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# ENTREPRENEURSHIP POLICY: THEORY AND PRACTICE

by

**Anders Lundström and Lois A. Stevenson**

# ENTREPRENEURSHIP POLICY: THEORY AND PRACTICE

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## About the Authors

*Prof. Lois Stevenson* is a former Director, Entrepreneurship Development with the Atlantic Canada Opportunities Agency and former Director, Policy and Liaison in the Entrepreneurship and Small Business Office of Industry Canada. In 2002, she served as Deputy Executive Director, Industry Canada's Innovation Secretariat, and leads the Practice of Innovation Initiative, profiling highly innovative firms and their CEOs. Prior to joining the Government of Canada in 1990, she spent ten years as a university professor teaching and researching in the areas of entrepreneurship and small business management. She has authored (or co-authored) seven books and has over 40 papers published in refereed journals and conference proceedings. She is a Past-President of the International Council for Small Business (ICSB) and the Canadian Council for Small Business and Entrepreneurship (CCSBE); a member of the Entrepreneurship Of The Year Institute; a Fellow of the Price-Babson Fellows Program; a Fellow of the IC<sup>2</sup> Institute of the University of Texas at Austin; and a Wilford White Fellow. Ms. Stevenson is a member of the International Reference Council of the Swedish Foundation for Small Business Research (FSF) and during 2000-01 was a visiting researcher with the Foundation leading an international study of entrepreneurship policy. She holds three degrees from universities in Canada and the UK and lives in Ottawa, Canada.

*Prof. Anders Lundström* is Founder and President of The Swedish Foundation for Small Business Research (FSF), with offices in Örebro and Stockholm, Sweden and Brussels. He is responsible for the FSF research programme concerning the effects of small business and entrepreneurship policy programmes and has conducted many studies on the problems and possibilities for SMEs and related policy issues. Dr. Lundström was Deputy-

Director at NUTEK, Sweden's Business Development Agency, and prior to that, the Research Director at SIND, the Swedish National Industrial Board. He founded FSF in 1994, acting as the chair of its Board of Directors until assuming the role as President in 1997. He also founded the FSF-NUTEK award, the International Award for Small Business and Entrepreneurship Research, and chairs FSF's International Reference Council. Dr. Lundström has written over 20 books and numerous articles in the field of small business and entrepreneurship. His current research interests are in the field of SME and entrepreneurship policy. In 2002-03, he led the research project to examine entrepreneurship policy approaches in the five Nordic countries. He is a Past President of the International Council for Small Business (ICSB) and chaired the ICSB World Conference in Stockholm in 1996 and the 2001 International Small Business Congress (ISBC) World Conference in Stockholm. He is a Professor at the Business School of Mälardalen University and Assistant Professor at the Gothenburg Business School, where he obtained his PhD in Business Administration in 1976. He has also authored a novel and a book of poetry. He lives in Stockholm.

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## **Preface**

During 2000-01 we undertook a study of what governments in ten countries were doing at the national policy level to stimulate entrepreneurial activity. This research was sponsored by the Swedish Foundation for Small Business Research (FSF) with funding support from NUTEK, the Swedish Business Development Agency, and the Swedish Ministry of Industry, Employment and Communications. This was followed in 2002-03 by a second study in five Nordic countries (two of which were included in the first study). Case study descriptions of the government policies affecting the development of entrepreneurship in these countries were compiled in Stevenson and Lundström (2001) and Lundström (ed.) (2003) as part of the FSF's Entrepreneurship Policy for the Future project.

The inspiration for the Entrepreneurship Policy for the Future project came directly from two sources: (i) the work of Stevenson (1996)<sup>1</sup> who elaborated an entrepreneurship development framework that formed the basis for the design and implementation of entrepreneurship policies and programmes in an underdeveloped region of Canada throughout the early 1990s, and (ii) the work of Boter, Hjalmarsson and Lundström (1999) who were exploring different small and medium enterprise (SME) policy frameworks within the context of Sweden.

