

ENTREPRENEURSHIP POLICY OR POLICIES THAT AFFECT ENTREPRENEURSHIP?

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STRUCTURE OF PRESENTATION

- Introduction
 - What is entrepreneurship policy?
 - How can it affect entrepreneurship development?

- Rationale for entrepreneurship policy
 - Economic development
 - Social inclusion

- Entrepreneurship policy in context
 - Poland
 - China

- Research and entrepreneurship policy

INTRODUCTION

WHAT IS ENTREPRENEURSHIP POLICY?

- Some may equate entrepreneurship & SME policy BUT
- Entrepreneurship policies relate to new venture creation and/or business growth, while 'SME policy' is concerned with existing businesses with the SME size range.
- Since in some countries, most firms are SMEs, in practice 'SME policy' may lack focus.
- But what constitutes policy?
 - Narrow definition: 'policy initiatives designed to assist (small firms)' (Storey 1994)
 - Broad definitions include the various ways in which government policies and actions impact on small business &/or entrepreneurship, some of which may be inadvertent
 - Both national and sub-national policies are included

ENTREPRENEURSHIP POLICIES (after Lundstrom & Stevenson, 2005)

- Promotion of an entrepreneurship culture and more favourable attitudes towards entrepreneurship;
- Integration of entrepreneurship education in schools and at all levels of post-secondary education;
- Reduction of barriers to entry and proactive measures to make it easier for enterprises to enter the market
- Provision of seed financing
- Start-up support, such as mentoring programmes, incubators aimed at increasing the number of new businesses;
- Tailored efforts to increase participation in business ownership from specific under-represented groups, e.g. ethnic minorities, women, young people.

ROLE OF GOVERNMENT IN RELATION TO SME

DEVELOPMENT (Smallbone and Welter 2001)

- **macroeconomic policy**, since the macroeconomic environment affects the willingness and ability of (potential) entrepreneurs to invest
- the **costs of legislative compliance**, which can fall disproportionately heavily on smaller enterprises;
- **tax policies**, including both the total tax burden but also the cost of compliance that can be affected by frequent changes in the tax regime
- the **influence of government on the development of market institutions**, such as banks, business support and training organisations;
- the **influence of the government on the value placed on enterprise and entrepreneurship in society**
- **direct intervention**, designed to assist small businesses to overcome size-related disadvantages.

TYPES OF POLICY INTERVENTION

- Information
- Advice and consultancy
- Finance
- Premises
- Training
- Networking programmes
- Incubators, science parks etc
- Export support
- Targeted support for growth firms
- Targeted support for excluded groups
- Access to public procurement
- Entrepreneurship education

HOW CAN PUBLIC POLICY AFFECT ENTREPRENEURSHIP DEVELOPMENT?

- Whilst entrepreneurship results from the creativity, drive, skills & commitment of individuals, government policies and actions are a key element in the external environment/context in which entrepreneurship occurs.
- Government shapes the institutional environment in which entrepreneurial decisions are made
- The politico-institutional environments influence :
 - entrepreneurial attitudes and motives,
 - the resources that can be mobilised,
 - the constraints on, & opportunities for, starting and running businesses
 - business behaviour

RATIONALE FOR ENTREPRENEURSHIP POLICY

RATIONALE FOR PUBLIC POLICY TO PROMOTE ENTREPRENEURSHIP?

- Potential welfare gains to the economy / society, in terms of the contribution to:
 - (a) economic growth and development
 - (b) increased social inclusion
- To address demonstrated market failure

