

# **Ten years entrepreneurship policy: a global overview**

## Colophon

This publication forms part of a series relating to entrepreneurship and small businesses.

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## *Table of contents*

<b>Preface</b>	<b>5</b>
<b>Introduction by the editors</b>	<b>7</b>
<b>1 Entrepreneurship in the Netherlands</b>	<b>9</b>
<b>2 Entrepreneurship (policy) in the Netherlands in the last ten years</b>	<b>17</b>
<b>3 American Entrepreneurship Policy: The last Ten Years</b>	<b>49</b>
<b>4 Entrepreneurship Policy in the last 10 years in the European Union</b>	<b>56</b>
<b>5 Entrepreneurship Policy in Asia: 1997-2007</b>	<b>64</b>
<b>About the authors</b>	<b>71</b>



## Preface

As Minister of Economic Affairs for the Netherlands, I regard entrepreneurship as one of the most important pillars of the Dutch economy. Entrepreneurship is the foundation upon which the economy stands, a crucial basis which enables the Netherlands to preserve its high level of prosperity. Entrepreneurs are the people who generate productivity, jobs and economic growth. Innovative entrepreneurship, in particular, can contribute to building a more sustainable society and can help us find solutions to the challenges of our age, such as coping with the increasing burden on our health care and education systems, and tackling the threat of security breaches and rising water levels.

In light of the vital role which entrepreneurship plays in the Dutch economy, entrepreneurship policies are a central focus of the Ministry of Economic Affairs. Entrepreneurship also has a prominent place in the government's policy statement for the present period. My main policy objectives as formulated in the government statement - in addition to creating a more sustainable economy - are to further reduce the perceived administrative burden, to alleviate barriers to entrepreneurship, to strengthen the innovative capacity of the Dutch economy and to increase the number of fast-growing businesses.

The present publication is the 10th edition of *Entrepreneurship in the Netherlands* and as such provides the perfect opportunity to look back on the last 10 years of entrepreneurship in the Netherlands. Featuring contributions by internationally renowned researchers who have written chapters on entrepreneurship in the United States, Europe, and Asia, it provides an insightful context in which to compare Dutch entrepreneurial achievements with the achievements of other countries. EIM Business and Policy Research has written an extensive chapter on entrepreneurship and entrepreneurship policies in the Netherlands over the past decade. My own personal contribution takes the form of an article on the basic tenets and the results of recent Dutch entrepreneurship policies, as well as looking ahead to policy developments in the near and distant future.

This series of publications enables everyone, from policy makers and politicians to researchers, students, and those with a keen interest in the world of business, to judge Dutch entrepreneurship and entrepreneurship policies on their merits. Previous publications have inspired plenty of interesting discussion. The series is often cited in international literature and is used in setting international benchmarks. Perhaps even more importantly, it has been instrumental in giving entrepreneurship a more prominent place on the political agenda, which in my opinion is a very positive development. I feel sure that this publication will stimulate the discussion on entrepreneurship and will inspire its readers to become more active and more interested in the world of the entrepreneur.

I wish you an inspiring and informative read.



Maria van der Hoeven  
Minister of Economic Affairs



## *Introduction by the editors*

This report is the tenth edition of the series “Entrepreneurship in the Netherlands”, with the first edition being published in 1997. These series are a co-production of the Ministry of Economic Affairs, EIM Business & Policy Research and international entrepreneurship experts. In each edition, a specific aspect of entrepreneurship is studied, such as; nascent entrepreneurship, fast-growing enterprises and high-tech start-ups. Previous aspects reviewed are; entrepreneurship and competitiveness, ambitious entrepreneurs, nascent entrepreneurs, entrepreneurship in the new economy, innovative entrepreneurship, business transfer, high-growth and the quality of entrepreneurship.

The tenth edition focuses on the entrepreneurship and entrepreneurship policies that have been developed world-wide in the past 10 years.

### *Contents of the report*

In the first contribution, Maria van der Hoeven, Minister of Economic Affairs, presents the Dutch entrepreneurship policy and the policy intentions for the coming years. Yvonne Prince, Jacqueline Snijders and Petra Gibcus, of EIM, give insight to the facts & figures on entrepreneurship within the Netherlands, including the major aspects of the entrepreneurship policy of the last 10 years.

In the next contributions Carl Schramm, E.J. Reeding, Robert Litan and Karin Wilson, Anders Hoffmann and Sanjay Goei, describe the major accents in the entrepreneurship policy in retrospect to the United States, the European Union and Asia.

The editors would like to thank all the authors for their participation on this project.

Mieke Bakkenes, Ministry of Economic Affairs  
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# 1 Entrepreneurship in the Netherlands

Maria van der Hoeven, Minister of Economic Affairs, the Netherlands

## 1.1 Entrepreneurship: the foundation of the economy

Entrepreneurship is the foundation upon which the economy of the Netherlands is built. It creates employment, productivity and innovation. Entrepreneurship is at the very basis of Dutch prosperity and should therefore be highly valued by the government. The goal of the Dutch Ministry of Economic Affairs is to help establish and maintain a prosperous, sustainable and enterprising country; an open country that is an integral part of the global economy. The Ministry has set itself the additional goals of encouraging more entrepreneurs in the Netherlands and of supporting a higher quality of entrepreneurship.

In order to reach these goals, the Ministry has worked hard over the past ten years to establish an excellent environment for entrepreneurship, in the firm belief that creating excellent conditions is the best way to increase the number of successful, innovative entrepreneurs. This belief has reaped dividends. The business ownership rate has increased to 11.5%<sup>1</sup>, the absolute number of people starting their own firm rose to over 100,000 last year and the number of self-employed entrepreneurs now exceeds 400,000.

## 1.2 The Dutch perform well

From an international perspective, the Dutch economy is performing well: the Netherlands has a very stable macroeconomic and fiscal climate, a highly qualified workforce, a high-quality public sector and strong industrial and regional clusters. The Dutch are prosperous and have a high GDP per hour and per head of the population. The Netherlands is also blessed with a low rate of unemployment and high level of productivity. In its Global Competitiveness Report 2008-2009, the World Economic Forum ranked the Netherlands a respectable 8th.

## 1.3 Why pursue entrepreneurship policies?

Even though the country is feeling the effects of the global credit crisis at present, the economy is relatively healthy in structural terms. If, however, our ambition is to increase the quality and quantity of entrepreneurs in the Netherlands with the aim of remaining competitive in the near and distant future, and if we want to address challenges such as making the economy durable and sustainable, it is up to the Ministry of Economic Affairs to develop effective policies.

The Ministry of Economic Affairs adheres to the principles of the free market and of non-interference as far as is possible. For a free market to operate effectively, it is imperative that the institutional framework is well-designed and fully functional. Good conditions are a prerequisite for successful entrepreneurship. Since markets are dynamic and circumstances change continuously, entrepreneurship policies are necessary to keep the

institutional framework up-to-date and ready to adapt to the changing requirements of the market.

The need for policy measures may also result from market imperfections, government imperfections or issues relating to the level playing field. Crucially, the Dutch government, wants the Netherlands to improve on its 8th place in the current Global Competitiveness Report, and this provides a strong incentive for engaging in active entrepreneurship policies.

Effective entrepreneurship policies can help boost labour productivity, make the Netherlands more competitive and generate income and economic growth. This, in turn, is a prerequisite for realising the government's ambitions for society as a whole. The way in which we think about entrepreneurship policies has changed in recent years: it is now widely accepted that such policies not only contribute to economic growth, but can also help us meet the challenges currently being faced by Dutch society. These challenges range from issues of water security, security and health care, to scarcity of raw materials and issues of energy and durability.

#### **1.4 Dutch ambitions with regard to entrepreneurship**

The ambitions of the present government with regard to entrepreneurship are

- a to increase the number of fast-growing businesses;
- b to reduce the actual and perceived administrative burden;
- c to improve the opportunities of self-employed entrepreneurs to become employers;
- d to improve the link between vocational and higher education and the labour market;
- and
- e to alleviate barriers to entrepreneurship.

The government also intends to realise the following goals in order to establish an innovative, competitive and enterprising economy:

- a to create an excellent environment for entrepreneurship;
- b to strengthen the innovative capacity of the Dutch economy;
- c to obtain a higher yield from education, higher education and research;
- d to use innovation to find solutions to societal challenges; and
- e to improve the accessibility of locations in the Netherlands (i.e. by developing infrastructure).

Some of the Dutch government's ambitions have their origins in European agreements rather than being specifically Dutch, such as the Lisbon objective that the European Union should be the most innovative and competitive economic power in the world by 2010 or the Barcelona objective, which commits the countries of the European Union to spending at least 3% of GDP on research and development (2% of which should be R&D in the private sector).

## **1.5 The basic tenets of the Netherlands' entrepreneurship policies**

### *Excellent conditions for entrepreneurship*

Working on the premise that a higher quality of entrepreneurship is best served by a challenging environment characterised by competition, a dynamic climate and fewer administrative burdens, consecutive governments have focused on establishing excellent conditions for entrepreneurship and on reducing the administrative burden by 25%. General measures to improve the entrepreneurial environment have included improved access to finance, fiscal incentives to stimulate business growth, and extensive schemes to subsidise technological innovation. The present government is looking to revise those rules and regulations in particular, which hamper or discourage entrepreneurs.

The Netherlands' current entrepreneurial policies can best be described in terms of two packages of policies. First, there is a basic policy package, which targets the start-up of enterprises, growing enterprises, the internationalisation of enterprises and innovation, and which benefits all entrepreneurs. The general measures outlined above all belong to this package. Second, there is a programme policy package, specifically geared towards entrepreneurs who operate in particular fields. The areas targeted with the programme policy package are those designated as key areas of future economic development and activity in the Netherlands. The Ministry's current areas of focus are Flowers & Food, Water, Chemistry, Life Sciences & Health, High-Tech Systems & Materials, and Creative Industries.

## **1.6 Milestones in Dutch entrepreneurship policy in the past ten years**

### *A significant reduction in rules and regulations*

One of the most important recent milestones for the Dutch government is its success in significantly reducing the administrative or regulatory burden for enterprises. The World Bank has even gone so far as to cite the Netherlands' policies as best practice in this regard<sup>2</sup>. Even so, the current government is seeking to reduce the administrative burden even further by looking into those rules and regulations that entrepreneurs criticise as being obstacles or disincentives, and prioritising them with a view to addressing these concerns.

### *Market imperfections in the world of finance*

In addition to the above policies geared towards tackling the government imperfection of a surfeit of sometimes contradictory rules and regulations, the Netherlands finds itself having to tackle a number of market imperfections. One of the most important imperfections concerns finance: enterprises are experiencing difficulty in attracting sufficient funds to invest in their start-up or growth, as well as in innovations and R&D activities. The problem of attracting sufficient funds is not only affecting fledgling enterprises: more established firms are suffering a similar fate.

To counteract the consequences of the market imperfections with regard to finance, consecutive governments have introduced a number of instruments as part of the basic policy package. They include a guarantee scheme for SMEs (the BBMKB), the Growth Facility and the Technopartner Programme, which incorporates a Business Angel Programme.

### *Guarantee scheme for SMEs (BBMKB)*

The guarantee scheme for SMEs (BBMKB) has proved to be one of the Ministry's most successful instruments and has recently been expanded. The present government has nearly doubled the total amount of money involved in the guarantee scheme: in 2008 it had € 730 million at its disposal, a figure set to rise to € 745 million in 2009. In a recent development, the target group has also been widened from firms with 100 employees or less to firms with a maximum of 250 employees<sup>3</sup>.

### *Growth facility*

Another problem the current government has tackled is the need among SMEs for extra risk-bearing capital in the event of rapid growth or a business take-over. Imperfections in the market can make it very difficult for an enterprise to attract such capital, thereby standing in the way of ambition and growth. The Growth Facility offers a 50% guarantee from the government, which enables SMEs to increase their risk-bearing capital and realise their growth ambitions through improved solvency.

### *TechnoPartner Programme*

Another successful programme that has been supported by consecutive governments is the TechnoPartner Programme. This programme targets start-up businesses in the technology sector who want to base themselves in the Netherlands and is designed to boost the Netherlands' image as a stimulating environment for technological business innovation. The programme offers opportunities to investors or research institutes to contribute to the development of new Dutch technology companies. TechnoPartner consists of four programmes:

- Knowledge Exploitation Funding Programme (SKE)
- SEED Facility
- TechnoPartner Certificate
- Business Angel Programme (BAP)

The Knowledge Exploitation Funding Programme (SKE) encourages private parties and organisations with entrepreneurial expertise (research institutes and universities) to set up knowledge-intensive and innovative companies. To minimise the risks and increase the chances of success, TechnoPartner provides support to these newcomers with regard to screening research, scouting for entrepreneurs, arranging patents, access to equipment, coaching, support and pre-seed funding. The TechnoPartner Certificate guarantees bank loans, thereby increasing the chance that a technology start-up will obtain financing by reducing the risk to the bank. The TechnoPartner Seed Facility aims to make capital available to these businesses by giving support to investment funds founded by private parties.

### *Business Angel Programme*

The latest offshoot of the TechnoPartner programme is the Business Angel Programme. Business Angels are informal investors who are a main source of funding for starters and innovative enterprises. The Business Angels Programme aims to become a catalyst for informal investment by priming both entrepreneurs in search of capital and their potential investors, so that both are ready to take the next step. The programme intends to strengthen Business Angel Networks and will provide information and training to both investors and entrepreneurs.

### *Innovation*

Since innovation and innovative entrepreneurship are fundamental to productivity growth and economic growth, bringing about innovation is one of the primary goals of the Dutch Ministry of Economic Affairs. To this end, the Ministry has also geared part of the basic policy programme towards a successful R&D investment facility (WBSO) to encourage firms to invest in R&D by contributing to the wage costs of employees who are directly involved in this area.

Two other successful instruments designed to spark innovation are the Innovation Performance Contracts and Innovation Vouchers. SMEs can use Innovation Vouchers to 'buy knowledge' from universities and other research institutes. The 20,000th voucher was handed out at the end of 2008. A policy recently introduced to increase the yield from education and research is the valorisation agenda, which aims to develop knowledge and translate it into new products, processes and services.

## **1.7 The latest policy instruments**

The new programmes and changes to existing programmes mentioned above address government imperfections and market imperfections with regard to finance, start-up businesses and innovation. However, the ambitions of the present government go beyond finance and innovation to encompass a change in attitude towards entrepreneurship, improvements in the relationship between education and the job market, the use of innovation to meet wider challenges in society, and an increase of the number of fast-growing enterprises. The new programmes devised to meet these ambitions are described below. As all of them have only been recently introduced, their success has yet to be established.

### *Entrepreneurship programmes in education*

Various indicators show that the Dutch culture is not one of the most enterprising cultures within the OECD. To imbue a more entrepreneurial spirit and a more positive attitude towards entrepreneurship, the Ministry of Economic Affairs - together with the Ministry of Education, Culture and Science - is investing in an Education and Entrepreneurship Programme. One of the programme's achievements is the setting up of six Centres of Entrepreneurship at universities and other institutes of higher education, with the goal of instilling a more entrepreneurial attitude in students and to encourage them to pursue a more entrepreneurial career path.

### *A smoother transition from education to job market*

As many entrepreneurs in the Netherlands complain that the transition from education to the job market is often problematic, the Ministry of Economic Affairs has instituted a subsidy scheme (*Beroepsonderwijs in Bedrijf, BIB*) that aims to improve 'learning in practice'. It encourages educational institutes and the business community to work together to improve and modernise the curriculum with regard to learning on-the-job. A subsidy is only granted if at least one educational institute enters into a cooperative project with one entrepreneur.

### *Microfinance scheme*

About 600,000 people in the Netherlands have plans to start their own company. Yet due to a lack of knowledge, ability and/or finance most of these plans fail to reach fruition. The

Dutch government believes that the absence of coaching or finance should not be allowed to nip potential enterprises in the bud. It has therefore launched a microfinance scheme to furnish access to both finance and coaches. The scheme also provides for the establishment of a national network of microfinance and of a Knowledge Centre for Microfinance.

### *Growth accelerator*

Fast-growing businesses generate much of the productivity and employment growth in a country. This is bad news for the Netherlands, which has relatively few fast growing businesses at present. The government has responded to this need by developing a Growth Accelerator to stimulate companies with an annual turnover of between € 3 million and € 5 million to reach an annual turnover of € 20 million within five years. The aim is to reach this target through coaching and feedback, sharing information and knowledge, and developing the abilities of the managers or owners of the companies concerned. Companies are only allowed to join the programme if they show the ambition to achieve a turnover of € 20 million per year within 5 years.

## **1.8 Recent shift in the focus of entrepreneurship policies**

The effectiveness of Dutch entrepreneurship policies recently underwent an evaluation. The result was positive, but the Ministry does not see this a reason to rest on its laurels. On the contrary, we are determined to bring about further improvements. While our policies for start-up companies received a positive evaluation, one outcome suggested that we might want to do more for those firms that want to grow. We are currently conducting research to identify areas for improvement and we are seeking out best practices in order to learn from them.

### *Special focus on the disadvantages of small firms*

The Ministry is keenly aware that not all enterprises and sectors face the same problems. Nor do they feel the effects of new developments with the same intensity. In light of such differences, the Ministry has shifted its focus from general policies to more specific supplementary policies. For example, small firms will have much more trouble complying with new labour regulations than large firms, since the latter have their own human resources experts who are specialised in labour rules and regulations - a facility that small firms lack. Instead of sticking to egalitarian thinking and a 'one size fits all' approach, the ministry now acknowledges these differences between small firms and larger firms, and is currently examining the nature of the disadvantages experienced by small firms and exploring ways of helping them. Policy measures to reduce the administrative burden for firms with less than 10 employees are in the pipeline.

### *Self-employed entrepreneurs*

One of the most interesting developments in the Dutch labour market at present is the striking increase of the number of self-employed entrepreneurs (or *ZZP'ers* as they are known in Dutch). Exactly how this increase will influence the policies of the Ministry of Economic Affairs remains to be seen, but its influence will surely make itself felt in the near future. While self-employed entrepreneurs will have to be accommodated just as every other firm, they have needs that do not necessarily correspond with those of more

traditional enterprises. As many self-employed entrepreneurs are not insured against disability and are less inclined to take care of their pensions, the increase in their number could well have a whole range of consequences for the institutional system in the Netherlands, based as it is on the principle of solidarity. If large parts of the population are not contributing to the system, its survival will soon hang in the balance. The Ministry of Economic Affairs has a major role to play in making the necessary changes to the system, as does the Ministry of Social Affairs. Research is now under way to investigate how the system can be adapted to accommodate these developments.

The Ministry of Economic Affairs is hard at work to ensure that the Netherlands remains a prosperous, sustainable and enterprising country. Its entrepreneurship policies help Dutch firms adapt to the demands of a dynamic and competitive world, and give them a chance to survive the challenges presented by a global economy.

