

# CREATING A CONTEXT AS THE BASE FOR ENTREPRENEURIAL SUPPORT POLICY

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**Abstract:** *This study advances knowledge in the field of entrepreneurship policy and lays out a path for policymakers to follow. It highlights some of the major challenges faced by governments in evaluating the impact of policies and measures geared towards producing higher levels of entrepreneurial activity and discuss the potentially conflicting perspectives of entrepreneurs, policymakers and service providers. In this study we present the findings of entrepreneurship support policy stated in author's monograph [8] including theoretical background of entrepreneurship support policy and its policy foundations and entrepreneurship policy framework. We discuss conceptual issues related to steps identifying entrepreneurship policy measures; the appropriate choice of entrepreneurship support policy options and several issues concerning the improvements of entrepreneurship policies and programs. We introduce the **Context model for Entrepreneurial Support** that may be useful to government in taking stock of its current policy orientation and to better enable the assessment of entrepreneurship policy across country. 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.*

**Keywords:** *Entrepreneur, Entrepreneurship, Entrepreneurial support, Entrepreneurship Policy, Policy Measures.*

**JEL Classification:** *L26, L53.*

## Introduction

We can recognize entrepreneurship as first and foremost a mindset. To find an entrepreneurial opportunity, one needs to have a taste for independence and also to be prepared to handle the uncertainty. Entrepreneurs need to be able to transform opportunity into economic value and to match their creativity and knowledge with a strategic vision and company management. [4]

Entrepreneurs are considered as the vehicle for the commercial exploitation of innovative and creative ideas. They play a key role in the European Union boosting competitiveness and dynamism. [3]

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 realizing this. To rise successful entrepreneurial activity depends on

a complex set of mutually interacting framework conditions, attitudes and skills. In order to make a progress in this field the European Commission identified a list of measures to be taken both at EU and Member States level. Member countries and regions each have a unique mix of strengths and weaknesses affecting their entrepreneurial culture and business environment. These require specific responses, to complete the entrepreneurship support agenda, there still is a way to go.

## **1 Statement of a problem**

### **1.1 Entrepreneurial support importance**

Importance of the entrepreneurial support policy has been escalating over the past years. The driving force behind this interest is the growing body of research on the relationship between entrepreneurship and economic growth. There is essential contribution of new firms to employment and economic growth [2] influences entrepreneurial activity across countries [7]. This reinforces the critical contribution of new firms to job creation, innovation, productivity and economic growth in an economy.

### **1.2 Growing interest in the entrepreneurial support**

Scientific research findings state that entrepreneurship is important to economies in several ways. The compelling arguments for the importance of small business to the economy was its role in job creation, showed by Zoltan Acs [1]. His research revealed that most of the jobs in the United States were not only being generated by small firms, but by new and rapidly-growing young firms. Research in other countries confirmed the job creating contribution of new and small firms.

Governments in developed countries are paying more recent attention to entrepreneurship policies because of the need for renewal of their economic performance. As part of the restructuring of the „old economy”, many large companies are still moving their production units (and jobs) to locations around the world with lower wages. This trend will likely continue over the coming years as pressure continues to bear on the reshaping of industrial structures. Further declines in the manufacturing sectors of developed economies will be accompanied by growth in the knowledge-based and services sectors where many low-barrier-to-entry opportunities exist for small firms and new start-ups to supply products and services. One of the effects of this restructuring will be a demand for new indigenous firms and growing small businesses to replace lost jobs and economic momentum.

Entrepreneurship is also seen as part of the solution to reducing unemployment levels and absorbing new labor force entrants. Since research confirms the important role of new and young firms in employment creation, future employment growth is likely to come from growth in entrepreneurial activity. Thus, governments are expressing more interest in how to stimulate start-ups and encourage more entrepreneurship.

Stimulating entrepreneurial activity requires a different set of policy imperatives than supporting the maintenance and growth of existing small and medium-sized enterprises. Governments and societies are eager to identify gaps in their existing

policy frameworks or areas that are deficient in meeting the conditions for an environment conducive to entrepreneurship and seeking knowledge about, and a better understanding of, how to do this.

