cannot discount that some of the reported differences are simply the result of reporting inconsistencies.

One of the implications of the analysis of entry, exit, net growth, and survival rates is the demonstrated importance of the need for new firms, and thus for new entrepreneurs. If a government wants to achieve growth in the stock of firms, it needs to carefully consider this data. Take Canada for example. The business exit rate was 90% of the business entry rate in 1996. That means for every 10 new businesses, nine were needed just to replace the ones that exited that year, or in other words, a 10% entry rate was needed to produce a 1% increase in
the total stock of firms. As ‘turbulence rates’ continue to increase, the demand for concerted efforts to increase the supply of new, competent entrepreneurs will also rise.

**Final Policy Implications**

In Chapter 13 we have displayed some statistical patterns, which together, present a complex puzzle of unsolved possible relationships and impacts. There are many difficulties in operationalizing entrepreneurship for empirical measurement and even more difficulties in making cross-country comparisons. The process of identifying measures of entrepreneurial activity is only beginning. Proxies such as self-employment rates, business ownership rates, business entry and exit rates, net entry rates, turbulence rates, and SME density rates facilitate the measurement process to some extent. More governments should be developing the capacity to collect, analyse and report on this relevant statistical data. But it is still unclear how all of these indicators and indices interrelate. In addition, there is still a lot we do not know about how to influence the entrepreneurial process in order to produce higher rates of entrepreneurship in the future. What we do know is that there is compelling evidence that entrepreneurship is linked to growth and that nations able to harness the forces of technology and globalization by facilitating entrepreneurial activity are rewarded by growth dividends and reduced unemployment (Audretsch and Thurik, 2001). The search for answers continues; it is clear the journey requires fresh thinking and more analysis.

In its 1997 report on *Small Businesses, Job Creation and Growth* (OECD, 1997), the OECD noted that the share of large firm employment and output had declined during the 1980s and 90s in most OECD countries, during which time small firms displayed more rapid employment growth rates. One of their observations about this phenomenon was an age-related pattern in job creation. Both net job creation rates and employment volatility declined with age of firm. The authors stated that they did not find this particularly surprising, given that young firms are nearly always small. But small firms are not necessarily young. They stressed how important this distinction was, stating that ‘if age rather than size was the criterion, policy should focus less on small firms and more on young firms. Put differently, a policy in favour of SMEs would be replaced by a policy to promote entrepreneurship, for example through the removal of regulatory barriers to firm creation’ (p. 8). Audretsch and Thurik (2001) confirm that firm growth has been found to be negatively correlated with firm size and age based on virtually every study done since Gibralt’s Law, despite differences in country, time period, industry and methodology used. They make the point that entrepreneurs ‘discover’ their true managerial competence and the viability of their business idea only after the business is established (based on Janovic, 1982). Some new firms will succeed during their early stages and some will not, depending on the ability and expectations of the entrepreneur and the post-entry performance of the firm in reaching a survival scale of output (Janovic’s theory of firm selection). The OECD picks up on these themes in its latest work where it reaffirms that the ‘firm selection process’ takes place with greater intensity during the earlier stages of a firm’s life cycle, and that because there is a strong link between the

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4 Gibralt’s Law states that firm growth is independent of size, implying that shifting employment from large to small enterprises should have no impact on total employment, since the expected growth rates of both types of firms are identical. This has not been confirmed by subsequent studies.
performance of a new enterprise and its owner, ‘individuals are the driving force behind entrepreneurship’ (OECD, 2001, p. 9).

In an ‘entrepreneurial economy’ there will be a larger proportion of individuals trying to make new business ideas work. Again, one of the implications of this, from a policy perspective, is that perhaps more efforts should be put in place to assist entrepreneurs as they experiment with new business ideas through the formation of new, young firms, rather than primarily on efforts to assist the SME sector per se. (Since SMEs make up over 97% of private sector firms in these economies, it would make more sense if the general starting point for all government policies was the ‘think small first’ approach recently adopted by the UK government, instead of the ‘think small last’ approach, which has been the predominant past practice).