## Notes Chapter 1

- <sup>1</sup> The business ownership rate = the number of business owners divided by the total workforce. See EIM's data set Entrepreneurs International (Compendia): <http://data.ondernemerschap.nl/webintegraal/userif.aspx?SelectDataset=8&SelectSubset=8&Country=UK>. See also Statistics Netherlands, *Het Nederlandse ondernemingsklimaat in cijfers*, Voorburg/Heerlen, 2008.
- <sup>2</sup> World Bank Group, Review of the Dutch Administrative Burden Reduction Programme, February 2007.
- <sup>3</sup> This change means that more firms can apply for the scheme and it brings the scheme's definition of an SME into line with the EU definition of an SME as "an enterprise [which] has no more than 250 employees and a turn-over of max. 50 million euros a year or a total on the balance of 43 million euros."

## 2 Entrepreneurship (policy) in the Netherlands in the last ten years

dr. Yvonne M. Prince, Jacqueline A.H. Snijders and Petra Gibcus, EIM Business & Policy Research, the Netherlands

### 2.1 Introduction

The first edition in the series 'Entrepreneurship in the Netherlands' was published in 1997. This series is a co-production by the Ministry of Economic Affairs, EIM Business & Policy Research and international entrepreneurship experts. A theme considering an aspect of SMEs and entrepreneurship is selected for each edition, such themes include nascent entrepreneurship, fast-growing enterprises and high tech start-ups.

This tenth edition deals with entrepreneurship policy in the last 10 years. In this chapter of the report we focus on the Netherlands and present entrepreneurship facts & figures and entrepreneurship policies.

The information is based mainly on the studies carried out in the framework of the Programme SMEs and Entrepreneurship that EIM carried out in the past years. The programme is owned by the Dutch stakeholders in the field of entrepreneurship policies and is financed by the Dutch Ministry of Economic Affairs.<sup>1</sup>

The chapter is structured according to the transition moments of an enterprise.

Three transition moments can be distinguished during the lifetime of an enterprise:

- 1 (Pre) Start;
- 2 (Fast) growth;
- 3 Business transfer/Exit.

Policy measures, in particular those policy fields that can be distinguished, focus on a group of enterprises at a certain transition moment. As example, measures taken in the field of education include the introduction of entrepreneurship in the curriculum of educational institutions. If young people are made more aware of the option of becoming an entrepreneur, they may then consider this option later in their career and consequently the number of start-ups may increase. Another example of Dutch policy during the last 10 years has been policy measures related to financing. The loan guarantee scheme is an important instrument (BBMKB). This measure is intended for enterprises at all transition moments (phase 1, 2 and 3). The percentage of the loans guaranteed is higher in case of start-ups and in cases of business transfer.

The policies of the last ten years focus on the following fields:

- Financing;
- Technology and Innovation;
- Internationalisation;
- Education;
- Regulatory simplification.

The transition moments and the most important policy fields related to these transition

moments are included in the matrix below. In each of the phases, the most important policy fields are marked with a “√”. The following sections are devoted to each of the phases in the lifetime of an enterprise and the marked policy fields will be described.

Policy fields (themes)/ Phases	Financing	Technology and Innovation	Internationalisation	Education	Regulatory simplification
1 (Pre)Start	√	√	√	√	√
2 (Fast) Growth	√	√	√	√	√
3 Business transfer/Exit	√				

The following questions are answered per policy field:

What was the state-of-the-art around 1997?

What do we know now?

What have been the accents of the policy measures since 1997?

## 2.2 (Pre)start

### 2.2.1 Introduction

The following five policy fields mentioned in the previous section can be distinguished: financing, technology and innovation, internationalisation, education and regulatory simplification. For enterprises in the pre-starting or starting stage, policies have been developed for almost all the policy fields distinguished. By definition, ‘technology and innovation’ is related to innovative start-ups and technology spin-offs that are a special group of business start-ups.<sup>2</sup>

The various insights in the facts & figures and the accents in the policy fields relevant to the (pre)start stage are presented below.

#### *Birth rates*

The birth rate is defined as the number of entries (start-ups and new affiliates) as percentage of the total number of enterprises. In 2006 the birth rate in the Netherlands was 10.5%. This rate was higher than in most other EU-countries. Only Denmark, Finland, the United Kingdom and Ireland achieved higher birth rates (see table 2.1).

The birth rate in the Netherlands remained stable between 10.3% to 10.5% during the period 1996-2006. The development in this period is in line with the other countries, with the exception of Germany and Japan.

**Table 2.1 Birth rates (%), 1996-2006**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	7.4	7.2	7.5	6.5	6.7	6.5	6.4	6.4	7.2	7.6	8.4
Denmark	9.5	10.4	10.3	11.3	11.7	10.1	9.2	10.7	-	-	13.0
Germany	12.1	12.5	11.4	10.6	9.9	9.2	8.9	10.0	10.6	9.1	8.1
Finland	9.7	9.0	8.4	7.7	8.1	7.9	8.0	8.5	9.0	9.6	11.4
France	6.9	6.8	6.7	6.8	6.9	6.8	6.7	7.8	6.5	6.6	6.3
Ireland	12.0	13.1	15.5	15.6	15.1	12.6	11.9	12.5	13.3	13.9	14.5
Italy	7.7	6.9	6.8	7.3	7.7	7.9	7.7	7.3	7.7	7.6	7.6
Japan	5.0	-	-	4.7	-	4.1	4.3	5.4	5.4	-	4.1
<b>Netherlands</b>	<b>10.3</b>	<b>10.2</b>	<b>9.6</b>	<b>10.1</b>	<b>11.1</b>	<b>9.7</b>	<b>8.1</b>	<b>8.0</b>	<b>8.8</b>	<b>9.9</b>	<b>10.5</b>
UK	13.1	12.7	13.1	13.0	13.3	12.7	12.6	13.2	12.7	12.1	12.1
United States	11.6	12.2	10.4	10.3	10.1	9.5	9.6	9.2	9.7	10.0	9.9

Source: EIM (2008), *International Benchmark Entrepreneurship* (in Dutch: *Internationale Benchmark Ondernemerschap*), EIM, Zoetermeer.

### *Total Early-stage Activity Index*

The Global Entrepreneurship Monitor (GEM)<sup>3</sup> developed a TEA index (Total early-stage Activity Index) to measure early-stage entrepreneurship. This index contains both nascent entrepreneurs (people who are currently involved in setting up their own business) and young business owners (people who currently manage and own a business that is less than 42 months old). The development of the TEA index in the last eight years is presented in table 2.2. The TEA decreased in the first few years of the 21st century. In that period the Dutch economy was facing a period of low economic activity. Fewer entrepreneurs were willing to take risks and set-up their own businesses. Later however, becoming a business-owner was seen as an alternative to being an employee, a consequence of the increasing unemployment. As a result the TEA increased in 2004.

The TEA for the Netherlands for 2006 was 5.4. This means that the decrease that occurred in 2004-2005 from 5.1 to 4.4 was compensated and the index rose above that of 2004. In particular, the index for “nascent” entrepreneurs increased in 2006. The index for young entrepreneurs remained at the same level. However in 2007, the TEA decreased slightly to 5.2%. In contrast with 2006, the index for “nascent” entrepreneurs decreased, but the index for young entrepreneurs increased. This can be an indication that more entrepreneurs actually managed to start an enterprise.

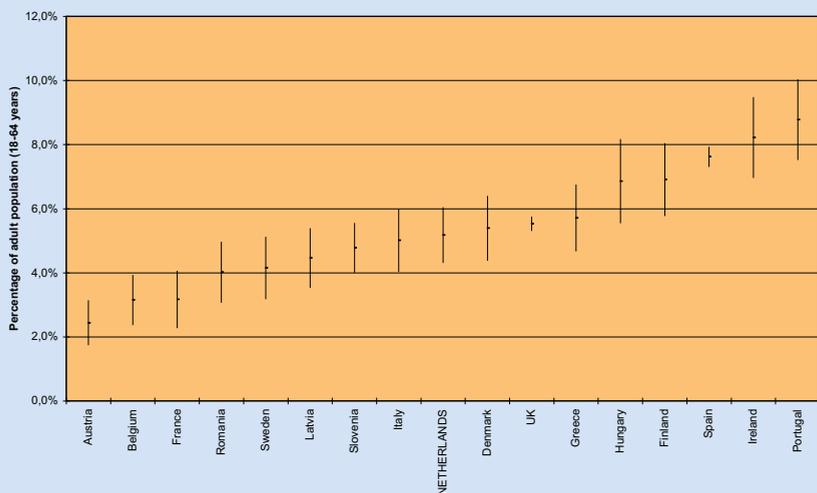
**Table 2.2 Development of the Total early-stage Entrepreneurial Activity (TEA) index the Netherlands and the European Union (EU), 2001-2007**

Year	Netherlands	EU
2001	4.9	7.9
2002	4.6	5.1
2003	3.6	5.1
2004	5.1	5.1
2005	4.4	5.3
2006	5.4	5.5
2007	5.2	5.4

Source: EIM/GEM, 2008.

The average TEA index for the EU Member States in 2007 was 5.4 and the Netherlands still took a position below the EU-average. Focussing on the old Member States included in GEM - Austria, Belgium, France, Sweden and Italy - these had a lower TEA than the Netherlands whereas Denmark, the UK, Greece, Finland, Spain, Ireland and Portugal had a higher entrepreneurial activity (see Figure 2.1).

**Figure 2.1 Total early-stage Entrepreneurial Activity (TEA) indices per country. EU Member States participating in GEM, 2008**



Note: The vertical bars represent the 95 percent confidence interval.

## 2.2.2 Financing

### *State-of-the-art around 1997*

In 1997 EIM carried out an international comparative study<sup>4</sup> on external financing sources and financial support measures for SMEs. Generally speaking it was difficult for SMEs to find external finance due to the:

- information symmetry between the entrepreneur and the possible external financier;
- the entrepreneur’s desire for independence;
- high entrepreneurial risks;
- lack of collateral.

The study distinguished various types of entrepreneurs. It revealed that the assets of “seeders” consist mainly immaterial assets and the liabilities structure (passiva) consists mainly of own capital. Borrowed capital is used mostly for R&D and the acquisition of software and licenses. Compared to other types of enterprises, the main bottlenecks for such enterprises are the consequence of low solvency, lack of available collateral and no possibilities for internal financing. Financiers adopt a risk averse attitude to these enterprises due to the lack of a track record, the lack of collateral and the relative high agency costs compared to the benefits gained from providing finance.

In “young innovative enterprises”, immaterial assets are the most important part of the assets, while their liabilities structure consists mainly of short-term borrowed capital.

Informal investors play an important role in the provision of external capital. The major financing bottlenecks for these types of enterprises are a lack of collateral and internal financing possibilities. The attitude of the banks is very risk-averse because of the lack of collateral. Possible solutions for such enterprises are often alternative financing (informal investors) or joint ventures with successful innovative young enterprises.

### *What do we know now?*

In 2007, the Expert Group SME Financing (Expertgroep KMO financiering), published a report analysing the financial problems of SMEs from different perspectives.<sup>5</sup> This group of specialists was set up by the Ministry of Economic Affairs in 2006.

In the report a distinction has been made between enterprises striving towards a sustainable growth path and enterprises pursuing a growth that lies above sustainable. Sustainable enterprises are defined as enterprises that maximise their growth within self-chosen financial parameters. This means that growth is financed by cash flows, retained profits and third party debt, as long as such is in line with the self-chosen ratio between debt and equity.

The enterprises pursuing a growth that lies above sustainable, tap from a variety of financial sources such as retained profits, private resources from shareholders, formal and informal capital providers and debt. This group was split into existing enterprises (older than 5 years) and young enterprises (younger than 5 years). In general these enterprises struggle with a gap in financing. However it seems that the bottlenecks decreased during the lifetime of the enterprise.

The most serious bottlenecks seem to occur in the young enterprises. Here the expert group concludes that financing issues occur less often than assumed, but that there are serious problems for specific types of young companies. A further analysis of the young enterprises that reported serious financing problems, indicated that around two third of the enterprises did eventually receive the requested credit from the bank, while 25% received capital from informal third party credit providers. The remaining 15% was not able to obtain any credit facility, although several attempts had been undertaken. This refers to 1-2% of all young enterprises. The problems were due mainly to:

- lack of familiarity with credit providers others than banks;
- lack of understanding of the difference between equity and debt;
- unwillingness to share control over the enterprise.

The category young enterprises can be split into young enterprises without any form of credit history and techno start-ups. Young enterprises need credit facilities of 25,000 to 150,000 euro. The main problem is the relatively high cost involved in obtaining these relatively low credit amounts. The high cost are the consequence of: the risk analysis involved, the administration and processing costs and the provision of capital by banks for young enterprises. The techno start-ups, are constantly in need of external capital. This applies in particular to cases where large amounts of money are needed for R&D before production can actually start.

### *Policy accents since 1997*

The policies in the field of financing include financing and fiscal measures. An effective and transparent capital market, where new and expanding firms can borrow money efficiently, is considered important. This applies in particular to the lower end of the market for young and fast-growing firms: problems with the evaluation of risks and returns

on investment projects, the limited exploitation of the potential of informal investors, lack of familiarity with the possibilities of the capital market and relatively small capital requirements. Such problems may hamper the developments in activities in new and promising sectors by new entrepreneurs in particular. Two thirds of start-ups use their own money for their start-up.

The government tried to contribute towards reducing these bottlenecks in the period 1996-2007 by:

- Improving the understanding of the capital market (including that of informal investors) among entrepreneurs and intermediaries.
- Providing guarantees for bank loans for the business sector (Small and Medium-Sized Enterprises Credit Guarantee Scheme (BBMKB).
- Providing direct financial support.
- Introducing favourable tax facilities.

The most important instruments are discussed below.

### *Risk capital*

The 'Aunt Agaath agreement', implemented in 1996, aimed at stimulating the provision of risk capital for (start-up) businesses by private persons (business angels) or venture capital funds. Under the scheme part of the interest received on the loans provided was tax-free. In addition, losses in cases where repayment was not possible were tax deductible up to a maximum amount. In 2001 the name of the scheme was changed to the "Regeling Durfkapitaal". The support provided remained the same. In 2003, the second option (via venture capital funds) ceased to exist.

The formation of Business Angel Networks in 2003 was encouraged. Informal investors and entrepreneurs participated in these networks. Information was developed for intermediate organisations explaining how these networks should be set up.

Specific policies regarding the provision of risk capital for active innovative enterprises have been developed. More information on these policies is given in section 2.2.3.

### *Bank loans*

Bank loans are the most common form of external capital for small business. The major scheme is the Small and Medium-Sized Enterprises Credit Guarantee Scheme (BBMKB). Under the BBMKB, banks may grant state-guaranteed loans to SMEs with good profitability and continuity prospects, such loans would not normally be granted to them at their own risk and expense under normal banking conditions due to the lack of adequate security. The conditions of the scheme have been adapted in the course of the years. The most important change is that the amount guaranteed by the State is higher for start-ups and for innovative enterprises (including new high tech firms).

### *Direct loans*

There are hardly any schemes in the Netherlands that provide direct loans for financing in general. There is only the 'Social Security Agreement for the self-employed' ('Bijstandsbesluit Zelfstandigen') This scheme aims to prevent the flow of people into a benefit scheme and to stimulate those claiming benefits to leave the scheme by stimulating entrepreneurship. Under this scheme entrepreneurs receive an interest free loan to supplement their income.

The Self-employed Benefit Decree came into force in 1996 and was replaced by a new

version in 2004. The major change was the possibility for unemployed persons to make use of the scheme. In addition, these entrepreneurs are entitled to temporary income support should they be obliged to terminate their business within 12 months of start-up.

### *Tax system*

The tax system includes a number of facilities to strengthen the liquidity, and capital position of small enterprises. The following three types of facilities are of interest for new enterprises. Firstly there are facilities related to the entrepreneur's income. The Self-employed persons' allowance (Zelfstandigenaftrek) helps to underpin the functions of the income of the self-employed, which is intended not only for consumption but also to make for reservations for expansion and investments. Starting entrepreneurs receive a higher allowance and by taking advantage of the Fiscal old age savings (Fiscale oudedags reserve), entrepreneurs can reserve money for retirement.

Secondly there are instruments to promote investments. The Investment Allowance (Investeringsaftrek) for example, and the various possibilities for random depreciations (Willekeurige afschrijving).

Thirdly, the tax systems make provisions to soften the unintended progression effects by imposing special tax rates and providing the option to carry over losses and average profits for several years.

Finally the tax system includes tax instruments for SMEs such as the equalisation reserve, a reserve option for a proportionate allocation of costs and expenses, the insurance reserve and a reserve option for uninsured risk.

## **2.2.3 Technology and innovation**

Start-ups that can be classified as high technology based or innovative are expected to contribute more to society than other business start-ups. Internationally such firms are usually called 'New Technology Based Firms' (NTBFs), in the Netherlands they are mostly called 'technostarters'.

### *State-of-the-art around 1997*

One of the main difficulties when studying technostarters has always been the definition. Different definitions have been used in the course of time so that comparison over time and between countries is difficult. In 1995-1996 most studies on technostarters focused on the definition used in the Netherlands and in other countries, by estimating the number of technostarters based on these definitions, identifying the characteristics and problems of technostarters and also considering supporting schemes. However, since the definitions used differed considerably between the countries little could be concluded about the comparative levels of the numbers of NTBFs. One of the first Dutch investigations assessing the number of technostarters<sup>6</sup> stated that roughly 10% of manufacturing start-ups could be considered to be technostarters. In 1995 there were about 200 technostarters a year, dropping as low as 100-150 when the additional criterion 'using a new technical process or developing a new technical product' was used. The percentage of technostarters in the services sectors was assumed to be very low. An analysis based on a Dutch starters cohort showed that 3 to 6% of all starters could be labelled as technostarter. Internationally, percentages of 5 to 10% were found so that the number of technostarters in the Netherlands seemed to lag behind some other countries.<sup>7</sup>

In 1997, the subject of one study was the economic effects of knowledge intensive start-ups.<sup>8</sup> The results of a survey among start-ups, dividing the respondents into different groups based on the use and generation of knowledge, indicate that knowledge intensive start-ups as hypothesized did indeed contribute more to economic growth, employment and dynamism.

### *What do we know now?*

The number of technostarters in the Netherlands has been measured consistently since 1998. The definition used is the following: 'A technostarter is an enterprise that has existed for 5 years or less, is economically active and is no part of a larger company and is active in technology. It commercialises new products, processes or services based on its own developed innovations or on a new application of existing technologies. The enterprise invests heavily in Research and Development. It is possible that the enterprise emerges from a knowledge institute.'<sup>9</sup>

Theoretically technostarters can be found in all kinds of industries, but it is more likely that they will be concentrated in some industries. The technology-based firms can be distinguished in high-tech and medium high-tech industries in manufacturing and services<sup>10</sup>. EIM also includes some light high-tech industries<sup>11</sup>: manufacture of food products, beverages and tobacco; manufacture of rubber and plastic products; contractors for the general construction of civil engineering industry; wholesaling machinery, equipment and supplies.