## **2 Theoretical Background and Scientific Research Conceptual Issues**

Researchers have focused on the topic of entrepreneurial support policy apart from the European Union (EU) and the Organization for Economic Cooperation and Development (OECD). The research being done draws from a number of disciplines, such as economics, sociology, psychology, management, and economic geography. Authors [1] [2] explain the rise in entrepreneurship policy formulation as a necessary response to fundamental industrial and economic restructuring - a shift from the „managed economy“ to the „entrepreneurial economy“. Frameworks for analyzing the determinants of entrepreneurship have been proposed [5] [6]. Whether entrepreneurial support policy should have been derived either from the development of theoretical, conceptual frameworks or from findings of research on the experiences and needs of entrepreneurs is the main research question winding throughout the contemporary scientific research.

Shapiro and Audretsch [11] [2] propose an eclectic theory of entrepreneurship that weaves together into an integrated framework aspects of culture, occupational choice, the resources available to entrepreneurs, and the extent of entrepreneurial opportunities in the economy. This framework is intended to provide insights to policymakers striving to promote entrepreneurship. These researchers suggest a number of possible roles for government policy in influencing the level of entrepreneurship at the country level. They distinguish between the supply side and the demand side of entrepreneurship and highlight the different sets of policy interventions available to governments depending on which view is taken vis-a-vis the determinants of entrepreneurship. Influencing the demand side are factors such as the demographic composition of the population, the resources and abilities of individuals and their attitudes towards entrepreneurship. The supply side is influenced by opportunities for entrepreneurship created by new technologies, the differentiation of consumer demand and the industrial structure of the economy. Acs further introduces the concept of actual versus equilibrium rates of entrepreneurship, suggesting the possibility of a predictable relationship between the level of business ownership in a country and its level of economic development (GDP/capita). Pfeffer suggests that the process by which the actual rate of entrepreneurship is established involves both micro and macro components. [10]

On the demand side entrepreneurial opportunities are created by market demand for goods and services, whereas the supply side generates (potential) entrepreneurs that can seize the opportunities, provided they have the resources, abilities and preferences to do so.' The actual rate of entrepreneurship is determined by occupational choice decisions and may deviate from the equilibrium rate due to demand-side forces, such as changes in market structure and technological developments. The discrepancy between the actual rate and the equilibrium rate is expressed through a surplus or lack of entrepreneurial opportunities, which will then lead to either the entry or exit of entrepreneurs. Actual and equilibrium rates can be mediated through market forces,

but governments may also choose to intervene through selected policy measures. [8]  
[9]

### **3 Methods**

In the beginning we discuss and argue why entrepreneurship policy is important, we highlight recent developments in research knowledge about the factors affecting entrepreneurial activity levels and explore state of entrepreneurship policy frameworks.

The purpose of the study is to set priorities and consequences in the policy analysis cycle in the entrepreneurship support policy. It is necessary to articulate entrepreneurial support policy framework and to address gaps and improvements in the existing field of knowledge base. Findings of this article can be useful for government policymakers and researchers and educators. It aims to be a tool to assist policymakers in making the transition to an entrepreneurship policy approach sorting out the clearer separation of initiatives targeted to increasing the level of entrepreneurial activity versus strengthening the environment for SMEs (Small and Medium Sized Enterprises); a base for the research community in identifying key entrepreneurship policy issues worthy of further examination. To fulfill these we need to propose a context for entrepreneurial support base in following steps: to define priority problems to be solved, to define policy objectives, to make selection of measures.

It is our intention to stress in the end the complexities of entrepreneurship increase in the economy. For this reason we propose a „*context model*” (Fig. 4) stressing the influence of individual and summarizing variables influencing entrepreneurship showing results towards macro-economic phenomenon.

### **4 Creating context for Entrepreneurial support and addressing gaps and improvements in the existing field of knowledge base**

It is apparent that government places different weightings of emphasis on areas of the entrepreneurial support policy framework and on specific measures within each of those areas.