At the time we started our international research, entrepreneurship policy was an emerging area of economic policy development that was not well developed. Interest in the role of entrepreneurship in economic development and growth by international organisations, such as the Organisation for Economic Cooperation and Development (OECD) and the European Union (EU), as well as by the research community (e.g., the Global Entrepreneurship Monitor initiative) began to intensify in the late 1990s, but

limited knowledge existed at that time about entrepreneurship as a policy area or about how to strategically design and implement such a policy area. In fact, there appeared to be considerable confusion around what constituted policies to stimulate the development of entrepreneurship versus the traditional and well-entrenched set of policies to promote small and medium-sized enterprises (SMEs).

Based on both our analysis and experience, we held the view that the set of policies necessary to increase entrepreneurial activity levels were qualitatively and quantitatively different than those being implemented to protect and strengthen the SME sector. Although entrepreneurship was emerging as a policy issue, we believed that, as a policy domain, it suffered from a lack of clarity and specificity. If entrepreneurship policy was to stand as a distinct policy field, it would need better definition and articulation. What were its policy parameters? How did it differ from SME policy? How were governments approaching the development of policies to support higher levels of entrepreneurship? What were they specifically doing in this area? We decided to explore these questions by examining the practices of national-level governments in a set of diverse, yet developed countries. Lessons learned from an analysis of the experiences in this group of countries would enable a more concrete elaboration of the entrepreneurship policy field and be helpful in guiding other countries wishing to pursue an entrepreneurship policy focus.

The ten countries for the first study were selected on the basis of diversity: Australia, Canada, Finland, Ireland, the Netherlands, Spain, Sweden, Taiwan, the United Kingdom and the United States. The situation in each of these countries was detailed in Stevenson and Lundström (2001). Although all were economically developed countries, among them, we included countries with large and small populations; higher and lower per capita GDP levels; high and low unemployment rates; high and low labour force participation rates for women; and reportedly high and low levels of entrepreneurial activity, as measured by Reynolds et al. (1999) in the 1999 GEM report. The countries also differed in their cultural and socio-economic contexts (Asian, European and North American countries) and in the government's apparent focus on entrepreneurship as an economic development vehicle.

The main purpose of the study was to address gaps in the existing knowledge base about entrepreneurship policy. Based on an examination of what governments were actually doing, our intent was to develop an operational definition for entrepreneurship policy; articulate its policy framework and programme parameters; map out the dimensions of each area of the framework; and identify good practice policy development approaches, measures and implementation structures. In our initial study of practices in 10 countries, we discovered a number of examples of policy



measures to stimulate and support the emergence of entrepreneurship, but only three countries with, what we termed, a “holistic” entrepreneurship policy approach. In most cases, policies to stimulate entrepreneurship were “added-on” to existing SME policies or, to a lesser degree, incorporated within innovation policy frameworks.

The second study explored entrepreneurship policy development in the five Nordic countries: Denmark, Finland, Iceland, Norway and Sweden (Lundström (ed.), 2003). This time the selection of countries was based on their perceived similarity, particularly in terms of cultural, political and social contexts. We wanted to examine whether a set of countries with similar “contexts” would produce similar entrepreneurship policy approaches. The study found that these countries were not as similar in context as initially anticipated; however, their governments shared a lot of similarity in the choice of policy measures to promote entrepreneurship, even if their micro-policies were not exactly the same in detail. One of the explanations for the similarity in approaches could be the number of opportunities Nordic policymakers have to exchange what they are doing, a process which encourages the adoption of each other’s “good practices”. However, what may produce good outcomes in one country may well not be the most appropriate in another without taking into consideration their differing “contexts”. This issue of context and policy focus is one we explore further in this book.

As a direct outcome of our studies, we mapped out a coordinated and integrated process that could lead to the establishment of entrepreneurship policies appropriate to a country’s idiosyncratic contextual realities. We also identified a number of challenges related to the effective design and delivery of entrepreneurship policy that are in need of further examination, including development of appropriate performance indicators and evaluation measures and national and regional level implementation structures.