Figure 2.2 presents the development of the number of technostarters over time, from 1998 until 2007. In the first period the number of technostarters increased substantially, in the second period the number dropped to a lower level due to a downturn in the business cycle. In the third period i.e. 2006 and 2007 (estimates) the number of technostarters was growing, especially during the past year. In 2007, there appeared to be more than eight thousand technostarters. Note that this number is not as high, as it appears to be because, contrary to around 1997 we now consider technostarters up to 5 years.<sup>12</sup> About 8% of these technostarters can be found in manufacturing and 92% in services (especially computer services and engineering). This is contradictory to the insights available around 1997; in that period it was supposed - and in some countries even defined - that almost all technostarters were active in manufacturing industries. The number of technostarters accounts for about 4% of all young enterprises that have existed for 5 years or less in the Netherlands.

**Figure 2.2** Number of technostarters in the period 1998-2007



Source: W.H.J. Verhoeven (2008), *Technostarters in 2007*, EIM, Zoetermeer.

The following conditions - in addition to the general business climate - are crucial for the development of innovative start-ups: access to finance, skilled labour and knowledge.<sup>13</sup> It has already been explained that obtaining start capital from a bank is more difficult for innovative start-ups than for other start-ups. This is due to the higher risk, the information asymmetry between the bank and the entrepreneur, and usually the availability of intangibles rather than tangibles. Venture capital becomes more appropriate then. Due to their nature the technostarters i.e. knowledge intensive enterprises, face more difficulties in obtaining access to highly skilled technical employees and adequate knowledge.

### *Policy accents since 1997*

During the entire period there was special policy interest in stimulating and facilitating technostarters because they have a positive effect on economic society and make a contribution to knowledge spillovers.

At the end of 1996 three former participation organisations for technostarters were merged into one instrument, the Technostartersfund. The BBMKB, a financial instrument for SMEs (referred to earlier) offered favourable conditions for innovative enterprises including technostarters. In 1998, the Twinning programme started, aimed at the stimulation of new businesses in the ICT-sector. In addition specific policies were developed for new business in the Life Sciences (BioPartner). Both initiatives offered an integrated package by giving technostarters access to finance, facilities (incubators), coaching and networks.<sup>14</sup> In the frame of Twinning, co-financing was provided in the growth phase by the Start fund and the Growth fund. In addition Dreamstart offered a first-stop-shop to all support services for technostarters.

Over the years these different initiatives developed simultaneously and both complemented and overlapped each other. The support framework aimed to stimulate more and better technostarters was streamlined at the end of 2002 This resulted in the introduction of the Technopartner programme on 1 January 2004 in which the various instruments were combined in one initiative not aiming at one specific sector in particular.

Nowadays, the Technopartner programma is *the* programma for technostarters. It delivers a coherent package of activities to fit the different stages of technostarters. Technopartner consists of various components providing information, advice, support from knowledge centres and financial arrangements (see [www.technopartner.nl](http://www.technopartner.nl)).

## 2.2.4 Internationalisation

Business start-ups often aim to exploit a market niche, in which products or services are offered that have specific value added compared to the mainstream products or services. In a small, open economy this implies that strongly specialised enterprises have to be active internationally from the very beginning. In literature these firms are identified by terms such as 'born globals' or 'international new ventures'.

### *State-of-the-art around 1997*

As far as we know there was not much information available about Dutch born globals around 1997. At that time more studies and policy ideas focussed on the (international) chances of specific groups of enterprises such as New Technology Based Firms (NTBFs) as discussed in the former section and young, small and innovative ICT-businesses. In an extensive study young, small and innovative ICT-businesses in the Netherlands were identified and characteristics and development chances investigated.<sup>15</sup> Half of the identified enterprises appeared to export, and another 25% had concrete plans to become active in exports. As usual, the most important export countries were within Europe with Belgium and Germany at the top. One third of the enterprises exported to the US, one fifth to the Far East. However, the export percentages were not yet really high: for one third less than 5% of the turnover, and for 15% exporting more than half of their turnover. Most young, small and innovative ICT-businesses seemed to have export potential but were confronted with usual problems faced by starting exporters.

### *What do we know now?*

Both international research as well as experts are of the opinion that due to globalisation the number of born globals is increasing.<sup>16</sup> In 2006 some information became available on the characteristics and performance of businesses that were exporting right from the start of the business ('born globals').<sup>17</sup> Of the enterprises that started in the period 1998-2000, about 6% seemed to be a so-called born global. Most of them were active in wholesale (22%) and financial and business services (40%). The entrepreneurs of Dutch born globals seem to have a higher educational level and be more ambitious than non-exporting start ups. They co-operate more, are more eager to attract borrowed capital also in relation to a higher needed start capital, and they spend more hours working in their own business. They invest more money to achieve their goals, by entering new markets and making high profits. By using knowledge, new techniques and innovations born globals have more distinct products or services (in their opinion) that do, indeed, result in higher financial gains than the non-exporting start ups. However, they do not account for more employment than non-exporting starters.

### *Policy accents since 1997*

In the last 10 years little attention was paid to born globals in Dutch policy. More attention was paid to the internationalisation prospects of highly innovative start ups. However, the

internationalisation programme 'Starters on Foreign Markets' (PSB) intended for small and medium sized businesses is also open to start-ups.

Since 2005 it has been recognised that innovation and internationalisation are two sides of the same coin, so that the stimulation of both internationalisation and innovation can be managed by instruments aiming at one of these two.<sup>18</sup> The abovementioned, recent study shows that born globals account for only a small part of the start ups, although they have considerable ambition and more need for externally borrowed start capital.

### **2.2.5 Education**

In general, it is expected that an increase in the attention paid to entrepreneurship in education will stimulate more young people to become entrepreneurs. Including entrepreneurship in the curriculum is also expected to contribute to a better valorisation of technological knowledge and to more spin-outs from universities, as well as to a more entrepreneurial culture in general.

#### *State-of-the-art around 1997*

An exploratory study on the early development of entrepreneurial qualities in the educational system was presented in 1998.<sup>19</sup> It attempted to create a better understanding of the role of primary education regarding entrepreneurial qualities. An inventory was made, using a literature study, of the entrepreneurial qualities that can/should be taught to young people in primary education: need for achievement, for autonomy, creativity, initiative, risk taking, opportunity seeking, goal setting, self confidence, internal locus of control, persistence. These qualities appear to consist of behavioural aspects, skills and attitudes. Although a large diversity of programmes existed in primary education, especially in the US and UK around 1997, they were experimental in nature and did not document specific entrepreneurial qualities to be trained (creativity was most frequently mentioned). One good practice in the Netherlands was found in secondary vocational education (middelbaar beroepsonderwijs): the mini-enterprises. Each mini-enterprise is set up and run by a group of students and continues to exist for at least six months. Only a small part of the programme is evaluated and consistent evaluations measuring all qualities are lacking. Ideally, the effectiveness of the various programmes should be investigated by assessing the entrepreneurial qualities of students before and after the educational programmes (longitudinal).

An extension of this study in 2003 stated that there are roughly two ways to stimulate the development of entrepreneurial qualities, through specially designed programmes and through entrepreneurial teaching methods in the general education system. 'Searching for ways to stimulate entrepreneurship, both policy makers and researchers have tended to focus more on the specially designed programs. However, these programs usually have a short time span, tend to reach only a small number of students and are often subject to self-selection. Introducing more entrepreneurial teaching methods in the regular education system may be more effective as a larger number of students can be reached. Moreover, the development of entrepreneurial qualities can be enhanced throughout primary and secondary education, spanning a longer period, thereby increasing the chance of the education programme being more effective. It is also possible to combine the two methods by incorporating the specific entrepreneurship programmes in the regular curriculum'.<sup>20</sup>

In 2001, only a few years after the introduction of the Study House (Studiehuis),<sup>21</sup> Dutch experts were of the opinion that the educational system in primary and secondary schools was poorly equipped to teach students entrepreneurial skills like self-reliance, independence and initiative. In the Study House aspects such as self-learning and self-management were more important, but it was probably too early to observe the first results. However, experts were more positive about the attention paid to entrepreneurship in vocational education and at universities.<sup>22</sup>

International comparative studies (i.e. the Global Entrepreneurship Monitor) showed that, in spite of improved image of entrepreneurship, the Netherlands is still lagging behind some other countries regarding the number of nascent and young entrepreneurs. Most (young) people first consider working in an enterprise as an employee and not becoming an entrepreneur themselves. As explained in section 2.2.1, the number of people that actively started their own business or had recently started one in 2003 was 3.6 persons per 100 adults. In 2006 and 2007 these figures were 5.4 and 5.2 respectively. These numbers indicate that the performance of the Netherlands is quite weak compared with many other countries and the OECD-mean. The people starting, or having recently started, a business are relatively highly educated, mainly active in business services and consumer sectors and more often use new product-market combinations and new technologies.<sup>23</sup>

#### *What do we know now?*

A study in 2005 investigating the attention paid to entrepreneurship in secondary schools (HAVO and VWO) showed that there was no structural attention for entrepreneurship.<sup>24</sup> Entrepreneurship is touched upon in economics, and in management lectures most attention paid to financial issues in enterprises. There is little time in that is devoted to entrepreneurial aspects and this subject is not on the examination list.

An extensive study on the current state of entrepreneurship in primary and secondary education was published in 2007.<sup>25</sup> Two factors appear to be crucial for promoting entrepreneurship in schools: enthusiastic teachers with the knowledge required to teach entrepreneurship and adequate teaching material. Some schools are developing as 'entrepreneurial schools' by stimulating innovative behaviour and entrepreneurial attitudes among the teachers; the teachers act as an entrepreneurial example for the students, are open for new initiatives and use new learning forms. Entrepreneurship must not be considered as a new topic (in addition to other social issues) but needs to be better integrated in the curriculum. Secondary vocational education (middelbaar beroepsonderwijs) has more possibilities to include entrepreneurial experiments and exercises than does Higher education (HAVO and VWO). In primary schools, entrepreneurial education projects and activities encourage entrepreneurial behaviour amongst the youngest.

At the present time full attention is being paid to encouraging entrepreneurship in educational systems. All kinds of pilot schemes are being carried out and the necessity for systematic evaluations (using the same method for the different pilots and by measuring before and after the pilots) has been acknowledged.<sup>26</sup>

#### *Policy accents since 1997*

The preparation of students for independence and entrepreneurship were considered to be essential for the development of an entrepreneurial society, and education could

contribute to this. Students should be brought into contact with independent entrepreneurship, they should be given an understanding of, and knowledge about, what it means to manage and run their own enterprise. Entrepreneurs indicated that, in general, they were poorly prepared for business practices.

In 1999, the government stated that, in principle, a student did not need to be taught to be an excellent entrepreneur. Rather, it tried to achieve a change in attitude: an atmosphere needed to be created in which greater independence and more willingness to take risks were rewarded and the positive image of paid employment was no longer a matter of course. 'Running their own business' should become a part of their orientation towards a potential career.

The government stipulated that 'teaching how to be enterprising' should be seen as providing good preparation at the educational stage by fostering an entrepreneurial attitude. The following four strategies were formulated to achieve this:

- 1 Training students to develop an independent attitude;
- 2 Allowing them to become acquainted with the skills that are relevant to entrepreneurship;
- 3 Familiarising students with entrepreneurship and erasing the relatively poor image of entrepreneurship as a profession in its own right;
- 4 Promoting a culture of enterprise at educational institutions.

The government set up a Consultative Committee for Education and Entrepreneurship in 1999. The committee was given the following tasks:

- Enlarging the base of support and awareness within education (students, teachers and institutions) and the business community.
- Making proposals for the development and implementation of the most promising and critical activities aimed at promoting enterprise, entrepreneurial skills and awareness, for example by stimulating pilot projects.
- Making proposals for removing bottlenecks that hinder the step towards entrepreneurship (by students and teachers) at the educational stage and for stimulating people to take the step towards starting a business.

In 2003, 30% of the Dutch population had a preference for running an independent enterprise and 68% for working as an employee. The percentage for having an independent enterprise is the lowest in Europe (EU average is 45%).<sup>27</sup>

In the action programme 2004, published by the Ministry of Economic Affairs and the Ministry of Education, attention was paid to the following themes: including (international) entrepreneurship skills in the curricula, stimulating entrepreneurship among teachers and creating entrepreneurial education institutions (from which start-ups may result).

The action programme "Partnership Leren ondernemen" (Learning Entrepreneurship) was started. In this partnership all major actors in the field of education and entrepreneurship participated. The partnership included inspiring initiatives in the field of entrepreneurship and education, bringing parties together and providing support for joint activities.

In 2006, the government concluded that attention for entrepreneurship in education was improving, but that there was still room for improvement in the extent to, and the way in which, entrepreneurship by educational institutions is stimulated. Therefore the Partnership Leren Ondernemen (Learning Entrepreneurship) was strengthened by

introducing the subsidy scheme Entrepreneurship and Education 2007. This scheme was intended to promote entrepreneurship projects in primary, secondary and professional education. The objective was a wider distribution of the initiatives, to improve, develop and anchor them structurally, so that they will be given a permanent place in the curricula. The scheme also facilitated the start of a selected number of Centres of Entrepreneurship at universities and higher educational institutions.

The objective of these actions was to anchor entrepreneurship education in existing teaching material. Based on the experience gained from the Partnership, the parties involved decided to strengthen their activities by forming a knowledge network. A knowledge network is defined as a group of persons with expertise in the field of entrepreneurship in education who intend to use their knowledge to add value to the activities undertaken in this field.

In addition a programme was set up in which independent entrepreneurs visited schools and other educational institutes, to use their experience to teach about the opportunities offered by entrepreneurship.

## **2.2.6 Regulatory simplification**

### *State-of-the-art around 1997*

In 1999 EIM carried out a study<sup>28</sup> on the administrative burdens for enterprises in 1993 and 1998. The total structural (i.e. annually reoccurring) administrative burdens for enterprises amounted to approximately 7.5 billion euro. Of these costs around 5.1 billion euro were related to "running" an enterprises. The administrative burdens relating to employees were almost 2.3 billion euro.

This study provides no data on the burdens by size of enterprises. An EIM study<sup>29</sup> carried out in 2002, however, showed that around 90% of these costs are related to SMEs. In percentage of value-added the costs for SMEs are much higher than for large enterprises. For small enterprises (fewer than 10 employees), the share is 9% whereas for large enterprises (more than 100 employees) it is only 1%.

### *What do we know now?*

In 2007, EIM made a comparison between the administrative burdens for small enterprises between 1998 and 2007. The comparison was based on 2 cases: a sandwich bar and a painting company.

The total administrative cost of starting the enterprise in 2007 was around 2100 euro for the sandwich bar and 1700 euro for the painting company. The structural administrative costs (i.e. annually reoccurring) were 89% resp. 92% of the total costs.

In the period 1998-2007, the structural cost was reduced by 20%. This deduction was due to a number of regulatory simplifications in the course of the years: the decrease in the length of the obligation to save documents, fewer checks by the food and products authority under the Health Protection Act in 1998, the partial abolition of the license for clean drinking water, the partial abolition of the registration of company names in sector registers and the abolition of the Establishment Law. It was no longer necessary to meet the requirements of the 'General Company Skills'. The lower administrative cost of starting an enterprise seemed to have a positive influence on the intention to start an own company.

### *Policy accents since 1997*

#### Reduction of administrative burdens

The major impediments facing entrepreneurship probably lie in the morass of regulations and administrative burdens.

The start-up of a firm could result in huge administration burdens. Reducing the administrative burden is not easy, but it will be an effective measure to smooth the way for new entrepreneurs.

Co-operation between government and the business sector is necessary if administrative burdens are to be reduced. In November 1998, the cabinet set up the Administrative Burdens Commission (named the 'Slechte Commission' after its chairman) to stimulate this co-operation. In co-operation with the relevant ministries the Slechte Commission defined certain priorities in relation to business starts.

The Commission focussed on:

- the harmonisation of the concept of entrepreneur and of self-employed regarding the tax system and social benefits;
- the administrative obligations related to hiring the first employee;
- the development of 'one-stop shops'. These business counters should help new entrepreneurs to obtain information about new firm creation: market-analyses, possibilities of sales, start-up registration or fiscal information.

In line with the action of the Commission and further studies following the work of the Commission, the Ministry of Economic Affairs set the following policy targets: introduce fewer but more effective regulations, reduce the administrative burdens, set up a helpdesk for businesses and make the schemes designed to stimulate enterprise simpler and more accessible.

The Employment Contract Declaration (VAR) was introduced to harmonise the concept of entrepreneur and self-employed. This declaration, issued by the tax authorities in advance, described the status of the self-employed related to the tax system and the social benefits.

### *Deregulation*

Closely related to the policy aimed at less and more effective regulation, are the policies related to the market structure (deregulation). An open market structure was seen as essential for successful entrepreneurship. The different governments aimed to create a marketing structure that offered opportunities to both new enterprises and existing enterprises.

One of the major activities of the Ministry of Economic Affairs in this field was initially the modernisation and later the abolishment of the Establishment Act. The Establishment Act, implemented in 1954, aimed to promote the quality of entrepreneurship in the Netherlands. This act was evaluated in 1998. The evaluation showed that the Act was no longer an efficient, effective and necessary element to promote the quality of an entrepreneurial country. The Act functioned as an entry barrier for potential new businesses.

The modernisation of the Act meant that the need to obtain a certificate to become an entrepreneur was no longer applicable from January 2001 onwards. However, safety, environmental aspects and working conditions, were still included. Since 18 July 2007 the Act has no longer been in force.

A good legal infrastructure for companies is essential to create a good business climate. With this in mind the Ministry of Economic Affairs and the Ministry of Justice launched a

project in 2003 to make private company (“B.V.”) law more flexible and simple. The new act has many advantages for companies. This legal form is easier for start-ups since the required minimum capital of 18.000 euro has been abolished, along with other formalities necessary to set up a B.V. In addition, the act has the added benefit of reducing the administrative burden and legal costs. The Bill has also introduced shares without voting rights and expanded the possibilities for decision making without a formal shareholders’ meeting.

## 2.3 (Fast) growth

### 2.3.1 Introduction

In the growth stage of an enterprise all entrepreneurship policy fields are relevant for enterprises, although educational measures seem to be less important. Education in this life cycle stage is related more to the training of personnel in general and not to entrepreneurship in particular.

The growth of enterprises can be measured based on employment growth or turnover growth. Table 2.3 shows the share of high growth enterprises in the Netherlands in the period 1998-2005 measured according to both employment growth and turnover growth. In the period 2002-2005, the share of high growth enterprises (employment growth of at least 60% within three years) was 7.5% of the population of enterprises with 50 to 1,000 employees. The share of fast growing enterprises had been decreasing since 1998, but an upswing was visible in the last period.