We want to stress the point that the configuration of a government's entrepreneurship policy approach appears to depend on a number of contextual factors. These include, among other things, the country's economic structure and level of development, its economic, political and social priorities, the size and role of its government, the views held by government about where growth comes from and what factors lead to it, its levels of unemployment, self-employment and business ownership the rate of its entrepreneurial dynamism.

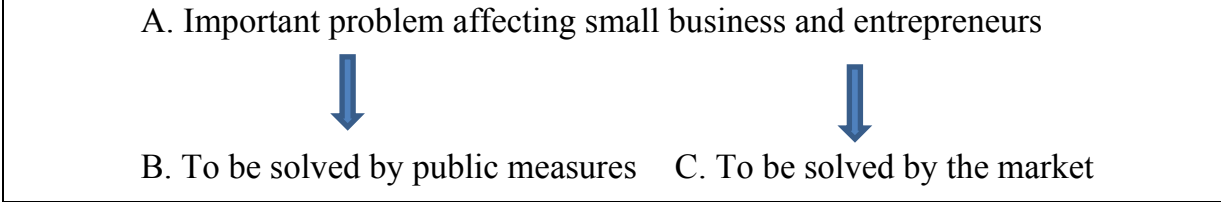
#### **4.1 Steps identifying policy measures**

##### **1) Isolating the problems to be solved**

There are two basic questions of great importance in deciding on specific policy measures in any area of public policy: a) what are the priority problems that need to be solved; and b) to what extent should public spending programs be used to solve these

problems. (Fig. 1) The application of these questions will help in defining the domain of publicly-financed small business and entrepreneurship policy. These fundamental questions have not been substantively dealt with in evaluation theory. The application of different macroeconomic theories will point to differing public policy roles.

**Fig. 1: Isolating the problems to be solved**

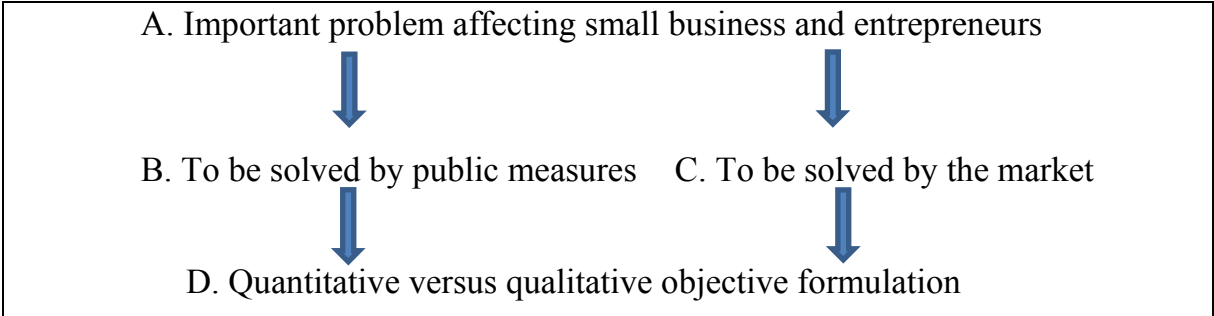


*Source: own*

2) Defining policy objectives

The second step would be to define objectives for the different policy measures to be taken, given the specific nature of the problems to be solved. What objectives should be met by possible policy measures? (Fig. 2) If there is a problem that is supposed to be solved with policy measures then someone also has to decide when that problem is solved. The policy analysis cycle will begin.