EUROPE'S ENTREPRENEURIAL CHALLENGE

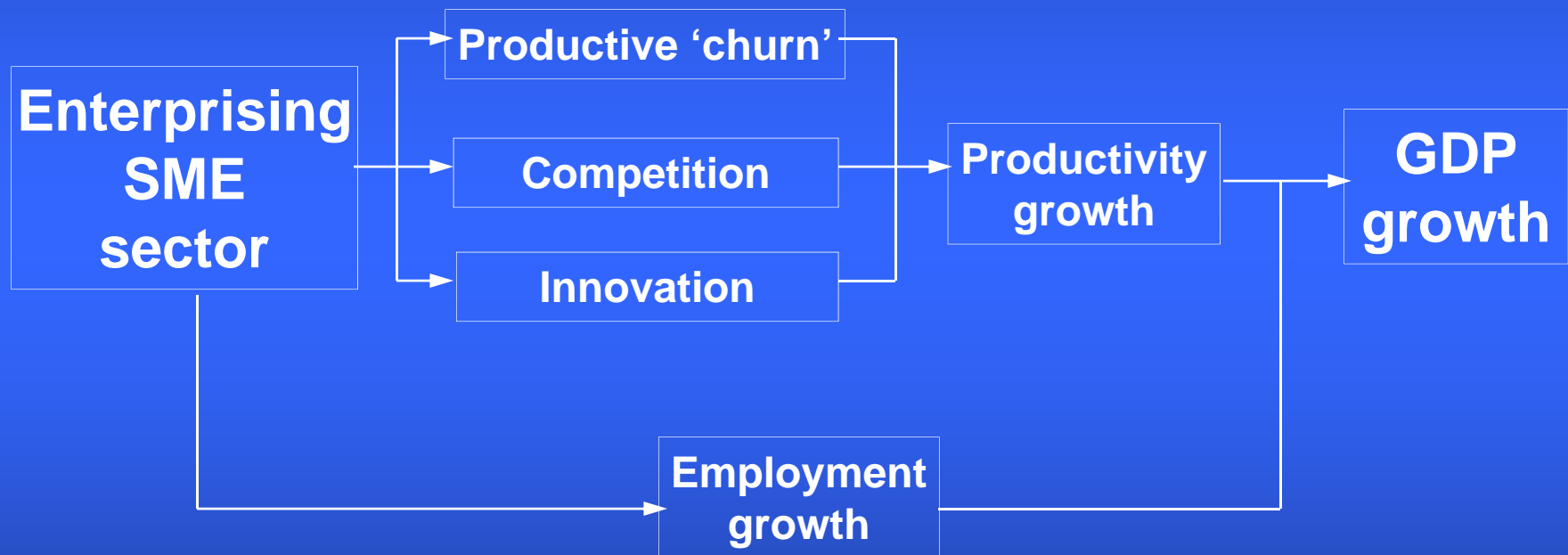
- The Lisbon Strategy commits the EU to promote entrepreneurship as part of its approach to transforming the economy into one that is competitive with full employment
- Entrepreneurship Action Plan (2004) views entrepreneurship as:
 - a major driver of innovation, competitiveness and growth
 - a vehicle for personal development
 - A means of facilitating social inclusion
- Fundamental issues raised in Green Paper 'Entrepreneurship in Europe' (2003) included:
 - How to produce more entrepreneurs?
 - How to get more firms to grow?