**Table 2.3 Share of high growth enterprises in terms of employment and turnover in Netherlands, percentages, 1998-2005**

	1998-2001	1999-2002	2000-2003	2001-2004	2002-2005
Share of high growth enterprises in terms of employment	9.1	7.8	8.2	6.6	7.5
Share of high growth enterprises in terms of turnover	18.1	14.2	7.5	7.0	11.0

*Source: EIM, Internationale Benchmark Ondernemerschap (International Benchmark Entrepreneurship), Zoetermeer, 2008.*

In Table 2.4 the share of high growth enterprises defined in terms of employment is presented. Despite the increase in the last period, the Netherlands again lags behind. Japan shows an extremely low percentage of high growth enterprises. Italy, Denmark, the United Kingdom and especially the United States have a relatively high number of high growth enterprises.

**Table 2.4 International comparison of the Shares of high growth enterprises (in terms of employment), percentages 1998-2005**

	1998-2001	1999-2002	2000-2003	2001-2004	2002-2005
Belgium	15.0	11.2	8.6	6.7	5.6
Germany	10.6	10.5	8.9	9.2	7.8
Denmark	13.8	12.1	12.3	10.8	11.6
Finland	13.2	11.4	8.9	9.5	8.8
France	14.2	12.1	9.3	7.7	6.8
Ireland	11.7				
Italy	28.8	31.5	26.4	17.1	13.2
Japan	1.4	1.5	1.1	1.5	2.0
Netherlands	9.1	7.8	8.2	6.6	7.5
United Kingdom	15.0	13.3	11.9	9.7	10.9
United States	21.0	18.5	13.4	14.6	20.1

Source: EIM (2008), *International Benchmark Entrepreneurship* (in Dutch: *Internationale Benchmark Ondernemerschap*), EIM, Zoetermeer.

### 2.3.2 Financing

#### *State-of-the-art around 1997*

As stated previously, EIM carried out a study on SME financing in 1997.<sup>30</sup>

One particular group distinguished in this study were the “innovative and other gazelles”. In such types of enterprises, working (floating) capital is a major part of their assets structure. Their liabilities (passive) structure is mainly characterised by short-term borrowed capital (trade credits). Motives for obtaining external financing are very broad such as investing in equipment, immaterial assets and internationalisation. Venture capital firms are very important financiers for such enterprises. The main bottlenecks in securing financing are liquidity problems and lack of internal financing possibilities. The attitude of the financiers is, in general, less risk averse than for the other types of enterprises distinguished in the study. One solution for these enterprises is off-balance financing (leasing).

Another group distinguished are “innovative enterprises with a low growth”. Many entrepreneurs choose not to grow because they are afraid of losing their independence. The major assets of such enterprises are fixed assets and immaterial assets. Their liabilities (passive) structure consists mainly of own capital and trade credits. The main reason for these enterprises to seek capital is to invest in equipment. The entrepreneur’s own capital and that of informal investors are the most important sources of finance. The main bottlenecks are the lack of financing possibilities and the limited size of the enterprise. The attitude of the banks to this type of enterprises is risk averse and the solutions are found with the enterprise.

Finally there are also “traditional SMEs”. The working (floating) capital of these enterprises is the major part of the assets structure and own capital is the major part of the liabilities structure. The major motive for obtaining finance is to invest in equipment, own capital and bank loans are the main sources of finance. The major bottleneck is the

lack of internal financing possibilities. The attitude of the banks is rather risk averse because of the lack of track record and availability of collateral. Solutions are most often found in the enterprise itself e.g. by adapting the strategy, rather than on the capital market.

### *What do we know now?*

The Expert Group SME Financing, mentioned in section 2.2.2, published a report in 2007 analysing the financial problems of SMEs from different perspectives.<sup>31</sup> In this report a distinction is made between enterprises striving for sustainable growth and those enterprises pursuing a growth that is not sustainable.

Sustainable enterprises are defined as enterprises that maximise their growth within self-chosen financial parameters. This means that growth is financed by cash flows, retained profits and third party debt, as long as such is in line with the self-chosen ratio between debt and equity.

Enterprises that follow the sustainable growth path do not meet financing bottlenecks. They are able to raise finance within a self-chosen financial ratio. It may be concluded that the capital market is working properly for these enterprises. According to the expert group 92.5% of the SMEs belonged to this category in the period 2000-2003, and recent data indicated that this share has not been declining.

The enterprises pursuing growth that lies above sustainable, tap from a variety of financial sources such as retained profits, private resources from shareholders, formal and informal capital providers and debt. This group was split up in existing enterprises (older than 5 years) and young enterprises (younger than 5 years). In general these enterprises struggle with a financing gap. However it seems that the bottlenecks decrease during the life-time of the enterprise.

Existing enterprises do have to cope with financing problems from time to time, but these problems occur, statistically speaking, far less often and are less serious than is often assumed.

In general approximately 38% of SMEs seeking finance are able to finance growth reported problems by raising money. However at the end of the day, around 90% of these enterprises did manage to obtain finance from banks without too much trouble. The remaining 10% was not successful in getting any credit at all. The main reasons for this were:

- a lack of trust in the management of the enterprise;
- a lack of trust in the relevant industry;
- insufficient collateral.

### *Policy accents since 1997*

Previously, we explained that four types of financial support can be distinguished. The policies applied by enterprises in the growth phase focus on the availability of risk capital and bank loans. In addition a number of tax facilities, described in section 2.2.2 of this chapter, are relevant for enterprises in the growth phase.

### *Risk capital*

A special Financing Scheme (BF scheme) was set up to improve access to the capital market. Under this scheme subordinated (risk-bearing) borrowed capital was available for enterprises that were basically sound but that could not strengthen their shareholders' equity in the market. This scheme was followed by the growth facility (Groeifaciliteit). This facility offers banks and venture capital funds a state guarantee of 50% on investments with risk capital (shares and subordinated loans).

## Bank Loans

The need for capital is evident in the growth stage of an enterprise. The major scheme in this field is the Small and Medium-Sized Enterprises Credit Guarantee Scheme (BBMKB), as described in the previously.

### 2.3.3 Technology and innovation

Once an enterprise has achieved a certain size growth can be established only through innovation: with new products and services or on new markets. Entering new foreign markets will be discussed in the following section. Here the focus is on new products and services, but also on new processes and organisation structures.

#### *State-of-the-art around 1997*

In 1996 little was known about the extent of innovation in SMEs. At that time most facts and figures covered large firms but not much was known about SMEs. At that time, 'innovation' was not a word used frequently; 'technology' and 'R&D' (Research & Development) received the most consideration. EIM completed a study in 1996 to gain more insight into what innovation means in small businesses, and how innovativeness can be measured in practice.<sup>32</sup> In 1997, the first innovation report was published to present SME innovation figures. Innovation in industrial sectors was measured using 13 indicators distinguishing between inputs, processes and outputs of innovation. These indicators visualised the method and organisation of innovation in SMEs better than traditional indicators such as R&D-expenses and numbers of patents. The foreword in the report makes clear that the publication of SME-figures was not as straightforward as it might seem to be nowadays.<sup>33</sup> Around that time CBS started the annual publication of 'Knowledge and Economy' (in Dutch: 'Kennis en Economie').

#### *What do we know now?*

From 1999 onwards the innovativeness of SMEs has been measured systematically. In the meantime the indicators have developed to some extent, in accordance with increasing knowledge and practical use, also related to other sectors such as services and the maritime sector. Nowadays the innovation indicators aim to measure the innovative results, activities and plans of the enterprises.<sup>34</sup>

A comparison between the innovativeness of the SME-sector in 2002 and 2008 clearly shows that the SME-sector was more innovative in 2002 than in 2008 (see table 2.5), Analysis of the annual data show that the innovativeness remained more or less constant in the period 2002-2007, but weakened in the first half of 2008. This development is probably related to the first signs of the economic downturn.

**Table 2.5 Innovation indicators of Dutch SMEs, in 2002 and 2008**

Indicator	2002	2008
% innovative firms	65	50
% having introduced new products and services	33	28
% having improved business processes	58	38
% making use of external networks for knowledge	50	39
% co-operating with other businesses and organisations	35	29

Source: EIM, 2008.

Innovation investments have also been measured since 2004. In 2008 about one third had concrete plans for product innovations and another third for process innovations. The corresponding figures for 2004 are respectively: 25% and 34%. Hence, the percentage of SMEs having serious plans to carry out product innovations has increased in the meantime. Probably, a lower extent of innovation in 2008 goes hand in hand with more plans regarding product innovations.

### *Policy accents since 1997*

Dutch innovation policy is driven by the Lisbon agenda which states that Europe's competitiveness needs to increase. Innovation plays an important role in achieving this and Dutch goals have been formulated for 2010. The aim of this policy is to increase enterprises' R&D investments as well as increasing the number of innovative enterprises and that part of the turnover realised with new/improved products. In addition, co-operation is high on the agenda, in particular private-public partnerships and knowledge diffusion from public knowledge institutes to enterprises.

Many policy discussions were approached along the lines of the Dynamic Innovation System. The rationale behind this approach is that innovation is initiated through an intensive interplay between the various parties in the innovation system which include enterprises, universities, knowledge centres and intermediaries. In this system knowledge has to be circulated between all parties meeting some basic conditions. Efforts have been made to draw up a policy to fulfil these conditions as well as possible.

Policy actions also extended from the stimulation of R&D towards innovation. In policy documents the term innovation is commonly used in policy documents. Innovation was considered to be the driving force behind increasing labour productivity. Attention was also drawn to the non-technological aspects of innovation such as strategy, marketing and design. In addition, it was recognised that human capital plays a crucial role in innovation. The human resources now involved in innovation are called social innovation.

In 2003 the national 'Innovation Platform' was initiated to create and carry out ideas for the further development of the Dutch knowledge economy; this platform consisted of top executives from business, science and government. The Netherlands is characterised by the "knowledge paradox": a great deal of highly qualitative knowledge is generated but hardly used in practice by enterprises. Particular attention was given to the growing shortage of highly educated technical employees.

Some key technologies were identified leading to the choice for knowledge clusters in which the Netherlands foresees international opportunities and wishes to invest more intensively. However, the opinion of SMEs is that the Innovation Platform and the key technologies do not really support SMEs, although SMEs may participate in the innovation programmes of the key technologies. Specific instruments for SMEs such as WBSO (stimulation of R&D) and Syntens (innovation advice) have developed in the course of time. WBSO is widely used by SMEs and the budget was extended a few times. The regional Syntens organisation with its advisors is still the first-aid post for SMEs that think about, or want, to innovate although the accents in the topics evolved as time went by in accordance with the social debate. Together with other partners they developed an internet portal intended for SMEs that want to innovate ([www.innovatienet.nl](http://www.innovatienet.nl)). Instruments intended particularly for knowledge transfer to SMEs (HMKB, KIM, SKB, SKO) disappeared. These were replaced by new initiatives such as the Innovation Vouchers and the Innovation Performance Contracts in 2004.

### 2.3.4 Internationalisation

#### *State-of-the-art around 1997*

Just before 1997 many internationalisation studies focused on the effects of the European unification. A joint research project in eight countries (INTERSTRATOS), including the Netherlands, for example, followed the internationalisation process of individual SME-enterprises in five industrial sectors for a period of five years. In this empirical investigation the internationalisation of enterprises was approached as more than exports and imports only. However, in regular statistics little more than export figures for SME-sector was available at that time.

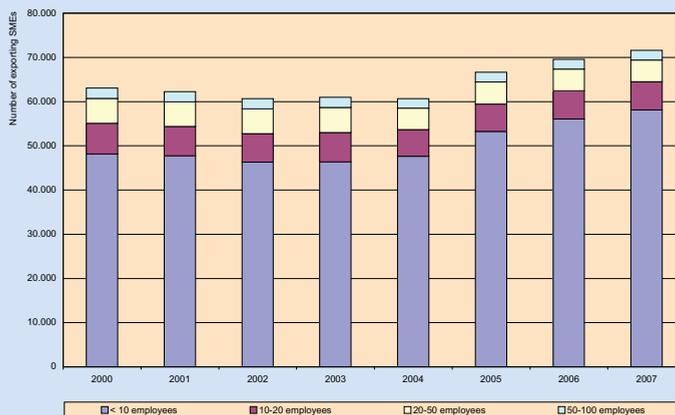
On the other hand, in 1994 and 1995 considerable attention was paid to the South-East-Asian countries, which were booming. Opportunities and impediments for Dutch businesses, and SMEs in particular, were investigated. Some years later, in 1996, attention returned to export opportunities in Europe as there were still many opportunities in neighbouring countries. Key export regions for Dutch SMEs within Europe were identified: the best opportunities for SMEs to achieve growth appeared to be in Belgium and Germany.<sup>35</sup> Cheaper imports from, and outsourcing to, low wage countries were already on the research agenda at that time.

In 1996, EIM published the 'Export thermometer' for SMEs for the first time. Since then export statistics are published annually and in recent years statistics covering the export of services, wholesale and transport have been included.

#### *What do we know now?*

During the period 2000-2007 the Dutch SME-exports - SMEs are defined as enterprises with 1-99 employees - increased from 90 billion euro to 142 billion euro.<sup>36</sup> In 2007 more than 70,000 Dutch SMEs were active in exporting. Figure 2.3 shows that since 2000 the number of exporting SMEs decreased from around 63,000 to 61,000 in the years 2002-2004 and then increased considerably in the period 2005-2007. However, the extent of export participation by SMEs<sup>37</sup> has remained fairly stable during the last ten years at between 9-13% because the total number of enterprises in the Netherlands continued to grow during this period.

**Figure 2.3** Number of exporting SMEs, 2000-2007



Source: Derived from Table 1 in: P. Gibcus, D. Snel and W.H.J. Verhoeven (2008), *The Exportindex SMEs 2007; developments 2000-2007* (in Dutch: *De exportindex MKB 2007; ontwikkelingen 2000-2007*), EIM, Zoetermeer.

The extent of exploitation of the export potential of SMEs in the Dutch manufacturing industry, business services and wholesale sector grew from 57% to 62% in the period 2000-2007<sup>38</sup>. The extent of exploitation in manufacturing industry is highest. Most of the neglected export potential is to be found in the business services sector and, as to size classes, most unused export potential is located in smaller businesses; the majority of larger firms with more than 100 employees are already exporting.

At present a large proportion of export is still going to countries in Europe. The factors impeding export remain more or less the same: too little information about local markets, different cultures and languages, lack of information about regulations and legislation, lack of local partners, shortage of time and money and financial risks. Although information was requested about other forms of internationalisation, such as subsidiaries abroad, only recently did some figures applying to the SME-sector become available. An overall measurement of the SMEs' foreign activities was carried out in 2004; since then only some individual figures, from various sources have been made available. Measurements made in 2004 showed that of Dutch SMEs: 18% exported, 26% imported, 2% had direct foreign investments and 9% co-operated cross border.<sup>39</sup> In addition, it became clear that imports and export are closely related; through imports many enterprises have access to exporting opportunities.<sup>40</sup>

#### *Policy accents since 1997*

In general, internationalisation policy aimed at strengthening the national and international business climate and at removing barriers to foreign markets. One of the issues on the agenda was the relative high wage costs in the Netherlands, requiring high labour productivity to remain internationally competitive. The scope of attention was widened to include not only exports but also internationalisation and international entrepreneurship, and to stress the importance of the internationalisation of the service and distribution sectors in addition to manufacturing industries. There were warning signs that Dutch exports grew only thanks to the amount of re-exports that have less value added for the Dutch economy. However, re-exports are important for the services and distribution sector.

In addition to some general measures aiming to stimulate exporting, the Ministry of Economic Affairs introduced the PSB-instrument (Program Starters on Foreign Markets) in 1997, with specifically intended for SMEs entering new export markets. The relatively small size of these companies means that they have a high degree of flexibility and can respond promptly to changing market conditions. On the other hand, the lack of scale can also be an obstacle to the development of export activities.<sup>41</sup>

In 1996 the first NBSOs (Netherlands Business Support Offices) opened in China and India to support Dutch firms in these local markets; since then more NBSOs have been established in foreign markets that offered opportunities for Dutch exporters. The website [www.internationaalondernemen.nl](http://www.internationaalondernemen.nl) provides all the required relevant information for Dutch enterprises that want to go international.

Subsidy schemes, such as PSOM and PESP that were terminated recently, focussed on stimulating economic relations between enterprises in the Netherlands and specific foreign markets. PSOM provides financial support to invest in upcoming markets and PESP carries out feasibility studies, project identification and investment preparation studies in far away countries. The Fund Emerging Markets (FOM) specifically aims to encourage investments such as joint ventures in emerging markets.

Many trade missions have been organised, some of them particularly for SMEs to identified key regions within Europe. With the accession of the candidate Member States to the EU more attention was paid to the development of trade relations with these East European countries. These candidates have now become members of the EU. There were also (political) discussions as to whether foreign direct investments should be stimulated or not, because of the perceived loss of employment. The policy agenda was renewed in 2008.<sup>42</sup> The (in 2007) positively evaluated PSB-instrument is the core of the new Prepare2start-programme, aimed at start-ups on foreign markets. Special policy attention is also given to the (lack of) financing of SME internationalisation activities. The BBMKB-instrument has an international dimension aiming to provide bank guarantees for a part of the loans needed for international activities. A special part of the website referred to above is devoted to SME finance issues.<sup>43</sup>

### 2.3.5 Education

#### *State-of-the-art around 1997*

High growth of enterprises can be hampered by factors in the business environment (for example poor functioning of capital or labour markets) or by internal factors (strategy, human resource management, knowledge management). To get more insight in the latter, A study was carried out in 1998 to obtain more detailed information on this subject. There were two major conclusions: there is no blue print for growth and high growth enterprises manage to break through the glass ceiling they meet during their development: good management and organisation of the business process play a crucial role. The study showed that high growth enterprises, among others, are often managed by the founder of the enterprise, the founder is highly educated, the management functions as a team, they have a modern organisation structure, they are more knowledge intensive, pay more attention to training their employees and train their managers in more fields.

#### *What do we know now?*

Research revealed that CEOs of successful high-growth technology businesses require the following capacities:

- Entrepreneurial spirit (88%);
- Perseverance (61%);
- Personal contacts/networks (30%);
- Technical knowledge (27%);
- Luck - being in the right place at the right time (27%);
- Managerial abilities (18%);
- Upbringing (9%);
- Education (9%).

A study of Syntens, the innovation network for SMEs in the Netherlands, revealed that growing high-tech start-ups need the following:

- Experienced independent coaches to act as a “sounding board”;
- A network of similar high-growth companies;
- Knowledge of personnel issues;
- Knowledge of marketing issues;
- Better access to sources of finance; more venture capital;

- Simplified regulations;
- A more flexible labour market;
- Training in entrepreneurial skills.

### *Policy accents since 1997*

High-growth companies are led by strong entrepreneurs who combine vision and daring. Their role very much determines how the business will develop, so these entrepreneurs need the right attitude and abilities to facilitate the growth of the enterprise. Various initiatives to support such entrepreneurs have been developed by the Ministry of Economic Affairs.