It is now over four years since we started our work of defining and describing the development of entrepreneurship policy in these countries. Since the FSF first published our preliminary findings in 2001 (Lundström and Stevenson, 2001), there has been a rapid increase in the level of interest in entrepreneurship policy. Developments have accelerated much faster than we could have imagined. By mid-2004, we found evidence that governments in more of the 13 countries have set objectives to strengthen the entrepreneurial culture and to increase the level of entrepreneurial activity and business entry rates. They are supporting these objectives as a strategic priority with concrete policy measures and targets. An increasing amount of attention is being paid to areas of the entrepreneurship policy framework defined in our first study, for example, the integration of entrepreneurship in the education system and policies targeted to defined segments of the population, especially women and innovative entrepreneurs. Growing

emphasis is being given to entrepreneurship development in regional development strategies with more actions being taken at the regional and local levels. In other words, entrepreneurship policy is evolving as more of a distinct policy field. There are now programmes and policies for this area in almost every developed country, as well as formulations by the Commission of the European Communities, the OECD, the Asia-Pacific Economic Cooperation (APEC) and the United Nations. Interest in the public policy implications of fostering entrepreneurial activity has also been growing within the research community (Hart, 2003; Acs and Audretsch, 2003; Audretsch et al., 2002) and the importance of entrepreneurship as a tool for improving the economic and social situations in developing economies has escalated (UNDP, 2004; Kantis, 2002).

In spite of these recent developments, many compelling questions and policy dilemmas persist. These relate to the nature of the causal relationship between entrepreneurial activity levels and economic growth, the setting of policy targets, the application of policies in different contexts, management of policy development and implementation processes, and evaluation issues. Remaining questions and issues of note include:

- What is an entrepreneurial society/economy and how does a country/region become one?
- If a government's goal is to create a business and policy environment that encourages entrepreneurship, employment opportunities and sustainable growth, what should that environment look like?
- Do higher entrepreneurial activity rates contribute significantly to economic growth and if so, how? What difference can policy actions make? What policies would have the most desired impact?
- How does a government determine its priorities and actions within the entrepreneurship policy framework; what needs to be done given their context?
- Why do different national governments adopt the approaches they do?
- What is the relationship between the SME policy and Entrepreneurship policy domains?
- How does one manage the transition from SME policy to Entrepreneurship policy or the interface between them?
- How does the ministry responsible for small business and enterprise development manage the horizontal interface with other relevant ministries and regulatory agencies, for example, with ministries of education to integrate entrepreneurship education in the school system?
- How does a government know if its entrepreneurship policy is working? How does one measure the outcomes of entrepreneurship policies, programmes and initiatives?
- What are the appropriate performance indicators?

- Can a country/region have too many entrepreneurs? Is there an optimal level of business ownership in a society? How does one attain the optimal level? What is the cost of not moving to the equilibrium point, if one exists?

In this book, we present the salient findings from our studies of entrepreneurship policy in a total of 13 countries, including our definition of entrepreneurship policy and its policy foundations; our entrepreneurship policy framework; the entrepreneurship policy typology; and a roadmap for adopting an entrepreneurship policy approach. We also discuss conceptual issues related to the quantification and measurability of entrepreneurship policy inputs and outcomes; the relationship between a country's contextual make-up and the appropriate choice of entrepreneurship policy options; and several issues concerning the evaluation of entrepreneurship policies and programmes. We introduce an entrepreneurship policy comprehensiveness index that may be useful to governments in taking stock of their current policy orientations and to better enable the assessment of entrepreneurship policy across countries. We conclude with a discussion of how to approach the development of an integrated entrepreneurship policy approach and the future implications of this for policymakers, researchers, and economic development agents.

This book will be useful to government policymakers, international organisations, researchers and educators. It is a tool to assist policymakers in making the transition to an entrepreneurship policy approach; a guide for international organisations in sorting out the clearer separation of initiatives targeted to increasing the level of entrepreneurial activity versus strengthening the environment for SMEs; a base for the research community in identifying key entrepreneurship policy issues worthy of further examination; a curriculum resource for the education community in designing new courses in entrepreneurship policy to complement existing courses on new venture creation and the management of entrepreneurial firms; and a source of confirmation for early champions of an entrepreneurship policy approach.