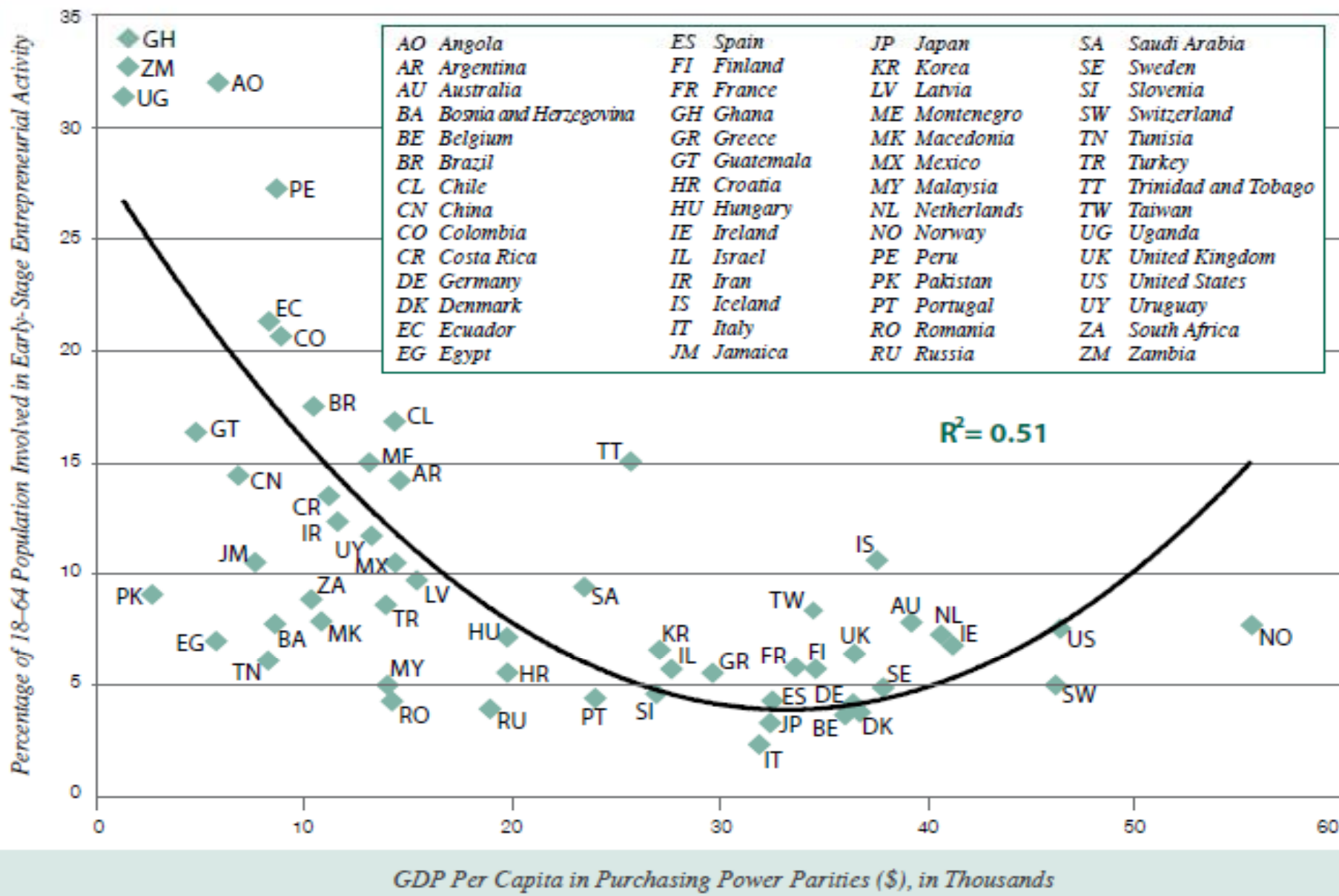
Entrepreneurship and Economic Growth

ENTREPRENEURSHIP AND ECONOMIC DEVELOPMENT

- Growing body of evidence demonstrating a positive relationship between entrepreneurship and economic growth
- But limited detailed understanding of how this occurs and what the nature of the causal relationships are.
- Role of entrepreneurship varies at different levels of economic development
- U-curve hypothesis describes an association between entrepreneurship & economic development

ENTREPRENEURSHIP AND ECONOMIC GROWTH





Entrepreneurship and Social Inclusion

SOCIAL EXCLUSION

- At the individual level, social exclusion is expressed by lack of a job or low income and a lack of prospects for the future
- But it can also encompass specific groups such as women, ethnic minorities, young and old people or people with disabilities, who experience similar economic deprivation and social disadvantage and/or an inadequate living environment.

HOW CAN ENTREPRENEURSHIP CONTRIBUTE TO SOCIAL INCLUSION?

- Running one's own business offers a potential means of increasing income, for dependents, as well as entrepreneurs
- Contributing to the regeneration of disadvantaged areas and communities - small firms are predominantly local employers, with many also providing services to local markets
- Enabling individual potential to be unlocked;
- Offering a means of self fulfillment
- Empowering poor people to participate in economic development

ENTREPRENEURSHIP & SOCIAL INCLUSION - THE EVIDENCE BASE

- Evidence of the contribution of small firms to inclusion is mixed:
 - Low wage levels and poor employment conditions are common
 - Establishing businesses in areas of deprivation, where individuals have inadequate skills, education, finance, social capital and networks is very often a recipe for failure (Bates, 1993).
 - Deprived areas have limited resources; low disposable incomes; difficult operating environment for businesses
- But there is evidence that participation in business start-up programmes can offer long term learning benefits to participants