**Fig. 2: Defining policy objectives**



*Source: own*

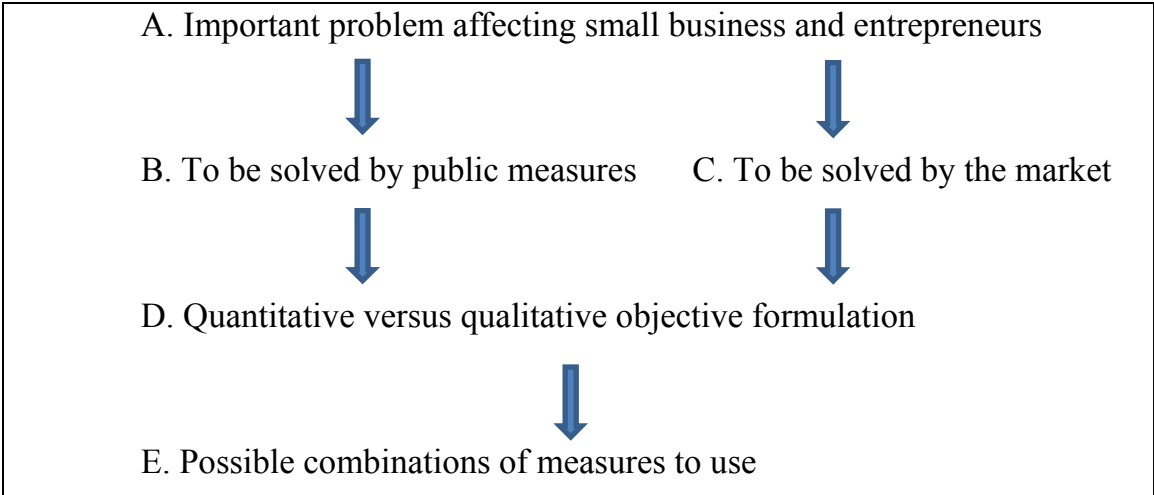
3) Making the selection of measures

After identifying the objectives, the next step in the process will be to discuss possible policy options, resource requirements and resource allocations. (Fig. 3) There are several alternative ways to achieve a stated objective, often through a combination of different measures. In the entrepreneurship policy area, a number of common measures can be employed depending on the type of problem to be solved. It depends on each type of measure, the level of research-based confirmation that the problem exists, and the types of objectives set for each policy measure. It points to some important issues with respect to entrepreneurship policy formulation. This can be for example, improving access to financing and advice and reducing barriers to entry and creating networking opportunities.

Each type of measure attempts to address its own particular problem. In other words, a general problem formulation could be missing. Objectives set for the different problem areas are mostly of a qualitative nature, such as „increase awareness of entrepreneurship as a career option”.

Many factors have been identified in the research literature as being associated with the entrepreneurial activity in a region. We can identify a lot of influencers, including economic, social and cultural factors, attitudinal factors, e.g., taxation and ease of business entry and exit factors, population, immigration, GDP growth factors, labor market and regulatory factors, the relative size of the public to the private sector: the density of small firms/business owners in the population, and the prevalence of entrepreneur role-models, positive attitudes towards entrepreneurship, fear of failure, risk-taking, etc.,

**Fig. 3: Making the selection of measures**



Source: own

**4.2 Addressing gaps and improvements in the existing field of knowledge base**

There has been a *dramatic improvement in the quantity and quality of statistical data on the SME sector* during last decade both in the Czech Republic, held by Czech Statistical Office and in the European Union, held by Eurostat. To capture data on new firm entries and to track the employment growth of new and existing small firms over time has significantly improved our understanding of the impact of new and small firms on the economy. We are able to see that underlying the small incremental net growth in the stock of firms and their net employment on an annual basis is a high level of turbulence. Enterprise situation [12], [13] allows policymakers to see that business turnover and the entry and exit of firms merits their attention. One of the policy implications we can see from these data is that new firms are required to replace exiting firms and to create jobs to replace those lost due to exiting and downsizing firms.