In Chapter 1, we discuss why entrepreneurship policy is important, highlight recent developments in research knowledge about the factors affecting entrepreneurial activity levels and explore the current state of development of entrepreneurship policy frameworks. In Chapter 2, we present our definition of entrepreneurship policy, discuss differences between SME policy and entrepreneurship policy, introduce the entrepreneurship policy comprehensiveness index and highlight practices of the 13 governments in each area of our entrepreneurship policy framework. In Chapter 3, we present our typology of entrepreneurship policy, categorise the 13 governments using the typology as a framework, and highlight recent trends in policy developments, for example the rapid emergence of policy

for innovative entrepreneurship. Chapter 4 discusses the relevance of context to entrepreneurship policymaking and how policy choices might be made to produce more optimal performance outcomes given a country's context. In Chapter 5, we expand on our conceptual model of the underpinnings of entrepreneurship policy, stressing the complexities involved in trying to determine how to increase the supply of entrepreneurs in an economy given the difficult-to-measure array of forces influencing an individual's propensity to start a business. Chapter 6 goes into more detail about the problems of evaluating SME and entrepreneurship policies and programmes and, finally, Chapter 7 concludes with an integrated framework for entrepreneurship policy analysis and development using the building blocks presented in the earlier chapters of the book. It points to the way forward for both policymakers and for the research community.

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<sup>1</sup> The objectives of the strategy described in Stevenson (1996) (OECD/ACOA) were to increase the pool of people who had the motivation, skills, abilities, and desire to start their own businesses and to increase the level and extent of appropriate community-based support for new venture activity at every stage of the entrepreneurial process.

## Foreword

### *PRELIMINARY DRAFT*

Entrepreneurship is first and foremost a mindset. To seize an entrepreneurial opportunity, one needs to have a taste for independence and self-realisation. But one also has to be prepared to handle the uncertainty that is inherent to entrepreneurship. And entrepreneurs need to be able to transform opportunity into economic value, by blending their creativity and knowledge with a strategic vision and sound management.

Entrepreneurs, as the vehicle for the commercial exploitation of innovative and creative ideas, have a key role in the Lisbon agenda that the European Union has set itself to boost competitiveness and dynamism.

The European Union is not fully exploiting its entrepreneurial potential. The 2003 Eurobarometer revealed that almost half of Europeans said to prefer entrepreneurship over employment, yet only 17 percent actually realise their ambitions. Europeans are also relatively risk-averse. US entrepreneurs appear to test the market and, if successful, expand rapidly. In Europe, many business ideas never come to the market as their viability is already questioned before they can be tested in the market place. Indeed the Eurobarometer showed that 44 percent of Europeans agreed that *‘one should not start a business when there was a risk of failure’* against only 29 percent in the US.

In February 2004, the European Commission presented its agenda for entrepreneurship. This action plan sets the priorities for fostering entrepreneurial performance in the European Union. It emphasizes in the first place the need to encourage more business start-ups, by fuelling

entrepreneurial mindsets and reviewing the balance between risks and rewards related to entrepreneurship. It also highlights the importance of encouraging businesses development and growth and the key role of finance in realising this. Finally, entrepreneurs need to be able to operate in a facilitating regulatory and administrative framework.

Successfully raising entrepreneurial activity depends on a complex set of mutually interacting framework conditions, attitudes and skills. In order to make tangible progress, the Action Plan identified a first list of measures to be taken both at EU level and within the Member States. But further work is needed. In addition, countries and regions each have a unique mix of strengths and weaknesses affecting their entrepreneurial culture and business environment. These require specific responses as well.

To complete the entrepreneurship agenda, there still is a way to go. The book in your hands provides a structure to the complex relations between all factors influencing entrepreneurship. This makes the book a reliable guide for policymaking on the road to entrepreneurship.

I am very pleased to recommend this book as a true reference to everyone who is, either professionally or personally, concerned with entrepreneurship and policy-making.

Olli Rehn

Member of the  
European Commission

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*Anders Lundström*  
Swedish Foundation for  
Small Business Research  
Örebro, Sweden

*Lois Stevenson*  
Wilford White Fellow  
and Fellow of the IC<sup>2</sup>  
Institute  
Ottawa, Canada