ENTREPRENEURSHIP POLICY IN CONTEXT

POLAND

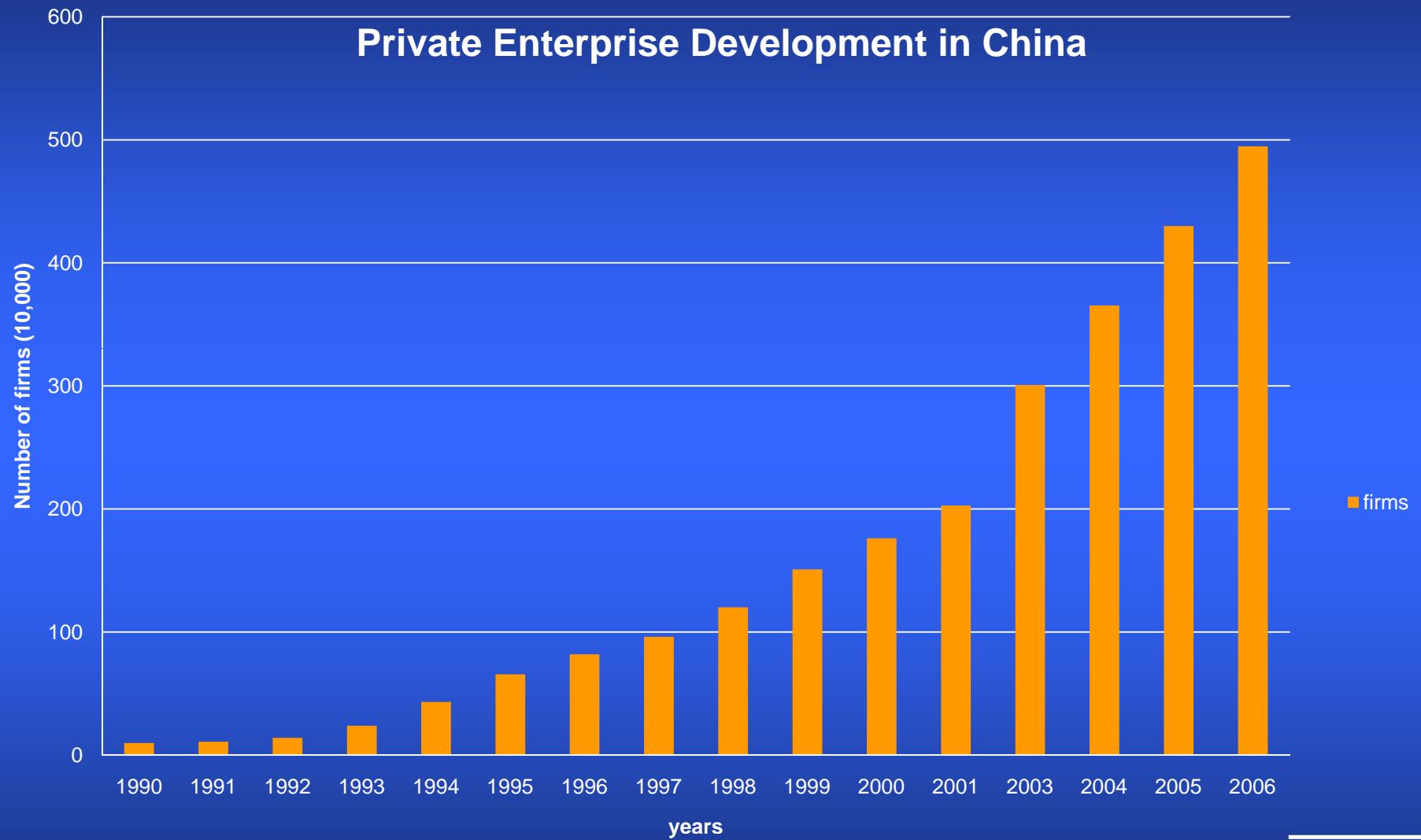
- Considerable change in the policy context for entrepreneurship over a 20 year period.
- Initial emphasis on establishing framework conditions for entrepreneurship; entrepreneurship promotion was a low priority
- Some foreign donor projects in early 1990s but little strategic direction
- More recently, the state has become a positive agent of change
 - Conditions for EU membership
 - Opportunities for EU funding
 - Implementing the Lisbon strategy

CHANGES IN THE POLICY PROCESS IN POLAND

- A clear separation of policy making from policy implementation
- Changes to the policy process, such as explicit links between strategic objectives and action plans, tied into the budgetary process.
- Involving entrepreneurs in the policy process
- Establishing a sub-national tier of government with economic development powers & responsibilities
- But danger that policy approach becomes too focused on maximizing the absorption of EU Structural Funds in the short term.

