11 Enterprise Policy

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Over the last 30 years, the importance of entrepreneurship to employment, innovation, productivity and income growth has led to an interest in enterprise policy (Shane, 2008; Blackburn and Smallbone, 2008). Enterprise policies have been seen to encourage economic growth, create jobs and generate economic development (Audretsch and Beckmann, 2007), with the aim of meeting economic and social challenges (Wright *et al.*, 2015). Acknowledging the importance of entrepreneurs and Small and Medium Enterprises (SMEs) allows an understanding of why so much attention is being paid to enterprise policy. This chapter answers the following fundamental questions in order to define, understand and review enterprise policy:

- What is enterprise policy?
- What is the economic rationale for undertaking enterprise policy?
- Why has enterprise policy become so important?
- What are the main instruments of enterprise policy?

What is enterprise policy?

As a first step it is important to understand that enterprise policy in this context includes both entrepreneurship and SME policy. It is indeed essential to understand that entrepreneurship and SME policies are seen as separate entities and are often confused and used synonymously in policy circles and by commentators. After studying numerous economies, Lundstrom and Stevenson (2005: p. 5) defined entrepreneurship policy as being:

> aimed at the pre-start, the start-up and post-start-up phases of the entrepreneurial process; designed and delivered to address the areas of motivation, opportunity and skill and; is the primary objective of encouraging more people in the population to consider entrepreneurship as an option, to move into the nascent stage of taking the steps to get started and then to proceed into the infancy and early stages of a business.

In contrast, SME policy targets the existing population of enterprises and encompasses virtually all of the support measures included in the policy portfolio which is designed to promote the viability of SMEs (Audretsch, 2004). There are four major areas of divergence between the two types of policy:

1. Entrepreneurship policy focuses on *individuals*, while SME policy focuses on *firms*.
2. Entrepreneurial policy concentrates on supporting the needs of people as they progress from one stage to the next (from awareness to pre-start-up to post-start-up); SME policy emphasises support for established firms that have already acquired sufficient capacity to benefit from SME schemes and measures.
3. Entrepreneurship policy makes greater use of 'soft' policy measures, such as mentoring, advice and entrepreneurship promotion; SME policy makes use of 'hard' policy instruments, such as financial support like grants, venture capital, etc.
4. The implementation of entrepreneurship policy includes a number of players in the makeup of its support infrastructure, such as educators, the media, and government agencies, whilst SME policy is more likely to be directly implemented through a constricted set of key players such as economic development agencies and financial intermediaries (Lundstrom and Stevenson, 2005).

However, both policies have similar long-term visions. It has been argued that "there is considerable overlap in the meanings attached to these terms and a general lack of precision regarding the differences between them" (Stevenson and Lundstrom, 2001: p. 15). Although the differences between entrepreneurship and SME policy have been outlined, the underlying proposition remains unchanged: to enhance economic prosperity in a country, be it through encouraging business start-ups or the growth of existing firms (Arshed *et al*., 2014).

Furthermore, there is a typology of the different approaches to enterprise policy adopted by various governments, indicating considerable diversity of the policies available (Stevenson and Lundstrom, 2007). Table 11.1 illustrates the different approaches and policies towards enterprise.

A government implementing an *e-extension policy* generally embeds this policy within an existing SME policy framework. The *niche entrepreneurship policy* is often planned in conjunction with a dominant entrepreneurship policy approach where the overall entrepreneurship culture is strong but special efforts are needed to help specific groups of the population to overcome adverse effects or obstacles. There are two types: the first targets those who are underrepresented amongst business owners, e.g. women, ethnic minorities, disabled and the unemployed, and tries to address specific barriers that individuals face.

Policy type	Policy objectives	Example
E-extension	Start-up programmes 'added-on' to existing SME initiatives, where they tend to be somewhat marginalised and weakly resourced.	Taiwan, USA, Australia, Canada and Sweden
'Niche' entrepreneurship	The government formulates targeted entrepreneurship around specified groups of the population.	US, Canada and Sweden
New firm creation	The aim of this policy is to reduce time and costs to a minimum so that more people will be able to start their own businesses.	Italy
Holistic entrepreneurship	National government policy objectives include reducing barriers to entry and exit, improving access to start-up resources (financing, information and assistance) and addressing the start-up needs of target groups such as the disabled, women, ethnic minorities and the young, but also promoting an entrepreneurship culture, along with attempting to embed this ideology within the educational system.	UK

Table 11.1: Types of enterprise policy

Source: Adapted from Stevenson and Lundstrom (2007) and Verheul *et al*. (2009).

The second type aims to generate high growth potential businesses based on R&D, technology or knowledge inputs by targeting people with the highest potential for starting such firms e.g. scientists, inventors and university graduates. *New firm creation* policy is dominant in countries where there may be many structural and regulatory barriers to creating businesses. It involves a number of government policies and structures, including regulations and policies related to competition, social security, employment, taxation, company law and bankruptcy or insolvency rules. The *holistic entrepreneurship policy* ultimately aims to produce a more entrepreneurial society. This type of policy endeavours to establish and enhance an entrepreneurial culture and infiltrate the education system to instigate entrepreneurship at all levels of society.

Exercise

Choose three countries other than those discussed above and undertake some research giving examples of each type of policy within the different countries.

The economic rationale for enterprise policy?

Researchers, policy-makers, support agencies and SME groups tend to assume that there exists a strong case for the provision of government intervention for the SME sector. There has been a long-running debate as to whether or not enterprise policy should be employed by the government to provide businesses with information, support and training which is financed by central government (Johnson, 2005).

Tip: A record number of small firms in the UK in 2015: some 5.2 million, an increase of 760,000 since 2010 (Young, 2015).

■ Arguments for undertaking enterprise policy

The Bolton Report (1971) increased the recognition that small firms were important and that they had to cope with an "uneven playing field" (Greene *et al.*, 2008: p. 57). This led to governments introducing numerous policies, including the provision of advice, to facilitate the formation of new firms and to offer support to SMEs to aid their survival and foster improved rates of growth (Robson and Bennett, 2000). The rationale behind publicly funded enterprise support programmes is that they benefit not only the individual firms, but also the economy as a whole (Massey, 2003). Many countries have been introducing policies aimed at stimulating entrepreneurship (OECD, 2005a) as they believe entrepreneurship is central to the sound functioning of market economies (OECD, 2005b) and in assiting in the creation of a global and knowledge-based economy (Doh and Kim, 2014). The rationale for government intervention was described by the Department of Trade and Industry (DTI) as:

> The small firms sector is recognized by government as having a vital part to play in the development of the economy. It accounts for a significant proportion of employment output and it is a source of competition, innovation, diversity and employment (Frank *et al.*, 1984: p. 257).

The key argument put forward for defending government assistance is that market failure exists as there is inefficiency in the allocation of goods and services, a scenario where individuals' pursuit of self-interest leads to bad results for society as a whole (Krugman and Wells, 2005). Thus, the market failure argument suggests that small firms in certain fields have difficulty in developing and attracting investment, therefore the government should assist them to reach optimum levels of business performance. The existence of market failure presumes that the market will not be Pareto efficient and, as a result, the need for government intervention can be advanced (Connolly and Monroe, 1999).