Most countries report a low percentage of ‘growth firms’. Most businesses start small and stay small. Most firms that grow fast start to do so within the first five years of their life (although it is true that a firm can start a growth trajectory at any age). Most governments would like to stimulate growth in a larger percentage of firms. Firms grow because they have the capacity to pursue opportunity and are led by entrepreneurs with the ‘will’ and ability to realize that growth-potential. So one of the key inputs is the entrepreneur. Investing in the ‘social capital’ of entrepreneurs could produce big pay-offs for an economy. Simplistically speaking, there are two ways to do this. Expose people to the entrepreneurial skill and experience base at an early age (via a focus on entrepreneurship in the education system) and provide more supports to new entrepreneurs in the process of establishing their new firms (via mentoring, incubating environments, opportunity assessment, resourcing, etcetera).

These are some of the compelling reasons why we propose a definition of Entrepreneurship Policy with the ‘individual’, rather than the firm, as its focus and why we recommended a 42-month post-start-up period as one of its parameters (Lundström and Stevenson, 2001, p. 132). Broad-based and integrated E-policies may be more appropriate than broad-based SME policies and firm specific SME programs to achieve growth in this next era of economic development. Although the design of these policies may vary across countries because of their different ‘contexts’, there is considerable value in exchanging policy experiences and views and reflecting on current practices (OECD, 2001). Hopefully, Volume 3 of the Entrepreneurship Policy for the Future series contributes to that useful exchange of E-policies-in-practice.
REFERENCES


# APPENDIX - ECONOMIC INDICATORS: ECONOMY COMPARISONS

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<thead>
<tr>
<th>Country/Indicator</th>
<th>United States</th>
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<td>$36.82 B</td>
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2 Ibid.
3 Ibid.
4 Ibid.
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8 Ibid.
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10 Ibid.
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<td>1.085M</td>
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<td>64.8</td>
<td>75.4</td>
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<td>57.9</td>
<td>30.6</td>
<td>54.3</td>
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<td>SME share of private firms</td>
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<td>99.8%</td>
<td>99.9%</td>
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<td>97.7%</td>
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<td>99.8%</td>
<td>99.5%</td>
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<tr>
<td>SME share of total employment **</td>
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<td>44.7%</td>
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<td>50.5%</td>
<td>78.5%</td>
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<tr>
<td>SME share of private sector employment *</td>
<td>53.0% &lt; 500 empl</td>
<td>55.4% &lt; 250 empl</td>
<td>78.0% &lt; 250 empl</td>
<td>57.5% &lt; 500 empl</td>
<td>81.0% &lt; 200 empl</td>
<td>74.0% &lt; 200 empl</td>
<td>55.0% &lt; 100 empl</td>
<td>60.0% &lt; 250 empl</td>
<td>59.2% &lt; 250 empl</td>
<td>68.0% &lt; 250 empl</td>
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* Using country statistics.  ** Calculated from an estimate of total employment.