In 2001, the Ministry supported the establishment of the GrowthPlus Netherlands, a network of entrepreneurs in high growth enterprises. This organisation organised network meetings and was a platform for the dissemination of knowledge and information. Due to the lack of interest among enterprises to participate (probably due to the economic downturn) the activities were terminated in 2004.

At the same time, the ministry commissioned the Tilburg University to develop a European master programme, called the Champions of Growth. This initiative was followed in 2002 by the Dutch Fast Growth Master classes. Finally, The Get to know Programme was set up in cooperation with Syntens. This programme provided coaching and networking facilities.

At the present time support for high growth enterprises has as aim awareness creation, support for managerial capabilities and improved public services. The activities to create awareness about the possibility of becoming entrepreneurs are described in section 2.2.5.

In support of awareness creation the Ministry endorses the annual FD Gazellen for event for high-growth enterprises organised at regional level by the financial newspaper FD.

During these events awards are presented to the most import Gazelles, there are debates exploring success factors and there are opportunities for entrepreneurs to exchange ideas and experiences. In addition the Ministry has endorsed the High Growth Forum organised by Port4Growth since 2003.

The Mastering Growth Programme was launched in 2006 to support the development of managerial capabilities, specifically for high growth enterprises. This programme consists of four master classes tailored to enterprises in various stages of their development.

These master classes pay particular attention to the entrepreneur's role and influence in the growth of the enterprise, and deal with topics such as finance, strategy, culture and leadership. In addition, Enterprise zones were established in cooperation with three universities and local authorities. In these zones start-ups and high-growth companies are offered special assistance on issues relating to the legal and regulatory system.

The Syntens Get to know Programme was followed by a new programme in which high-growth start-ups are coached and guided.

The Growth accelerator programme was set up in 2008 with the aim to assist around 100 enterprises, that have potential and ambition, to realise a substantial growth of turnover varying from a few million to at least 20 million euro within 5 years (see [www.programmagroeiversneller.nl](http://www.programmagroeiversneller.nl)).

### **2.3.6 Regulatory simplification**

#### *State-of-the-art around 1997*

The total cost of administrative burdens was discussed in section 2.2.6. Reference was

made to a study carried out in 2007 in which the administrative burdens for small enterprises between 1998 and 2007 were compared. The comparison was based on two cases: a sandwich bar and a painting company.

Apart from a comparison of the cost of starting the enterprise, the costs were also calculated of: engaging the first employee, engaging four extra employees and the cost of converting the one-man company to a limited liability company.

#### *What do we know now?*

The total administrative cost of hiring the first employee was around 1300 euro for a sandwich bar and 1200 euro for a painting company in 2007. The structural administrative costs (reoccurring annually) were 37% resp. 40% of the total costs. The cost of hiring four extra employees were the same for both types of enterprises 620 euro. Structural costs account for 23% of this amount. The costs of conversion to a limited liability company were also almost the same for both types of enterprises, 1300 euro, 85% of which was structural cost.

In the period 1998 and 2007 the total administrative burdens of hiring the first employee were reduced by approx. 20%. This reduction being the consequence of changes in the income tax rate and employee social insurance rates. The most important change was the abolition of separate reporting to the Tax and Customs Administration and UWV.

#### *Policy accents since 1997*

It has already been explained that the administrative load acts as a barrier to entrepreneurship, not only in the start-up phase but also to a firm's further growth. Administrative obligations may, therefore, discourage a business from taking on staff or more staff, for example. In addition, the various government services and the inaccessible and, at times, complex organisation of subsidy schemes are a thorn in the side of entrepreneurs. As a result, entrepreneurs are distracted from what they do best: run a business.

#### *Transparent legislation and regulation*

Various actions have been taken to make the legislative and regulatory framework more transparent and to ease the administrative formalities related to applying for subsidies. It also became possible to apply electronically.

Public procurement regulations were modified in line with the new EU framework directive to open up the market of public procurement.

The Project Simplification Licences (Project Vereenvoudiging Vergunningen) was set up in 2005-2006. This project covered licences issued by all Ministries and was led by the Ministry of Economic Affairs. In the frame of this project all centralised and decentralised licences were re-assessed. This assessment led to, it being possible to abolish 40% of the licenses and 21% of the licensing systems. In April 2006, the various Ministries presented the actions to be taken based on these re-assessments.

#### *Contradictory legislation and regulation*

In addition to reforming an inefficient legislative and regulatory system and the accompanying heavy burdens, action was taken to streamline the legislative and regulatory system so that contradictions were avoided. The Contradictory Regulation Reporting Point was set up in May 2003 to identify contradictions. Some 1200 cases were reported and investigated. Specific working groups of stakeholders took measures to eliminate contradictions.

Booklets (Compasses) and a website portal per sector of industry (Branche-wijzers) were established. These provide enterprises with solutions when they are confronted with contradictory cases and also advice on legislation and permits in certain cases.

In November 2008, the reporting point was integrated in the Internet-site [www.antwoordvoorbedrijven.nl](http://www.antwoordvoorbedrijven.nl), which is the first port of call for businesses when searching for information on legislation.

In addition, the Regulatory Reform Group (Regiegroep Regeldruk) was set up. Staff from both the Ministry of Economic Affairs and the Ministry of Finance were included in this group that aimed to improve the better regulation unit.

To avoid contradictions in new legislation, the relevant Ministries joined forces and now assess all new legislation and regulations as their effect on businesses, the environmental impact, the feasibility and enforceability i.e. is the new legislation a good instrument.

Specific attention is paid to the effect on small business. This Business Assessment, (Bedrijfseffectentoets (BET)), was combined in 2007 and 2008 with a test of the effects on competition, a licensing test and a test on compliance costs.<sup>44</sup>

At the end of 2007, there were more than fifty instruments for reviewing the effects of new measures. To avoid ineffectivity and to reach a transparent and complete overview of the effects of new regulations all Ministries, under the chairmanship of the Ministry of Justice, have developed a plan to reach to an Integral Assessment Framework Policy and Legislation (Integraal Afwegingskader Beleid en Wetgeving). The intention is to implement this Framework in 2011.

## **2.4 Business transfer/Exit**

### **2.4.1 Introduction**

#### *Death rates*

The death rate is defined as the number of exits (bankruptcies and other closures) as a percentage of the total number of enterprises. In 2006, the death rate in the Netherlands was 6.4%.

In the period 1996-2006, death rates in the Netherlands increased from 5.3% to 6.4%.

During the last 4 years the rate remained stable. Section 2.2.1, showed that the birth rate was 10.3% in 1996 and 10.5% in 2006. So whereas the birth rate has remained more or less stable during this period, the death rate increased.

Compared to Denmark, Finland, Ireland, the United Kingdom and the United States, this rate is still relatively low.

**Table 2.6 Death rates (%), 1996-2006**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Belgium	6.7	6.7	6.6	7.1	6.8	6.6	6.3	6.0	6.2	6.2	6.3
Denmark	8.9	10.0	9.7	9.4	9.5	10.3	9.8	10.5	11.0	-	12.5
Germany	8.3	8.3	8.1	8.0	7.3	7.0	7.0	7.1	7.3	7.4	6.8
Finland	8.8	7.5	7.1	7.2	7.4	7.5	7.6	7.7	8.1	7.8	7.7
France	4.6	7.0	5.8	5.2	5.5	4.3	4.1	4.9	5.3	5.0	5.2
Ireland	10.0	7.9	4.4	5.8	5.7	7.6	7.4	3.8	7.6	6.3	7.6
Italy	6.2	6.3	5.5	5.4	5.4	5.5	5.8	5.9	6.2	6.2	6.7
Japan	4.3	-	-	7.6	-	4.5	4.6	-	6.4	-	5.9
Netherlands	5.3	5.5	5.6	5.7	6.1	6.3	6.1	6.5	6.5	6.4	6.4
United Kingdom	10.6	9.8	10.0	11.3	11.6	10.7	10.4	11.2	11.6	9.0	9.3
United States	8.8	9.5	9.0	9.0	8.9	9.2	8.9	8.7	8.8	8.9	9.1

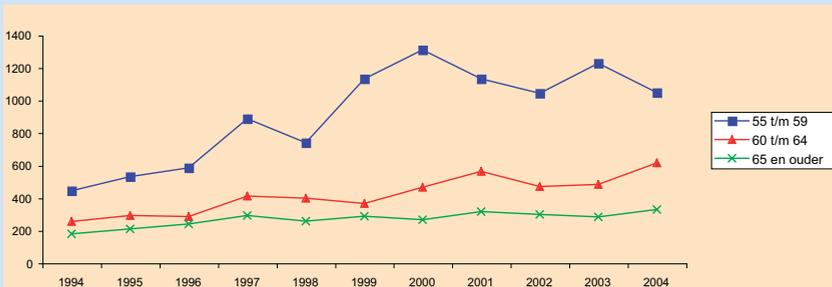
Source: EIM (2008), *International Benchmark Entrepreneurship* (in Dutch: *Internationale Benchmark Ondernemerschap*), EIM, Zoetermeer.

### Business transfer

During the last decade, there has been considerable interest in the issue of business transfer and take-overs. This is due to the baby boom generation among the entrepreneurs and because it is no longer usual for children to take over the family business run by their parents. In 2005, the entrepreneur of more than 184.000 enterprises was older than 55 years of age. One third of these enterprises were active in wholesale and retail trade and another third in services. Less than 10% was active in the manufacturing industry. The same holds for construction.

During the last 10 years, the number of business transfers by entrepreneurs older than 55 years of age has increased. As figure 2.4 shows, the business transfers in the category 55-59 years of age, increased seriously at the end of the nineties and stabilised at a higher level.<sup>45</sup> Business transfers in the category 60-64 years of age, almost doubled during the last decade. The number of business transfers of entrepreneurs older than 65, is increasing less strongly. In the period 1999-2004, approximately 9% of enterprise was successfully transferred.<sup>46</sup>

**Figure 2.4 Business transfers (limited liability companies) of entrepreneurs older than 55 years of age**



Source: EIM, 2008.

## 2.4.2 Financing

### *State-of-the-art around 1997*

Although business transfer and exit has been on the policy agenda since the beginning of the 90s, the research on this subject carried out in the Netherlands is limited.

In 1993, the European Commission published the White Paper on Growth, Competitiveness and Employment. In this paper the transfer of business was indicated as a priority area requiring support measures. In December 1994, the Commission adopted the Recommendation on the transfer of small and medium-sized enterprises<sup>47</sup>. This recommendation included regulatory and support measures, which could facilitate business transfers. The measures were aimed at:

- awareness creation among business owners about the problems of transfer and so to stimulate them to prepare the transfer;
- provision of financial environment to help successful transfers;
- offering suitable procedures to enable business owners to prepare the transfer effectively;
- ensure continuity in case of the decease of the business owner;
- ensure that inheritance and gift taxes do not endanger the survival of enterprises in cases of business transfer;
- provision of tax measures to encourage the business owner to sell the enterprise or to transfer it to employees should there be no successor in the family.

In 2000, the Commission set up an expert group on the transfer of business to monitor the implementation of the 1994 Recommendation. The tasks of the group included the identification of new legal, tax and support measures taken since the 1998 Communication, assessment of the measures taken, analysis of the provision of support measures and proposals for further action.<sup>48</sup>

### *What do we know now?*

In the frame of the GEM monitor 2006<sup>49</sup>, additional questions arose about the exit of enterprises. In 2006, 0.8% of the Dutch population (18-64 years of age), closed their enterprise. The EU-average is 1.8%. Financial reasons were the main motive for almost 30% of the entrepreneurs that closed their businesses. For 20%, Personal reasons were the main motive for 20%. Other reasons were fierce competition (4%) and finding another position (5%).

At the start of 2007, 6% of the enterprises was engaged in a business transfer. One third of these enterprises had not then selected a successor. Around 3% expected to start the transfer of the business within 1 to 2 years. A comparison between the number of enterprises transferred yearly and the number of enterprises engaged in business transfer indicate that for a large percentage 1) the transfer takes a long time, 2) many do not continue with the transfer process, 3) the business is immediately, or with a few years, taken over by another enterprise and/or 4) ceases to exist, due for example to the failure of the transfer.

A major share of the enterprises, that in first instance look healthy, meets problems in finding a suitable successor. it takes longer than 5 years for 15% of enterprises. It may be assumed that a large number of the enterprises ceased to exist due to the fact that they were unable to find a suitable successor.<sup>50</sup>

## *Policy accents since 1997*

### Exit

The implementation of the New Competition Act in the Netherlands in 1998 and the lowering of entry barriers due to the simplification of the Establishment Act, was expected to lead to more competition and therefore more bankruptcies. This development led to the functioning of the Bankruptcy Act being examined. The Bankruptcy Act protected the rights of capital providers and suppliers and it stipulated the scope and conditions for the discontinuation, liquidation and reorganisation of insolvent businesses. The core of the Bankruptcy Act dated from 1893. The most sweeping change since then was the introduction of the Natural Persons Debt Restructuring Act (WSNP) on 1 December 1998. This law ended the principle of unlimited personal liability for debts, which was particularly important for self-employed and general partnerships.

In 1999 (the entrepreneurial society), it was concluded that the Bankruptcy Act was not functioning well. Although granting the suspension of payment was originally intended as a reorganisation instrument for viable firms, at that time 73 per cent of all such arrangements ended in bankruptcy. The possibility to strengthen the reorganising capacity of the Bankruptcy Act was investigated in 2000.

### Transfer

In section 2.2.2, the general tax facilities are described. In the tax system there are facilities to ease the termination of business and business transfer. The incorporation of an enterprise into public and private limited companies as well as mergers and acquisitions are supported through the tax system. This avoids the taxation of excess value in such situations. The ownership transfer scheme and Business Suspension relief are also relevant.

One of the major problems of the transfer of an enterprise was the effects on taxes to be paid by the owner. Before 2000, ownership of an enterprise could be transferred without tax consequences by the owner to family members only. After 2000, this exception also held for transfer to other entrepreneurs, this meant a considerably extension of the circle of prospective new owners. This not only improved the chances of successful take-overs and but also eliminated the continuity problem if succession cannot be secured within the family.

The Growth facility (Groeifaciliteit), as described before, also supports investments with risk capital in case of business transfer. Special conditions for business transfer are included in the loan guarantee scheme (BBMKB).

Finally, an extensive awareness campaign was set up in 2003 in close cooperation with private organisations and the Chambers of Commerce to make entrepreneurs aware of the importance of the preparation of the business transfer and a Business Transfer Toolkit was developed.

## Notes Chapter 2

- <sup>1</sup> See: [www.ondernemerschap.nl](http://www.ondernemerschap.nl).
- <sup>2</sup> Ministry of Economic Affairs and EIM (2003), *Entrepreneurship in the Netherlands. Knowledge transfer: developing high-tech ventures*, The Hague/Zoetermeer.
- <sup>3</sup> Hessels, S.J.A., K. Suddle and M. Mooibroek (2007), *Global Entrepreneurship Monitor 2007*, EIM, Zoetermeer.
- <sup>4</sup> Jonkheer K.R. et al (1997), *International comparison of external financing possibilities for SMEs and policy measures* (in Dutch: *Internationale vergelijking van externe financieringsmogelijkheden voor het MKB en beleidsmaatregelen*), EIM, Zoetermeer.
- <sup>5</sup> Ministerie van Economische Zaken (2007), *Finance for entrepreneurs; The Dutch Finance Gap*, (in Dutch: *Vermogen om te ondernemen; De Nederlandse financing gap*), Eindrapport van de Expertgroep KMO Financing, The Hague.
- <sup>6</sup> R.M. Braaksma (1995), *A close look at Technostarters* (in Dutch: *Technostarters onder de loep*), EIM, Zoetermeer.
- <sup>7</sup> OESO (1998), *Technology, productivity and job creation: best policy practices*, Paris.
- <sup>8</sup> Jacqueline Snijders, Henriëtte Hulshoff and Koos van Elk (1997), *Knowledge intensive start-ups* (in Dutch: *Kennisintensieve starters*), EIM, Zoetermeer.
- <sup>9</sup> Bosma, N.S., C.C. van de Graaff and W.H.J. Verhoeven (2004), *Action Programme TechnoPartner: zero measurement, effect- and performance-indicators* (in Dutch: *Actieprogramma TechnoPartner: nulmeting, effect- en prestatie-indicatoren*), The Hague.
- <sup>10</sup> NACE Codes: 24.4, 29, 30, 31, 32, 33, 34, 35.2, 35.4, 35.5, 64, 72, 73.
- <sup>11</sup> Previous analyses by EIM show that enterprises in light high tech industries suffice the definition of technostarters. See Bosma, N.S., C.C. van de Graaff and W.H.J. Verhoeven (2004), *Action Programme TechnoPartner: zero measurement, effect- and performance-indicators* (in Dutch: *Actieprogramma TechnoPartner: nulmeting, effect- en prestatie-indicatoren*), The Hague.
- <sup>12</sup> In Ministry of Economic Affairs (2003), *In action for entrepreneurs!* (in Dutch: *In actie voor ondernemers!*), The Hague, it was estimated that in the period 2000-2003 each year around 1.100 technostarters started their own business. However, 1.100 was still much higher than the numbers assumed around 1997.
- <sup>13</sup> Ministry of Economic Affairs and EIM (2003), *Entrepreneurship in the Netherlands. Knowledge transfer: developing high-tech ventures*, The Hague/Zoetermeer.
- <sup>14</sup> Ministry of Economic Affairs (1999), *The entrepreneurial society* (in Dutch: *de ondernemende samenleving*), The Hague.
- <sup>15</sup> P.A. van Eck van der Sluijs, H.E. Hulshoff and Y.M. Prince (1998), *Young, small and innovative ICT-businesses in the Netherlands* (in Dutch: *Jonge, kleine, innovatieve ICT-bedrijven in Nederland*), EIM, Zoetermeer.
- <sup>16</sup> S.J.H. Hessels, M.J. Overweel and Y.M. Prince (2005), *Internationalisation of Dutch SMEs; existing and desired insights* (in Dutch: *Internationalisering van het Nederlandse MKB; bestaande en gewenste inzichten*), EIM, Zoetermeer.
- <sup>17</sup> Jolanda Hessels and Dick Snel (2006), *Exporting starters: starters with more ambition and better results* (in Dutch: *Exporterende starters: starters met meer ambitie en betere prestaties*), EIM, Zoetermeer.