The Case of China

Private Enterprise Development in China



CHINA

- Little doubt that the state is a key element in the context for entrepreneurship development in China
- The institutional changes required to initiate private sector development in the contemporary period in China started with the Third Plenum of the Chinese Communist Party's 11th Central Committee in 1978
- No specific (policy) announcement was made with respect to the development of private business, but an emphasis on economic development and individualistic incentives gave an impetus to the development of private business

FORMAL AND INFORMAL RULES

- Government has often ruled by Party policies rather than by legal statutes, although over time an increasing number of Party policies have been translated into laws.
- Such an approach places considerable discretionary power in the hands of Party officials, which entrepreneurs need to negotiate

NATIONAL POLICY FOR SME DEVELOPMENT IN CHINA

- Formal policy at the national level to support SME development in China is relatively recent.
- In 2000, the State Council urged government at various levels to adopt:
 - *“Effective measures to strengthen SME support especially high-tech SMEs and those innovative SMEs, which can develop new products, improve products quality and fill gaps in the market”.*
- Law on SME Promotion (2003) provided the legal basis for government involvement
- Support for SMEs varies considerably between cities, as local governments vary in their commitment & ability to generate resources to pay for such support

SME POLICY IN CHINA (continued)

- All levels of government in China are currently expected to support new and growing businesses, providing them with:
 - access to advice,
 - improved access to finance
 - more transparent regulation (State Council, 2005).
- Support for SMEs varies considerably between cities, as local governments vary in their commitment & ability to generate resources to pay for such support

RESEARCH AND PUBLIC POLICY

EXAMPLES OF ENTREPRENEURSHIP RESEARCH INFLUENCING POLICY

- Evidence of relationship between entrepreneurship and employment change (Birch)
- Evidence of the relationship between entrepreneurship and economic growth (e.g. Thurik, Audretsch)
- David Storey's contribution to evaluation of public policy related to entrepreneurship & SME development

MONITORING AND EVALUATION

- In seeking to evaluate the cost-effectiveness of a public intervention, it is necessary to make some assessment of its impact on participating businesses
- Such an assessment should include:
 - impacts on business performance;
 - impacts on management behaviour;
 - any change in attitudes.
- Since these impacts may take time to appear, the required data must be collected at some time after the intervention & compared with baseline data.

DAVID STOREY'S SIX STEPS TO HEAVEN

Monitoring

- Step 1: take up of schemes i.e. no of firms and their characteristics
- Step 2: recipients' opinions i.e. satisfaction (happy sheets), procedures
- Step 3: recipients' views of the difference made by the assistance e.g. , views on whether it made any difference to business performance

DAVID STOREY'S SIX STEPS TO HEAVEN (continued)