SME Outlook, OECD, 2000, p. 222.
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<th>Canada</th>
<th>Taiwan</th>
<th>Australia</th>
<th>Netherlands</th>
<th>Sweden</th>
<th>Finland</th>
<th>Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>% firms with less than 10 employees</td>
<td>79.0%</td>
<td>95.0%</td>
<td>94.0%</td>
<td>87.0%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>89.0%</td>
<td>89.0%</td>
<td>94.0%</td>
<td>85.0%</td>
</tr>
<tr>
<td>% employment in firms &lt;10 employees</td>
<td>12%</td>
<td>30%</td>
<td>47%</td>
<td>25%</td>
<td>n.a.</td>
<td>n.a.</td>
<td>n.a.</td>
<td>29%</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>Avg. SME firm size - # employees</td>
<td>9.7</td>
<td>6.0</td>
<td>4.2</td>
<td>7.2</td>
<td>6.9</td>
<td>6.0</td>
<td>7.0</td>
<td>3.0</td>
<td>5.5</td>
<td>8.9</td>
</tr>
<tr>
<td>Annual growth in number of SMEs</td>
<td>2.6% (97-98)</td>
<td>0.5% (98-99)</td>
<td>3.0%</td>
<td>0.4%</td>
<td>(89-96) but</td>
<td>4.4% for</td>
<td>selfemployment</td>
<td>1.5%</td>
<td>2.0% (95-99)</td>
<td>5.1% (92-97)</td>
</tr>
<tr>
<td>Annual growth in SME employment</td>
<td>0.5% (98-99)</td>
<td>-0.6% (98-99)</td>
<td>3.8%</td>
<td>1.6%</td>
<td>(97-98)</td>
<td>(97-98)</td>
<td>1.6% (98-99)</td>
<td>1.6%</td>
<td>0.9%</td>
<td>2.6%</td>
</tr>
<tr>
<td>Annual business start-up rate – new firms/total firms</td>
<td>11.2% 1998</td>
<td>10.8% 1999</td>
<td>13.7% 1998</td>
<td>15.7%</td>
<td>7.4% (98-99)</td>
<td>n.a</td>
<td>10.0% 1997</td>
<td>7.2% (1999)</td>
<td>10.0%</td>
<td></td>
</tr>
<tr>
<td>Business exit rate – exiting firms/total firms</td>
<td>9.4% 1998</td>
<td>10.4% 1999</td>
<td>12.2%</td>
<td>14.5%</td>
<td>5.0% (98-99)</td>
<td>n.a</td>
<td>5.4% 1997</td>
<td>1.3% (1999)</td>
<td>7.0%</td>
<td></td>
</tr>
<tr>
<td>3-year Survival Rates</td>
<td>54%</td>
<td>63%</td>
<td>61%</td>
<td>50%</td>
<td>n.a.</td>
<td>77% (BLS)</td>
<td>69%</td>
<td>60%</td>
<td>63%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Size distribution of firms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0 employees</td>
<td>60.7%</td>
<td>63.2%</td>
<td>56.2%</td>
<td>44.6%</td>
<td></td>
<td>48.6%</td>
<td>40.2%</td>
<td>63.6%</td>
<td>40.0%</td>
<td></td>
</tr>
<tr>
<td>1-4 employees</td>
<td>26.2%</td>
<td>39.4%</td>
<td>33.0%</td>
<td>32.8%</td>
<td></td>
<td>48.9%</td>
<td>24.7%</td>
<td>53.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country/Indicator</th>
<th>United States</th>
<th>United Kingdom</th>
<th>Spain</th>
<th>Canada</th>
<th>Taiwan</th>
<th>Australia</th>
<th>Netherlands</th>
<th>Sweden</th>
<th>Finland</th>
<th>Ireland</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-9 employees</td>
<td>18.2%</td>
<td>5.5%</td>
<td></td>
<td>9.3%</td>
<td></td>
<td>15.0%</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-19 employees</td>
<td>10.7%</td>
<td>3.0%</td>
<td>5.2%</td>
<td>6.3%</td>
<td></td>
<td>3.0%</td>
<td></td>
<td>5.2%</td>
<td></td>
<td>12.3%</td>
</tr>
<tr>
<td>20-49 employees</td>
<td>8.7%</td>
<td>1.7%</td>
<td></td>
<td>5.8%</td>
<td></td>
<td>3.0%</td>
<td>9.6%</td>
<td>1.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50-99 employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5.8%</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100-199 employees</td>
<td>1.7%</td>
<td></td>
<td>0.7%</td>
<td></td>
<td>0.3%</td>
<td></td>
<td></td>
<td>0.03%</td>
<td>0.8%</td>
<td>2.2%</td>
</tr>
<tr>
<td>200-249 employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>0.2%</td>
<td></td>
<td></td>
<td>1.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over 250 employees</td>
<td>0.2%</td>
<td></td>
<td>1.0%</td>
<td></td>
<td>0.2%</td>
<td></td>
<td></td>
<td>0.02%</td>
<td>0.2%</td>
<td>0.45%</td>
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</tbody>
</table>