- 18 Ministry of Economic Affairs and EIM (2005), *Entrepreneurship in the Netherlands. SMEs and International co-operation*, The Hague/Zoetermeer.
- 19 Isobel van der Kuip (1998), *Early development of entrepreneurial qualities; the role of initial education*, EIM, Zoetermeer.
- 20 Isobel van der Kuip and Ingrid Verheul (2003), *Early development of entrepreneurial qualities: the role of initial education*, EIM, Zoetermeer, p. 21.
- 21 A new school system was introduced in Secondary Schools in 1998. The term 'Studiehuis' was used for a system in which schools could give their students more freedom and responsibility to fill in their own ways of study.
- 22 Niels Bosma, Heleen Stigter and Sander Wennekers (2002), *The long road to the entrepreneurial society; Global Entrepreneurship Monitor 2001 The Netherlands*, EIM, Zoetermeer.
- 23 A.R.M. Wennekers, H.W. Stigter and N.S. Bosma (2002), *The long road to the entrepreneurial society*, EIM, Zoetermeer; Jolanda Hessels, Sander Wennekers and Niels Bosma (2005), *New entrepreneurship in recovery* (in Dutch: *Nieuw ondernemerschap in herstel*), *Global Entrepreneurship Monitor 2004 The Netherlands*, EIM, Zoetermeer.
- 24 F.M.J. Westhof (2005), *Attention for entrepreneurship in secondary schools* (in Dutch: *Aandacht voor ondernemerschap in HAVO en VWO*), EIM, Zoetermeer.
- 25 José Bal et al. (2007), *Entrepreneurship in primary and secondary schools* (in Dutch: *Ondernemerschap in het primair en voortgezet onderwijs*), EIM, Zoetermeer.
- 26 See for example: C. Mirjam van Praag (2006), *New Combinations* (in Dutch: *Nieuwe Combinaties*). *Oratie Ondernemerschap en Organisatie*, 28 September 2006, University of Amsterdam, Amsterdam.
- 27 Ministry of Economic Affairs (2003), *Action for Entrepreneurs*, The Hague.
- 28 Boog J. J. et al. (1999), *Monitor administrative burdens: 1993-1998* (in Dutch: *Monitor administratieve lasten bedrijven: 1993 - 1998*), EIM, Zoetermeer.
- 29 Tom M. et al. (2007), *Small entrepreneurs, high burdens* (in Dutch: *Kleine ondernemers, hoge lasten*), EIM, Zoetermeer.
- 30 Jonkheer K.R. et al. (1997), *International comparison of external financing possibilities for SMEs and policy measures* (in Dutch: *Internationale vergelijking van externe financieringsmogelijkheden voor het MKB en beleidsmaatregelen*), EIM, Zoetermeer.
- 31 Ministerie van Economische Zaken (2007), *Finance for entrepreneurs; The Dutch Finance Gap*, (in Dutch: *Vermogen om te ondernemen; De Nederlandse financing gap*), *Eindrapport van de Expertgroep KMO Financing*, The Hague.
- 32 Y.M. Prince (1996), *International technology position of industrial SMEs* (in Dutch: *Internationale technologiepositie van het industriële MKB; methodiekwontwikkeling met de machine-industrie als pilotsector*), EIM, Zoetermeer.
- 33 "Others may have tried to gather innovation indicators on sectoral level about size classes before, but did not dare to present these exercises to a broad public. Here we have had the courage to present these figures. When reading the report it is recommended to keep in mind the fact that good indications are better than no figures at all" (free translation from Y.M. Prince (1997), *The innovativeness of the Dutch manufacturing industry* (in Dutch: *De innovativiteit van de Nederlandse industrie*), EIM, Zoetermeer, p. 5).
- 34 J.P.J. de Jong and B.H.G. Janssen (2007), *Innovation in the SME-sector; developments 1999-2007* (in Dutch: *Innovatie in het MKB; ontwikkelingen 1999-2007*), EIM, Zoetermeer. See [www.ondernemerschap.nl](http://www.ondernemerschap.nl) for the data of the year 2008.

- 35 Y.M. Prince and R.A. Versfeld (1996), Export chances for SMEs; Key regions (in Dutch: Exportkansen voor het MKB; Key-regio's), Exportraad MKB, Voorburg.
- 36 Derived from Table 8 in: P. Gibcus, D. Snel and W.H.J. Verhoeven (2008), The Exportindex SMEs 2007; developments 2000-2007 (in Dutch: De exportindex MKB 2007; ontwikkelingen 2000-2007), EIM, Zoetermeer.
- 37 That is the number of exporting SMEs divided by the total number of SMEs in the Netherlands.
- 38 The percentages are estimations based on some assumptions.
- 39 S.J.A. Hessels, M.J. Overweel and Y.M. Prince (2005), Internationalisation of Dutch SMEs; existing and wished insights (in Dutch: Internationalisering van het Nederlandse MKB; bestaande en gewenste inzichten), EIM, Zoetermeer.
- 40 M.J. Overweel and C.C. van de Graaff (2002), The importance of importing for the SME-sector (in Dutch: Het belang van importeren voor het MKB), EIM, Zoetermeer.
- 41 Ministry of Economic Affairs (2002), Export Letter, The Hague, p. 12.
- 42 Ministry of Economic Affairs (2008), Letter on International Entrepreneurship (in Dutch: Kamerbrief Internationaal ondernemen), 7 March 2008.
- 43 See [www.internationaalondernemen.nl/dossiers/mkb.asp](http://www.internationaalondernemen.nl/dossiers/mkb.asp).
- 44 For further information please see the "Progress assessment of the Dutch government's recent regulatory reform initiatives - November 2008" from the Worldbank on <http://www.ez.nl/dsresource?objectid=160997&type=PDF>.
- 45 These data refer only to business transfers in which the enterprise continued in exactly the same entity. This means that a very large share of business transfers are not taken into account. If it is assumed that nothing has essentially changed in the optimal organisation of business transfers in this context in the last decade, these mutations give a clear view of the general trends. In addition, it should be taken into account that data only on business transfers of entrepreneurs older than 55 are provided. These can be considered to be the real "end of carrier" business transfers.
- 46 Meijaard, J. (2007), Taking over is often better than starting 'fresh' (in Dutch: Overnemen vaak beter dan "vers" starten), EIM, Zoetermeer.
- 47 Commission Recommendation on the transfer of small and medium-sized enterprises, OJ L 385, 31.12.1994, p. 14 and the accompanying Communication containing the justification for the Recommendation, OJ C 400, 31.12.1994, p. 1.
- 48 European Commission, Final report of the expert group on the transfer of small and medium-sized enterprises, Brussels, 2002, [http://ec.europa.eu/enterprise/entrepreneurship/support\\_measures/transfer\\_business/transfer\\_com\\_02/final\\_report\\_en.pdf](http://ec.europa.eu/enterprise/entrepreneurship/support_measures/transfer_business/transfer_com_02/final_report_en.pdf).
- 49 Suddle, K. and S.J.A. Hessels (2007), Global Entrepreneurship Monitor 2006 Nederland, EIM, Zoetermeer.
- 50 Meijaard, J. (2007), Taking over often better than starting 'fresh' (in Dutch: Overnemen vaak beter dan "vers" starten), EIM, Zoetermeer.

## 3 American Entrepreneurship Policy: The last Ten Years

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In documenting recent U.S. policy towards entrepreneurship,<sup>2</sup> we hope to better understand how the United States has moved away from the *managerial capitalism* of the 1950s and 1960s (when citizens and policymakers looked to large, established firms to carry the economy) to the *entrepreneurial capitalism* of the last several decades through today (where much of the economy's growth is being provided by rapidly growing new firms). Given this context, there has been little formalized debate at the national level on entrepreneurship policy in the United States. Most entrepreneurship policies in the last ten years have been dominated by discussions at the sub-national level. While the last decade has seen significant times of turbulence for American entrepreneurship, with the dot-com bubble, in particular, and the still-emerging fall-out from the credit crunch and economic downturn, entrepreneurship in the United States has showed continued strength and resilience. In this paper, we will focus largely on national policy changes that have influenced the financing of technology and innovation, education, and regulatory simplification. Internationalization of small and medium enterprises is not discussed because this has not been an explicit focus of U.S. policy. U.S. tax policy has been adjusted significantly in the previous ten years but is not addressed here specifically.

### 3.1 Financing Technology and Innovation

One significant reason for America's entrepreneurial success historically lies in its well-developed financial system. If entrepreneurs do not have the personal wealth to launch their enterprises, those with good ideas can and do borrow,<sup>3</sup> get bank financing, or seek angel or venture capital funding. Highly developed securities markets, traditionally have encouraged entry of growth-oriented businesses and enabled third-party investors to realize those investments if the enterprises undertake an initial public offering. Since early 2008, these markets have changed drastically and the long-term effect on U.S. entrepreneurship is yet to be fully assessed. Within different U.S. states and regions, financing alternatives were less than robust even before the credit crunch of 2008, having caused many localities to undertake proactive measures to overcome perceived market failures, particularly in seed-stage funding.

Various federal policies have facilitated our many-layered system:

- The Small Business Administration (SBA) guarantees loans for smaller businesses (currently valued at roughly \$ 75 billion<sup>4</sup>) and more than ten federal agencies provide research grants to small, high-technology businesses through the Small Business Innovation Research (SBIR) or Small Business Technology Transfer (STTR) programs.
- 1978 changes in U.S. Labor Department rules governing permissible investments by pension funds helped the venture capital industry grow.
- Congress and the Securities and Exchange Commission played an important role in facilitating the growth of U.S. equities markets.

Little has changed about SBA loan programs and SBIR/SBTT in the recent decade apart from a near-constant tweaking of design. Instead, recent changes to policy affecting entrepreneurial finance have focused more on venture capital and securities markets. Corporate financial reporting scandals in the recent past resulted in the Sarbanes-Oxley (SOX) Act of 2002.<sup>5</sup> The wisdom of SOX has been and almost surely will continue to be actively debated, but perhaps less vigorously than before the credit crisis. The specific effect on small businesses has been widely debated.<sup>6</sup> The relative higher regulatory burden imposed on small companies under SOX contributed to more companies delisting from public markets, but that trend appears to have slowed significantly. In 2007, SOX rules were relaxed for smaller companies in an attempt to impose less regulatory burden upon them.<sup>7</sup>

On the topic of financing innovation, the federal government currently spends \$29 billion supporting scientific research at universities and colleges, up from \$17.5 billion in 2000.<sup>8</sup> Although a large portion of this money is being spent to advance understanding of basic science, increasing federal and sub-national attention has been placed on competitiveness, spillovers, and commercialization. One of the significant policy stories of the last decade has been the actualization of the Bayh-Dole Act (1980) by most U.S. universities, although a great distance remains to fully capitalize on this commercialization.<sup>9</sup> Additionally, several recent reports with which the Kauffman Foundation has had some involvement have focused on the need for better measurement of innovation and business dynamics in order to facilitate better policy.<sup>10</sup>

### **3.2 Education**

At its most fundamental level, entrepreneurship is about the successful development and commercialization of novel ideas, whether they be product or process. Without highly creative and educated individuals, these ideas are unlikely to emerge. Broadly speaking, there are two sources of entrepreneurial talent in the U.S.: American citizens and immigrants.

America owes much of its economic success to its enviable record in providing universal primary and secondary education to its citizens and, perhaps even more importantly, to the development of its widely admired university system. There are, however, numerous disturbing signs in American education - principally at the primary and secondary levels - that collectively raise serious concerns about the kind of society the United States will become in future years.<sup>11</sup> In addition, there is concern that the school curriculum fails to foster not just excellence in science and mathematics, but also creativity and entrepreneurial mindsets.

Many universities have begun to infuse entrepreneurship and creativity more deeply into their curricula, for both students majoring in business and those in other subjects. It is an encouraging sign that the August 2006 report of the Secretary of Education's Commission on the Future of Higher Education recommends, in part, that universities embrace a culture of continuous innovation to improve learning, especially in mathematics and science.<sup>8</sup> The 2007 America COMPETES Act focused on expanding research and development, STEM (science-technology-engineering-mathematics) education, and energy independence.<sup>12</sup>

In the last several decades, roughly half of all those who earned an undergraduate or graduate degree from American universities in science, engineering, computer science, and other technology-related fields were foreign students.<sup>13</sup> Many studies have shown that the best and brightest come to study, and stay to work, and many eventually start businesses here. Despite the clear importance of skilled immigrants generating new firms in this country, since September 11, U.S. immigration authorities have tightened legal immigration in the name of national security. In particular, quotas for H1-B visas (those for workers with specialized skills) should be raised significantly and, ideally, eliminated altogether. In fact, until Congress imposed an annual ceiling of 65,000 skilled foreign workers in 1990, skilled foreign workers had no immigration limits. Already there is evidence that entrepreneurial firms have placed more of their personnel abroad because of an inability to obtain H1-B visas for foreign workers.<sup>14</sup> Moreover, because H1-B visas are time-limited, they cannot permit highly skilled immigrants to start new businesses.

### 3.3 Regulation

All economies and the actors within them need rules of the road to guide behavior. In market economies, legal property and contract protections are critical, especially to entrepreneurs, who could not and would not undertake the risks of launching their enterprises without such protections. Entrepreneurship and business activity generally can suffer, however, if regulation and litigation are carried too far or pursued in ways where costs outweigh benefits.

Entrepreneurial firms typically are smaller than their well-established counterparts. This can be beneficial when quick action is required to take advantage of a business opportunity. However, smaller companies do not have larger companies' sizeable legal and compliance staffs and, thus, typically find compliance with legal mandates to be more expensive as a share of their total revenues or costs.<sup>15</sup>

That smaller, entrepreneurial firms have greater difficulty complying with broad federal regulatory mandates is the main reason executive branch regulatory agencies, in designing rules, have been required to minimize impacts on small business, consistent with meeting the agencies' statutory objectives. Agencies also are required under the Regulatory Flexibility Act (RFA) to conduct "regulatory flexibility" analyses of the effects of their proposed and final rules on small business. The RFA also requires federal agencies to periodically review existing rules and to consider ways to reduce regulatory burdens on small businesses. The SBA's Office of Advocacy has been encouraging states to adopt state equivalents of the RFA since 2002 with nineteen states having adopted.<sup>16</sup>

As a matter of principle, no private-sector firm of any size ought to be subject to regulatory mandates - imposed by any level of government - unless the social benefits of the mandates or rules exceed their costs. Furthermore, it is important that, when government does impose regulation to attain a specific social objective, it does so in the least costly way. Broadly speaking, federal policy has gradually embraced these principles.

- Since the mid-1970s, U.S. presidents have adopted or followed executive orders requiring executive branch agencies to analyze the benefits and costs of their proposed rules before making them final. An office within the Executive Office of the

President - the Office of Information and Regulatory Affairs (OIRA) at the Office of Management and Budget (OMB) - oversees agencies' compliance.

- Since 1999, Congress has required OMB (through OIRA) to report on the total benefits and costs of all regulations (including those issued by independent regulatory agencies, although OIRA does not oversee them). Successive reports by OMB have documented benefits that have exceeded costs in the aggregate by a substantial margin - although many individual rules still appear to fail a benefit-cost test.<sup>17</sup>
- Regulatory agencies are showing greater interest in promulgating rules that allow for compliance flexibility.
- In January 2007, the Bush administration revised and improved upon the prior Clinton-era executive order on government regulation and its oversight in three ways. It extended the analytical requirements beyond formal rules to regulatory "guidance" (which is similar to rulemaking). The new order also required executive-branch agencies to provide a written rationale for their regulations and required a political appointee to sign off on new regulations, which better ensures political accountability.

Still, not all federal regulatory statutes require the agencies that set rules under them to satisfy a benefit-cost test before issuing those rules. For the large body of existing rules, it should be possible for agencies to prioritize their existing rules by cost-of-benefit impacts, and then begin to reexamine their rules to see whether changes in circumstances since the rules were first issued call for modifications, either streamlining or tightening (where justified).

Liability rules can have the same effect as regulation, resulting in verdicts that, in practice, set norms for behavior by firms and individuals in specific industries, or across many, or all, sectors of the economy. An inherent difficulty with "regulation-by-litigation," however, is that the rules that emerge from individual, fact-specific litigated cases are decided by randomly chosen juries, in cases that are randomly filed across the country. In a national economy, it is thus somewhat anomalous that a jury in one particular city in a particular state can have the effect of setting national norms, especially if that state is sufficiently important to a national manufacturer or service provider that it must do business in that state. In the process, therefore, the most restrictive state can have the effect of setting the national norm.

In 2005, Congress recognized that enterprising plaintiffs can take advantage of this decentralized legal system and find hospitable locales for bringing suit against companies doing business nationwide. It therefore enacted the Class Action Fairness Act to buttress "diversity jurisdiction" requirements, compelling plaintiffs to file suit in federal court where the parties are from different states to eliminate or at least reduce such "forum shopping."<sup>18</sup> Other steps also have been taken to reduce uncertainties about firms' exposures to liability awards, thus improving the climate for entrepreneurial endeavors.

### **3.4 Conclusion**

This document concentrates primarily on policy measures that the U.S. *federal government* has taken to promote entrepreneurship in the past. Much of the policy debate in the United States in the last ten years has been the domain of state and local governments that are attempting to improve their relative entrepreneurial performance.

The challenge for policymakers at all levels of government is to create an environment where citizens from all walks of life have the opportunity to become innovative entrepreneurs, grow businesses, and create new wealth and jobs. We are hopeful that national and regional policies in the coming decade will be more explicit and empirical in their treatment of entrepreneurship as a result of the expanding data available for measuring different aspects of the phenomenon at the regional, national, and international levels.