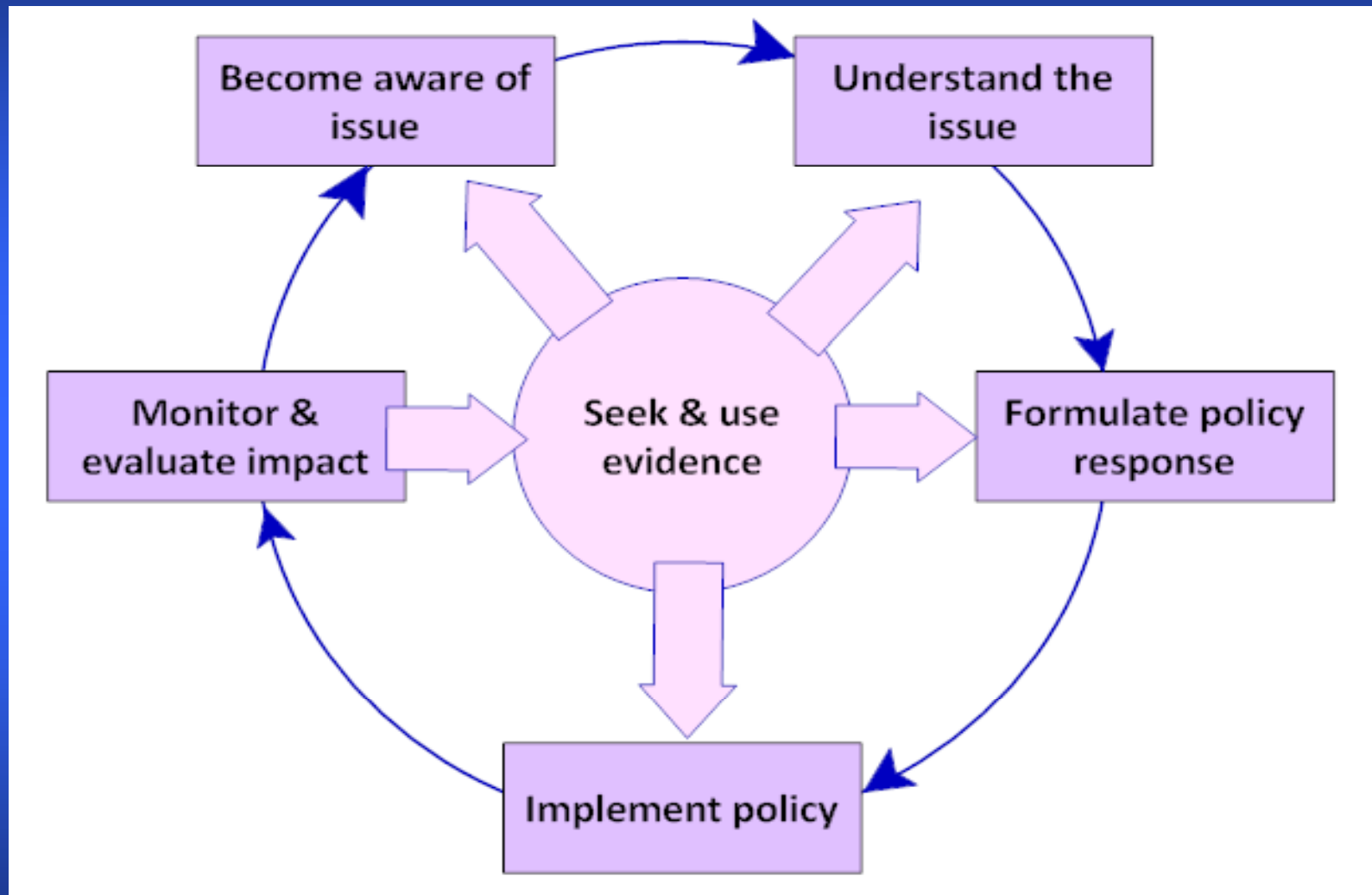
Evaluation

- Step 4: comparison of the performance of 'assisted' firms with 'typical' (i.e. non-assisted) firms, in terms of survival rates, employment and/or sales growth
- Step 5: comparison with a control group, which might include some attempt to control for sector, age, region etc.
- Step 6: taking account of selection bias, such as that stemming from self-selection. If better motivated firms apply, the impact of the scheme may be overestimated. Storey proposes either statistical adjustment or use of random panels to reduce selection bias.

SO WHAT ARE THE POTENTIAL ROLES OF RESEARCH IN RELATION TO PUBLIC POLICY?

- To contribute to the development of an evidence base for policy development (but what constitutes acceptable 'evidence'?)
- To contribute to more effective policy implementation
- To provide critical perspectives on aspects of public policy
- To monitor and evaluate policies
- To act as an independent and informed voice for entrepreneurs & small businesses

EVIDENCE BASED POLICY



WHAT IS THE ROLE OF RESEARCH IN PRACTICE?

- Policy makers and academic researchers would appear to share a common agenda but the influence of research on policy is generally weak
- Policy makers often do not value research, which they view as 'academic' rather than practical + poorly presented
- Researchers often fail to communicate results to policy makers effectively.
- A clash of cultures?

CONCLUDING REMARKS

- Policies affecting entrepreneurship rather than entrepreneurship policy
- Need to strengthen the evidence base
 - with regard to the relationship between economic growth and inclusion;
 - the impact of entrepreneurship policy
- Government policy and actions are an important part of the contextual influences on entrepreneurship development
- We need to think critically about the relationship between research and policy and how best to nurture it

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