## Notes Chapter 3

- <sup>1</sup> The Ewing Marion Kauffman Foundation has supported public policy research related to entrepreneurship for many years. This essay pulls largely from a recent report, *On the Road to an Entrepreneurial Economy: A Research and Policy Guide*, which represents the first instance in which we derive insights from our own and our grantees' work (along with numerous other researchers) that can help inform policymakers on how best to maintain and, ideally, strengthen our entrepreneurial economy.
- <sup>2</sup> Our view of entrepreneurial activity may differ significantly from the other authors in this volume. Our policy concern addresses policy that supports growth by businesses, not policy as directed only at small or medium enterprises.
- <sup>3</sup> According to the 2002 *Survey of Business Owners* published by the Census Bureau, 60 percent of business owners used their own money to get started, and 49 percent of businesses are operated out of the owner's home.
- <sup>4</sup> [http://www.nytimes.com/2008/02/02/business/02interview.html?\\_r=1&scp=2&sq=small+business+loan&st=nyt&oref=slogin](http://www.nytimes.com/2008/02/02/business/02interview.html?_r=1&scp=2&sq=small+business+loan&st=nyt&oref=slogin).
- <sup>5</sup> Among other things, "SOX" imposed stiffer auditing requirements on public companies, required CEOs to certify the accuracy of their companies' financial statements on pain of criminal penalties, subjected auditors to oversight by a new regulatory body (the Public Company Accounting Oversight Board), and prohibited them from engaging in consulting for clients they audit. The New York Stock Exchange and the NASDAQ changed their listing mandates, requiring a majority of corporate boards to have "independent" directors.
- <sup>6</sup> See *In the Name of Entrepreneurship: The Logic and Effects of Special Regulatory Treatment for Small Business*, 2007, edited by Susan M. Gates, Kristin J. Leuschner <http://www.rand.org/pubs/monographs/MG663/>.
- <sup>7</sup> <http://www.sec.gov/news/press/2007/2007-101.htm>.
- <sup>8</sup> Figures are from the National Science Foundation, 2006, available at [www.nsf.gov/statistics/infbrief/nsf07311/](http://www.nsf.gov/statistics/infbrief/nsf07311/).
- <sup>9</sup> See Litan, Robert E., Lesa Mitchell and E.J. Reedy, "Commercializing University Innovations: Alternative Approaches," NBER Working Paper, February 2007. A version of this working paper is scheduled to appear in a forthcoming issue of *Issues in Science and Technology*.
- <sup>10</sup> See Haltiwanger, John C., Lisa M. Lynch, John M. Abowd, Patricia M. Anderson, Matthew Barnes, Steven J. Davis, Timothy Dunne, Robert M. Groves, Susan Hanson, Robert H. McGuckin, Paul D. Reynolds, Mark J. Roberts, Niels Westergaard-Nielsen and Kirk M. Wolter, "Understanding Business Dynamics: An Integrated Data System for America's Future". Available at SSRN: <http://ssrn.com/abstract=985999> and Schramm, Carl J., Ashish Arora, Rajesh K. Chandy, Kathleen Cooper, Dale W. Jorgenson, Donald Siegel, David L. Bernd, Steve Ballmer, James Blanchard, George Buckley, Art Collins, Michael L. Eskew, Luther Hodges, Samuel J. Palmisano and John Menzer, "Innovation Measurement: Tracking the State of Innovation in the American Economy" (January 2008). Available at SSRN: <http://ssrn.com/abstract=1090630>.
- <sup>11</sup> See, e.g., National Center on Education and the Economy, *Tough Choices For Tough Times: The Report of the New Commission on the Skills of the American Workforce* (Washington, D.C.: National Center on Education and the Economy, 2006) and National Academy of Sciences, *Rising Above the Gathering Storm: Energizing and Employing America for a Brighter Economic Future*

(Washington, D.C.: The National Academy of Sciences, The National Academy of Engineering and The Institute of Medicine, February 2006).

- <sup>12</sup> <http://thomas.loc.gov/cgi-bin/bdquery/z?d110:SN00761:@@D&summ2=m&>.
- <sup>13</sup> Freeman, December 2006.
- <sup>14</sup> Anderson and Platzer, 2006.
- <sup>15</sup> W. Mark Crain and Thomas D. Hopkins, "The Impact of Regulatory Costs on Small Firms," report prepared for the Office of Advocacy, U.S. Small Business Administration, 2001, available at [www.sba.gov](http://www.sba.gov).
- <sup>16</sup> <http://www.publicforuminstitute.org/nde/news/2007/enews-07-04-02.htm>.
- <sup>17</sup> See Office of Management and Budget, *2006 Report to Congress on the Costs and Benefits of Federal Regulations and Unfunded Mandates on State, Local and Tribal Entities*. For a critical analysis of the benefits and costs of individual rules, suggesting that about half still fail a benefit-cost test, see Robert W. Hahn and Caroline Cecot, "The Economic Significance of 'Insignificant' Rules," AEI-Brookings Joint Center on Regulatory Studies, Working Paper 0606, September 2006.
- <sup>18</sup> It is possible, however, that plaintiffs and their attorneys will find innovative ways of forum shopping at the federal level, an outcome that the Class Action Fairness Act cannot prevent.

## 4 Entrepreneurship Policy in the last 10 years in the European Union

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Rumour has it that while discussing the state of the French economy with the former British Prime Minister Tony Blair, President George Bush remarked: “*The thing that’s wrong with the French is that they don’t have a word for entrepreneur*”. Most find this rather ironic, given that the word entrepreneur is derived from the French verb *entreprendre* (to undertake).

Nevertheless, Bush had a point. Over the last decades, Europe has put much less focus on entrepreneurs and entrepreneurship than the US (Audretsch, 2002, Schramm, 2004, Lundström and Stevenson 2005, Hoffmann, 2007). This has unquestionably had an impact on growth and employment in Europe (OECD, 2007). In order to provide background and context for the current policy debate in the Netherlands, this chapter describes how the EU and three European countries have attempted to change the focus through development of entrepreneurship policies in the last decade.

### 4.1 Denial, envy, embrace and neglect - A short historical overview

In the 1980s and the early 1990s, Europeans believed that large firms were a panacea for growth. For example, most of the benefits of the EU Single Market, introduced in 1992, were attributed to better exploitation of economies of scale (Cecchini, 1988; Hoffmann, 2000). Large firms were supposed to build Europe’s comparative advantage in traditional, moderate-technology intensive industries. In effect, the role of entrepreneurship was denied.

The late 1990s were times of European envy. After several years of low, or no, growth, the US had turned the economy around and was experiencing low unemployment and high growth in what some people labelled the “Entrepreneurial Economy” (Audretsch, 2007; Schramm, 2006). An envious Europe was still experiencing high unemployment and no growth in the late 1990s. But the European reaction stopped at envy; it did not lead to any remarkable shift in policy focus.

In many ways, the new millennium marked the entry into a new era that placed entrepreneurship on the EU Commission’s agenda. Europe was embracing entrepreneurship, at least for a while. The Commission wanted to boost entrepreneurship as part of its strategy to transform the EU and build up future economic and competitive strength. It published several reports highlighting the importance of entrepreneurship and identifying EU’s challenges in this domain. The Green Paper on Entrepreneurship stated for example that the main challenge for the EU was “*to boost the Union’s levels of entrepreneurship, [by] adopting the most appropriate approach for producing more entrepreneurs and for getting more firms to grow*” (European Commission, 2003).

The Green Paper was followed by an Action Plan for Promoting Entrepreneurship. Since that time, the EU Commission has more or less neglected the entrepreneurship agenda. Several interesting projects are still ongoing, as part of the Best programme and the Commission has also done some valuable work on entrepreneurship education. But no comprehensive overall strategy on entrepreneurship is being pursued by the Commission.

The current EU policy in this domain has shifted back to a focus on small and medium sized companies (SMEs). This marks a re-emergence of the confusion about the differences between SME and entrepreneurship policies has existed for many years in Europe. The Commissioner for DG Enterprise (Günter Verheugen) tends to emphasise SMEs over entrepreneurs; promoting entrepreneurship is a sub-domain in the Commission's overall SME policy.

The confusion about SMEs and entrepreneurs can be due to a lack of common definition of entrepreneurs and entrepreneurship. The Entrepreneurship Indicators Programme (EIP) undertaken by the OECD Statistics Directorate in partnership with Eurostat aims at filling that gap and provide a definition and measurement manual (Ahmad and Hoffmann, 2008). The new definition builds on the idea that there is something different about entrepreneurial businesses that sets them apart from other businesses; namely they're in the business of doing something new, whether that be by creating/identifying new processes, products or markets. Consequently, not SMEs are entrepreneurial - indeed not even all new businesses are necessarily entrepreneurial.

The lack of focus on entrepreneurship in the EU Commission can also be linked to a misunderstanding of the entrepreneurial challenges for Europe and the policies required to meet these challenges. For example, the low rate of people starting firms is still mentioned as a key challenge for Europe. The European Council's policy conclusions on entrepreneurship are for example to encourage member states to "*strengthen the measures to promote a more entrepreneurial culture and the skills to encourage more people to consider a career as entrepreneur, including through entrepreneurship education and training at the appropriate level of education*" (EU Council, 2006).

#### **4.2 Some EU member countries maintained the embrace**

Most EU member countries have policies which are in line with the Commission's view. The focus on entrepreneurship has therefore also shifted back and forth in most countries. A few notable exceptions exist - the UK, Finland and Denmark. Several other EU countries include the Netherlands (for example the Techno-starter programme) have developed interesting entrepreneurship policies but the focus will be on these three notable cases.

After the millennium, European leaders like Prime Minister Tony Blair began to speak about stimulating entrepreneurship. For example, in the "Think Small First Strategy" campaign launched in October 2000 by Tony Blair, the UK Government set a target to make the country "*the best place in the world to start and grow a business*" by 2005. The creation in April 2000 of the Small Business Service (SBS), which operates across all government departments and has direct contact with the Prime Minister, was another example of the strong focus on entrepreneurship in the UK.

Another notable example is Finland. At the beginning of 2000, the Finnish Ministry of Trade and Industry launched a cross-ministerial “Entrepreneurship Project”, which set out to increase the establishment of new firms and the growth and competitiveness of existing enterprises. The project was set to run until the end of the Government’s term in office. The new Finnish government in early 2004 adopted another cross-cutting entrepreneurship programme, which ran until early 2007 and received a positive evaluation (MTI, 2007).

Denmark is another country where entrepreneurship has moved from being a well-hidden area in a government agency to claiming a key role in the political landscape. The new Danish government in 2001 included a focus on entrepreneurship, which was re-emphasised in the platform for their second term starting in 2005. The 2005 version of the government platform had entrepreneurship as one of the key elements. The government set forward the goal for “Denmark, by 2015, to be one of the societies in the world where most growth enterprises are launched”.

Two important similarities exist among the three countries mentioned. First, the Prime Minister (Denmark and the UK) or another key Minister (Finland) is directly engaged. They take entrepreneurship seriously and place the area at the centre of their policies. Second, the countries have ensured that entrepreneurship policies are developed in a cross-Ministerial context with direct access to key Ministers.

#### **4.3 Europe has a growth problem - not a lack of new firms**

The UK, Finland and Denmark all previously shared the Commission’s view on entrepreneurship. In the 1980s, for example, UK policies were targeted at stimulating job creation by increasing start-up rates (Greene, 2002). This target was abolished in the 1990s, as research suggested that simple, old-fashioned “start-up rate” policies were unlikely to meet the objective of enhancing employment (Stel and Storey, 2002). The focus has now shifted to increasing both the quality of start-ups and the performance of existing firms, since research suggests that the role of small firms in generating jobs varies enormously over time and from place to place. Indeed, most small-firm job creation takes place in relatively few firms - the Gazelles (Birch, 2004).

The policy focus of the other two countries is also on generating growth entrepreneurs. The focus is most explicit in Denmark, where the yearly Entrepreneurship Index provides an overview of the framework conditions that support emerging growth companies (EBST, 2007). For example, policy areas that receive particular attention include entrepreneurs’ access to financing and counselling, taxation, entrepreneurship education and restart possibilities. The Index also shows how entrepreneurial performance in Denmark compares to the top performing countries in the world.

The shift in policy target from “just getting more people to start” to a focus on quality of start-ups and their potential growth has had a huge impact on the policy tools in the toolbox. Stimulating an entrepreneurial culture is still desirable, but the focus is now on more “hard” policy areas.

#### 4.4 “Hard” policy areas are important parts of the policy toolbox for entrepreneurship

There are certainly differences that exist in the policy areas favoured by Denmark, Finland and the UK, but five key areas are common: venture capital, bankruptcy legislation, entrepreneurship education, income taxes and labour market regulation. These policy areas are also emphasised as important for entrepreneurship in OECD’s work on entrepreneurship policy (OECD, 2007). The following paragraphs will discuss some policy experiences from the three countries within these five areas.

*Venture capital* was very much in fashion during the IT boom, as it seemed to be fuelling the successful US entrepreneurial economy. Virtually all European countries tried to copy the large US venture market with very little success. The experience of Denmark warrants examination in this regard as it presents one of the few European success stories in this policy area.

From its position as one of the smallest risk capital markets among OECD countries in the 1990s, the Denmark has done some catching up in recent years. Since 2001, the market has seen strong growth in invested capital and much of this development can be attributed to the active role of the Danish semi-public investment vehicle “Vaekstfonden”. In 1992, Vaekstfonden was established as a public investment fund that guaranteed private investment but that approach did not have much success. A change in strategy for Vaekstfonden from guarantor to co-investor and fund-of-funds, in 2001, contributed to Vaekstfonden’s success (Napier, 2007). Co-investment schemes have also worked in Israel and might generally be a superior policy instrument to guarantees.

*Bankruptcy legislation* affects entrepreneurship in two ways. First, these laws can increase or decrease the risk attached to failure, which directly affects incentives to start and grow new firms. Second, bankruptcy laws can affect the possibility of people restarting after a failure. This second aspect was given a lot of attention in the UK debate about their new bankruptcy legislation, which was presented in June 2001. The main elements of the new UK legislation were a reduction of the discharge period for most bankruptcies from three years to a maximum of 12 months (same as in the US). But the UK also recognised that bankruptcy shouldn’t be an easy way out for “reckless” entrepreneurs. The legislation consequently included a tougher regime of restrictions on bankrupt parties whose conduct has been irresponsible, reckless or otherwise culpable. This approach to recognising different types of bankrupt parties seems to be a very promising initiative.

*Entrepreneurship education* affects entrepreneurship by affecting the mindset and skills of people. Basic education in ‘what entrepreneurship is’ affects the population’s way of thinking and thus general attitudes towards entrepreneurs. This should be included in all parts of the education system. More specific education develops skill sets on how to be entrepreneurial - how to identify opportunities and utilise resources in order to exploit these possibilities. Finland was a European pioneer in this area. Their first Entrepreneurship Program from 2000 had a strong emphasis on entrepreneurship education. The Finns have experimented with different methods of introducing entrepreneurship in schools and the framework curriculum for the comprehensive school offers schools an opportunity to develop the more specific elements of entrepreneurial education. The Finnish approach

also aims to develop an attitude of 'intrapreneurship' encompassing flexibility, creativeness and capability to take risks and initiative. Lately, the UK has also increased its emphasis on entrepreneurship education especially at the University level. Prime Minister Gordon Brown made "entrepreneurial universities" a key component of his strategy "The Race to the Top" enunciated in October 2007.

*Income taxes* affect the potential financial benefits from starting and growing a business. The empirical and theoretical literature, however, do not provide a clear demonstration of the effect, so countries have not used entrepreneurship as the main reason for changes in the income tax. Indeed, the overall level of entrepreneurship does not seem to be affected by taxes. Start-up rates in Denmark, which has some of the world's highest taxes, are at the same level as start-up rates in the US. Taxes might, however, affect the incentives for high-growth entrepreneurs. Such an affect is similar to the results one observes in the labour market. Labour participation rates are not affected by the tax level but the supply of hours worked is highly correlated with marginal income taxes. The UK has tried to design various stock option schemes in order to target this problem. The UK Budget Report from 2001 for example stated that: "*Employee share schemes align employees' interests with their employer's business, providing significant incentives for productivity improvement*". The tax treatment of stock options in the UK was changed in both 2000 and 2001. In 2002 there were four tax-advantaged schemes designed to promote employee share ownership in the UK.

The negative impacts of strict *labour market regulation*, such as high minimum wages and rigid hiring/firing regulations, are manifold. First, if wage employment is attractive, this will increase the opportunity cost for one to become an entrepreneur. Second, limitations, such as hiring and firing inflexibility, can severely impact a corporation trying to develop a business culture, often through trial and error, that fits with the overall business vision and strategy. Finally, high minimum wages mean expensive labour and, therefore, a barrier for start-ups. Thus, strict labour legislation constrains levels of entrepreneurial activity (OECD, 1998). Policy initiatives aimed at reducing or loosening labour market regulation include increasing hiring and firing flexibility and providing possibilities of flexible working hours. All of these initiatives would lower costs of entrepreneurship.

*Administrative burdens* are also on the agenda in all three countries. This subject often gets a lot attention and such burdens do undoubtedly play a role. However, there may be decreasing returns to further reforms in the good performing countries since burdens and barriers have a threshold effect. For example, reducing the time it takes to register a new company from 3 days to 1 day will likely have limited results in terms of new firm creation. Effective policies used in the three countries include: introducing incentives to improved services in government agencies dealing with small firms, merging application forms from different agencies, encouraging transactions through interactive web pages organised around the needs of small firms and granting automatic approval after a given time period.

#### **4.5 An afterthought**

It is fair to say that, contrary to the suggestion attributed to President Bush, Europe does not, need a word for entrepreneur. But Europe is still a bit confused about what

entrepreneurship is. The key point is that entrepreneurship is about much more than getting more people into self-employment or simply starting a new firm. Entrepreneurship is about generating value through creating and growing firms. Furthermore, there is a much broader range of policies that affect entrepreneurship than simply those that target culture.

Today, we know much more about what stimulates growth-oriented entrepreneurs. Consequently, a country can develop and implement a (partly) fact-based entrepreneurship policy that will stimulate growth. We also know that the US might currently be ahead in the game but it might not be impossible for Europe to catch up and perhaps even overtake the US's leading role through a clearer focus on entrepreneurship policies.

## Notes Chapter 4

- <sup>1</sup> I would like to thank Tim Davis (OECD) for valuable comments on this paper. The views and conclusions expressed in this paper are entirely those of the author. They do not necessarily represent the views of FORA or the Danish Authority for Business and Construction.

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# 5 Entrepreneurship Policy in Asia: 1997-2007

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## 5.1 Introduction

Home to almost four billion people, more than 60 percent of the world's population, and an even higher percentage of the world's youth population, Asia is the continent that defies generalizations. The continent's size is accompanied by a great deal of diversity at regional, national, and intra-national levels. This diversity is evident measured by any standard - economic, political, demographic, cultural, social, and geographic, as well as standards that span these classifications. However, in spite of its diversity, if there is one thing that can be safely said about the continent of Asia, it is this - it is the continent of the future, destined to have a profound effect on the world in terms both economic and non-economic, in the twenty first century and beyond.

In this paper, I sketch out a bird's eye view of entrepreneurship policy in Asia during the period 1997-2007. At the outset, it can be said that no common pattern can be detected across the entire continent on the specific issues of financing, technology and innovation, internationalization, education, and regulatory simplification, as far as these issues relate to entrepreneurship policy. I highlight the differences among countries, and the few similarities that a subset of countries may share with each other at least at a highly abstract level. Parenthetically, the starting point of the assessment period, 1997, also happens to be the starting point of profound changes at least in some countries, since it was also the starting point of what is now called the Asian Economic Crisis, that afflicted most free-market South Asian countries. The Crisis led to profound changes in these countries, away from the prior strategy of relying on and supporting a stable of home-grown large companies in conjunction with foreign MNCs, and toward, at least an appreciation of, entrepreneurship as an alternative strategy to achieve a stronger, broad-based, and self-reliant economic and social development. The *translation* of this appreciation into a coherent entrepreneurship *policy*, with the attendant clear conceptualization of policy associated with measurable outcomes, as well as institutional arrangements that can actually implement the designed policy, varies widely across these countries. In general, across Asia, there is a wide variation between entrepreneurial policy (when there is one) that is on paper, relative to what is actually implemented and measured.

## 5.2 Entrepreneurship policy in Asia

Overall, Asian countries can be divided into four distinct clusters relative to entrepreneurship policy, at least at the end of the ten-year assessment period (1997-2007) which is the boundary of this paper:

- Cluster 1. Countries with a coordinated entrepreneurship policy.
- Cluster 2. Countries with a centralized entrepreneurship policy.
- Cluster 3. Countries with a mixed centralized and decentralized policy.
- Cluster 4. Countries without an entrepreneurship policy or an anti-entrepreneurship policy.

Cluster 1. Countries with a coordinated entrepreneurship policy. The countries that belong to this cluster are Taiwan, South Korea, Japan, and Singapore. This cluster comprises of countries that place the highest importance on entrepreneurship in their economic and social development. Furthermore, there is a widespread acknowledgement (whether true or not) within the political and social power structures of these countries of the role entrepreneurs and entrepreneurship play in their economic growth. Innovation is accorded very high priority for maintenance and growth of economic standards in the country - and this priority on innovation rubs off on priority placed on entrepreneurship. Entrepreneurship and innovation, in other words, are linked to the survival and growth of the country, and this link is tied to the national identity.

In these countries, entrepreneurship policy is shaped by generally enlightened and competent administration, with a relatively open dialog with the business community. Decision making is relatively fast. There are high incentives for innovation, investments in R&D, and new product development.

Singapore presents an interesting example. It has evolved from policies that encouraged full employment by creating a favorable context for foreign companies and operations to set up facilities there. As the cost and standard of living increased, the country became uncompetitive compared to other countries in Asia. Singapore has now begun encouraging entrepreneurship as an insurance against a sure migration by of lower value added services to other Asian countries by large companies. Thus Singapore is now placing at least as much of an importance on developing entrepreneurs as it is on developing a skilled work force for MNCs. Similar approach to policy can be seen in South Korea. Policies that favored large corporations (Korean Chaebols<sup>1</sup> as well as foreign MNCs) have been supplemented by policies that encourage entrepreneurship, especially after the Asian economic crisis of 1997-1998. It is likely that at least some of the impetus came from the Chaebols that have become a global force and view a vibrant entrepreneurship culture as a way to competitively select new suppliers and ideas for their businesses. This hypothesis has appeal because it explains why entrepreneurship policies were added to the overall economic strategy in the presence of significant lobbying power of the Chaebols - the government has had a sympathetic ear for the Chaebols as a strategy of its own survival, as well as part of a national strategy to increase the pace of self-reliant economic development.

Cluster 2. Centralized Government Policy. The exemplar countries that belong to this cluster are China, Vietnam, and Indonesia. In this cluster are countries where entrepreneurs develop via local and foreign initiatives. Overall, the development of entrepreneurs (both by local and controlled foreign involvement) is guided by the relative "heavy hand" of the government. The government provides general institutional guidance, provides specific focus areas for entrepreneurship in some cases, and develops (usually tight, at least in terms of rules on paper) institutional oversight over the entrepreneurial activities. This cluster comprises of countries such as China, Vietnam, and Indonesia. Disparities, of course, exist among these countries, both at the policy level, as well as at the implementation level.

The entrepreneurship policy is highly centralized in case of China and Vietnam, and among the two, the Chinese policy seems to be more disciplined, despite the size of the country

(hence the term “China Inc.”). However, the Chinese are not unaware of entrepreneurship or entrepreneurs, with the country counting among the oldest entrepreneurship cultures in the world before the communist revolution. Hence, as Chinese government policy becomes more favorable toward entrepreneurship, there is a ready stock of entrepreneurs to take advantage of such policy initiatives. These entrepreneurs also have ready access to foreign capital and other resources (technology, partners, etc.) that are attracted to China because of its large size and economic potential.

In case of Vietnam, entrepreneurship has received institutional and government legitimacy as a means to increase the rate of economic development. This has been facilitated by the implementation of the New Enterprise Law (NEL), which took effect on January 1, 2000. The NEL revoked unnecessary business license restrictions in 145 industries, trades and services, and eased private entry in the market. It also created new channels for private investment funds instead of the unique source of public investment capital financed by the state budget. The NEL clearly defined the governmental administrative function and promoted independent entrepreneurial activity, and it adopted the principle of equality for private, collective and state enterprises. According to an early assessment by Dr. Ngoc Phuong Ho of the University of Economics at Ho Chi Minh City, the NEL has resulted in the birth of a new entrepreneur class “doanh nhan,” (which literally means “businessman”) which is taking the lead in doing business. The power of NEL seems to be to at least grant a degree of legitimacy to entrepreneurial activities, even if the knowledge of the policy and its benefits may not be widespread in the country.

In case of Indonesia, the government has taken a hands-off policy in a few sectors, sometimes at the recommendation of external institutions such as the World Bank, with better social results, especially development of entrepreneurs. A large sector of entrepreneurship still flourishes outside the government sector, without much specific policy assistance, or directly counter to the policy objectives. The effectiveness of government policy for developing entrepreneurship has been found to be low (Tambunan, 2007, 2005). A significant part of the entrepreneurship is driven by the network of people of Chinese descent, utilizing their own network, social capital, and tacit knowledge passed on from generation to generation.

Cluster 3. Mixed centralized and decentralized policy. The countries that could fit in this cluster are India, Thailand, and Malaysia. These countries typically use policy initiatives that are promulgated from the central government, as well as policy initiatives that are designed and implemented by strong regional governments. The latter clearly try to emphasize the relative resource endowments, ostensibly to prop up the local resources, and definitely to appease the politically powerful in those regions.

The case of India. Entrepreneurship policy in India faces significant conceptual confusion and as a result, the goals imposed on any entrepreneurship policy are usually unrealistic and unrealized. In India, entrepreneurship policy is still used as the “new bottle” to pour the “old wine” of poverty alleviation/eradication, employment generation, rural development, reducing economic disparities among socially disadvantaged groups and others, import substitution, etc. As a result, most entrepreneurship policies fail to deliver on outcomes that would be usually associated with the implementation of a successful entrepreneurship policies. In the few cases where entrepreneurship policies do deliver

results, they do so at a very high cost, and it is not clear whether the results could not have been delivered via other means. For instance, the state of Gujarat is considered highly entrepreneurial, as measured by the large number of small businesses usually started there. Entrepreneurs and their networks, and availability of non-institutional capital, role models, and efficient brokerage of information markets would appear to largely account for high levels of entrepreneurship in the state. There are a few state-run entrepreneurship information and assistance organizations, but they arguably lack the expertise, resources, and the lobbying power to shape the government's entrepreneurial policy. A popular statement of comparison between China and India has a large measure of truth to it: In China, entrepreneurs succeed because of the government, in India, in spite of it.

A similar conceptual confusion in entrepreneurship policy is noticed in Malaysia. According to an assessment by The Malaysian Institute for Economic Research (MIER), an independent organization head quartered in Kuala Lumpur, Malaysia, "a range of entrepreneurial activities is covered under the SME policy label and much of the promotions focused on technopreneurship (e.g. incubators, venture capital and R&D support) and targeted entrepreneurship. Very often, the boundaries between SME policy and entrepreneurship policy are blurred. Since the problem sets and the solution platter differ considerably across SMEs, entrepreneurship and technopreneurship, it is crucial that these related policies be coordinated." The last statement highlights the fact that SMEs, entrepreneurship (and entrepreneurs), as well as entrepreneurship related to technical fields, face different problems, and hence require different solutions, even though there are some overlapping issues. As a result, the entrepreneurial policy also needs to account for high degree of contingencies within an overall policy framework to deliver specific, and appropriate, solutions in each context.

Cluster 4. No policy environment for entrepreneurs. These countries lack the political and economic institutions favorable to entrepreneurship. The place of entrepreneurs and entrepreneurship in the economic and social development of the country is not recognized. Among this cluster, two sub-groups may be seen. One subgroup can be termed the "unenlightened" group. These countries do not place any priority on entrepreneurship in their economic growth and development. There is no recognition of entrepreneurship in their overall vision for the country. Examples of these countries are Laos and Nepal.

The other subgroup could be termed the "anti-entrepreneurship" group. In these countries, because of political ideology and a history of exploitation of the general population by socio-economically powerful groups, entrepreneurship has, on balance, an exploitative connotation. Entrepreneurs may be seen as transferring wealth from non-entrepreneurs via power derived from economic disparity and social or socio-economic status. The overall role of the government, and the politically powerful is conceptualized as *protecting* the general polity from the negative exchanges (exploitation) and externalities of entrepreneurship. Thus, in these countries, there may be policies, but they are generally *unfavorable* to entrepreneurs and entrepreneurship because of the lack of legitimacy of the latter. Examples of these countries are Myanmar, and to some extent, Cambodia.

In summary, it can be reiterated that a common pattern across all Asian countries on any aspect of entrepreneurship policy would be impossible to discern. There is even significant variation among what I have presented as relatively homogeneous clusters. In table 5.1, I have outlined the progress made in five policy areas among each of the clusters. Again, these are rather broad brushstrokes, and significant variations may exist especially among large countries such as India, and even Vietnam, Indonesia, and Thailand. Furthermore the progress that is “checked” measures progress relative to the state of affairs within its own political boundary, and cluster at the beginning of the review period. Thus, for example, “progress in regulatory simplification” for Cluster 1 and 3 does not mean that both clusters are now at par on this dimension. Rather it just means that both clusters have made progress on simplification of the regulatory regime relative to what existed in their *own* countries, and clusters, at the beginning of 1997. These differences are over and above differences in policy implementation (speed, efficiency, and effectiveness). In general the higher the rank of the cluster, the better the policy (where it exists) implementation.

### 5.3 Conclusion

In conclusion, two generalizations can be made. One, it can be said that among *all* clusters, there is a greater awareness of entrepreneurship at the micro-level. This is both the cause and result of, the rising aspirations of the general population. This in aggregate implies that the aggregate entrepreneurial *potential* of the continent has increased during the ten years of the study. However, the degree to which the necessary policy instruments and framework have been conceptualized, let alone put in place, differs widely across Asian countries. To some extent, trading and regional cooperation blocs such as ASEAN (Association of South East Asian Nations) would assist in disseminating best practices in policy prescriptions among member nations. However, because of wide differences in governance systems, and specific geo-political constraints of each member country, a one-size-fits-all policy is hard to visualize as feasible, nor is desirable. The second generalization that can be made is that some of the ambivalence about the *legitimacy* of private initiatives that, to a varying degree, used to blanket Asia is fast disappearing. In its place, a conviction is emerging about the limits of government-led economic growth, and the important role of private enterprise in both economic and social development. These trends augur good times for entrepreneurship, and an increasing important role of intelligent entrepreneurship policy at all relevant levels.

**Table 5.1 Performance of Asian clusters on areas of entrepreneurship policy, 1997-2007**

Policy fields (themes)/ Clusters	Financing	Technology and Innovation	Internationalisation	Education	Regulatory simplification
Cluster 1 (Coordinated Policy)	√ (e.g. financing incentives for entrepreneurial ideas)	√ (e.g. tax credits for investments in new technologies, or designated high priority areas)	√ (e.g. increased diplomatic resources and development of new markets, such as Middle-East)	√ (e.g. emphasis on entrepreneurs' training and education)	√ (e.g. facilitating operation of VCs and Private Equity via favorable tax regimes and infrastructure)
Cluster 2 (Centralized Policy)	√ (e.g. modest financing incentives for entrepreneurial ideas - mostly to create awareness)	√ (e.g. tax credits for investments in new technologies, or designated high priority areas)	√ (e.g. significant increase in diplomatic resources)		
Cluster 3 (Mixed Centralized and Decentralized Policy)		√ (e.g. designated geographic areas for specific technologies)	√ (e.g. some increased diplomatic resources)		√ (e.g. reduction or elimination of tariffs on capital goods)
Cluster 4 (No Policy or Anti-Entrepreneur Policy)					

## Notes Chapter 5

- <sup>1</sup> Korean term for a conglomerate of many companies clustered around one parent company. The companies usually hold shares in each other and are often run by one family. Chaebols are also characterized by strong ties to the Korean government and its agencies.

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Petra Gibcus (1978) studied econometrics and operational research at the University of Groningen and specialized in econometrics and statistics. Petra joined EIM in 2002 as a researcher. She participated in a wide range of projects on firm dynamics, entrepreneurship, innovation and market competition. Specific topics of interest are the new entrepreneurs and growth of enterprises.



### **Sanjay Goel**

Sanjay Goel (Ph.D., Arizona State University) is an Associate Professor of Strategic Management and Entrepreneurship at University of Minnesota Duluth. His current research interests include the interaction of entrepreneurship and institutions, ethics and entrepreneurship, and entrepreneurial networks, as well as corporate governance and strategic management in family business contexts. His research has been published in journals such as *Entrepreneurship Theory & Practice*, *Journal of Business Venturing*, *Journal of Business Ethics*, and *International Journal of Entrepreneurship and Innovation*. He has lived and worked extensively in Sweden, where he has taught doctoral seminars in deductive theory building. He has been invited to speak at many international conferences as well as universities in Asia, Europe, and Australia, to promote entrepreneurship and family business research. He currently serves on the boards of International Family Enterprise Research Association (IFERA), European Academy of Management (EURAM, as National Representative (USA)), and Swedish-American Chambers of Commerce (SACC), USA.



### **Anders Hoffmann**

Anders is Director Entrepreneurship and Innovation Policy at the Danish Enterprise and Construction Authority of the Ministry of Economic and Business Affairs. He is responsible for the development and implementation of entrepreneurship policies in Denmark. He has been involved in a range of projects related to the development of a theoretical approach to micro-policy research, and has also been a key participant in the practical use of benchmarking analysis in identifying best-practice policies and evaluating the effects of policy instruments at a micro-level. He is the founder of the International Consortium on Entrepreneurship, where he led ground-breaking work on fact-based entrepreneurship policy and impact measurement, including the development of a major publication on Quality Entrepreneurship Indicators. He is also Chairs the Steering Group for the OECD Project on Entrepreneurship Indicators. Prior to his post as Director of Entrepreneurship Policy, he was Creative Director at FORA, a Policy Research Unit within the ministry. He was also a Senior Economist with the OECD supervising a team of economists and statisticians and co-ordinating activities related to micro-policy benchmarking. He has published articles in several major journals including Journal of International Economics and Economic Modelling. He holds a PhD in Economics.



### **Robert Litan**

Robert Litan leads the Foundation's dynamic research agenda for entrepreneurship and education. Litan has been affiliated with The Brookings Institution for nearly twenty years, first as a senior fellow and since 1996 as director of economic studies and holder of the Cabot Family Chair in Economics. He also cofounded and serves as the director of the AEI-Brookings Joint Center on Regulatory Studies. Litan has also served on the staff of the Council of Economic Advisers, as deputy assistant attorney general in the antitrust division of the Justice Department, and as associate director of the Office of Management and Budget. He received his bachelor's degree in economics, graduating summa cum laude, from the Wharton School at the University of Pennsylvania, his J.D. from Yale Law School, and both a master of philosophy and Ph.D. in economics from Yale University. He has authored or coauthored more than twenty-five books and 200 articles in professional journals and magazines.



### **Yvonne Prince**

Yvonne Prince is general director of EIM Business & Policy Research. Since 1988 she is working at EIM, starting with econometric research investigations and later on moving towards policy research. Before working at EIM she graduated in Operations Research and got her PhD in Industrial Economics at the Erasmus University Rotterdam. She is also committee member of the Dutch trade organisation for policy research (Vereniging voor Beleidsonderzoek). Yvonne has expertise on the following fields: entrepreneurship, innovation, ex-ports and market competition. At the moment she is mostly involved in policy evaluations, extensive investigations and the moderation of focus groups. Recently she was editor of a book describing creative research methods to answer various policy questions.



### **E.J. Reedy, Manager, Research and Policy**

E.J. Reedy oversees grants and conducts academic and policy research for the Ewing Marion Kauffman Foundation in the field of entrepreneurship. He has been significantly involved in the coordination of the Foundation's entrepreneurship and innovation data-related initiatives, including the Kauffman Firm Survey and the Foundation's multi-year series of symposiums on data, as well as many web-related projects and initiatives. Reedy joined the Foundation in 2003. Prior to joining the Foundation, Reedy was a senior analyst at the Federal Reserve Bank of Kansas City and had extensive experience in non-profit management. Previously, he was financial director and executive co-director of the Center for Community Outreach at the University of Kansas in Lawrence. Reedy earned his bachelor's degree, Phi Beta Kappa, in economics, mathematics, and American studies from the University of Kansas.



### **Marije Schouwstra**

Marije Schouwstra is senior policy advisor at the Dutch Ministry of Economic Affairs. She works as strategist for the Entrepreneurship Department. She has also worked at the University of Amsterdam on a PhD on a policy evaluation of IMF and World Bank Policies in Mongolia. Before that she worked for the Taskforce Inburgering and was a senior policy advisor at the Dutch Ministry of Education, Culture and Sciences.



### **Carl J. Schramm, Ph.D., President and Chief Executive Officer**

Carl Schramm is recognized as one of the world's foremost thinkers on the importance of entrepreneurship to a nation's economic growth. He has led the Kauffman Foundation to develop innovative programs aimed at transforming entrepreneurship education, the technology transfer process, the availability of seed capital for entrepreneurs, and economic research. He also has been instrumental in the formation of partnerships with governments and organizations around the world to stimulate entrepreneurship internationally. His recent books, *Good Capitalism, Bad Capitalism* (available in nine languages) and *The Entrepreneurial Imperative*, are regarded as emerging classics, providing new insight into the American and international economies. In 2007, U.S. Secretary of Commerce Carlos Gutierrez tapped Schramm to chair the Department of Commerce's Measuring Innovation in the 21<sup>st</sup> Century committee. Trained as an economist and lawyer, with experience in business, public policy, and academia, Schramm has founded and cofounded several health care finance and information technology companies. He is a Batten Fellow at the University of Virginia's Darden School of Business and a member of the Council on Foreign Relations.



### **Jacqueline Snijders**

Jacqueline Snijders (1959) graduated in International Monetary Economics at the University of Tilburg, the Netherlands. In 1988, she started at the International Department of EIM where she mainly carried out and managed international projects on behalf of the European Commission on a broad number of subjects related to the SME-sector. Since 2001, she is member of the Management Team of EIM and in this position responsible for EIMs' international research.

This is the tenth year that she is editing the annual report prepared in the series Entrepreneurship in the Netherlands.



### **Karen Wilson**

Karen has been working with the Kauffman Foundation since January 2008 as a Senior Fellow based in Europe. She is also founder of GV Partners, a firm she created in 2004 to focus on entrepreneurship in higher education, policy and financing. Since starting GV Partners, Karen has worked with private sector firms, international organizations, foundations and universities, primarily in Europe. She has spoken at conferences across Europe and has authored and published several papers. Prior to founding GV

Partners, Karen worked with a leading pan-European venture capital firm. Previously, she was part of the senior management team at the World Economic Forum in Geneva, Switzerland and, before that, served as the Executive Director of the Global Initiative at Harvard Business School. She received, with honors, a Bachelors of Science in Mathematics and Management from Carnegie Mellon University as well as an MBA from Harvard Business School.