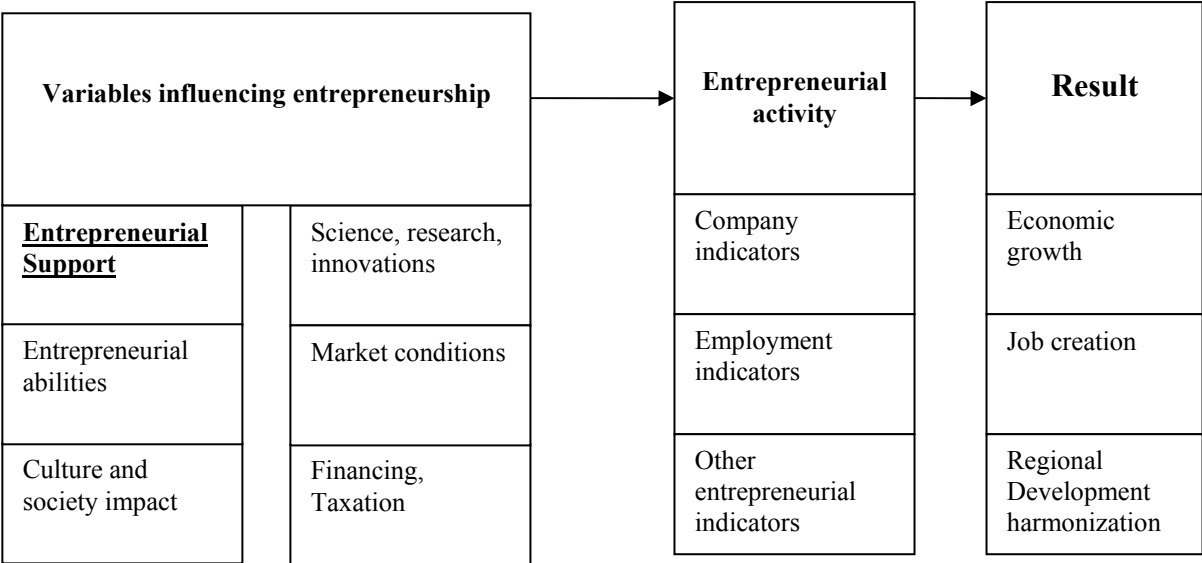
Czech government also has greater *capacity to measure self-employment rates* in the population and to track the entries and exists into and out of self-employment on an annual basis. Combining business registration and self-employment databases allows policymakers and researchers to examine the relationship between firms and individuals and to profile both firms and their owners.

The major gap in the area of entrepreneurship research knowledge base and statistical analysis is the lagging behind development of harmonised methodologies to

measure the level of entrepreneurial activity in the Czech Republic and make credible national comparisons. The Entrepreneurial Activity (TEA) Index, developed as part of the Global Entrepreneurship Monitor (GEM) project, can be an example that could provide standardised measurement of nascent entrepreneur rates, rates of new business entrants and young firm prevalence rates across countries [14].

**4.3 Complexities influencing and resulting “Context model for Entrepreneurial Support”**

*Fig. 4: Context model for Entrepreneurial Support*



*Source: own*

Concluding we expand on our conceptual model of the underpinnings of entrepreneurship policy (Fig. 4), stressing the complexities involved in trying to determine how to increase the supply of entrepreneurs in an economy given via influencing an individual's propensity to start a business.

**5. Discussion**

We hereby highlight some of the important evaluation issues for the entrepreneurship policy area and, to some extent, the area of SME policy. In fact, we draw heavily from the existing European Union knowledge base in the field of SME policy evaluation. The entrepreneurship policy area has not yet been explored much in the literature. However, the theory applied and methods discussed for the SME policy area are often applicable to the entrepreneurship policy area.

We found evidence that government has set objectives to strengthen the entrepreneurial culture and to increase the level of entrepreneurial activity and business entry rates. [8] It is 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 study, [8] 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. [8]

In other words, entrepreneurship policy is evolving as more of a distinct policy field. There are now programs and policies for this area in almost every developed country, as well as formulations by the Commission of the European Union. Interest in the public policy implications of fostering entrepreneurial activity has also been growing within the research community and the importance of entrepreneurship as a tool for improving the economic and social situations in developing economies has escalated. 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.

To state what can be precisely done to increase the level of entrepreneurial activity within an economy and which framework conditions are the most essential for entrepreneurship and boosted growth we have to confess that there is no straightforward answer. Still there is widespread agreement among the researchers who are working on this problem that there are indicators that are essential to any effective entrepreneurship support policy: business entry and exit dynamics - venture spirit, administrative burden, advisory services, financing, taxation and commercialization of research results. From the scientific point of view there is limited clarity as to which combination of policy measures will produce the desired result. The answer appears to lie somewhere in the complex interplay between dimensions of the individual (the entrepreneur), the enterprise and the environment.

Many policy prescriptions have been done to state what should be done in the entrepreneurial support to produce higher levels of entrepreneurial activity, but limited knowledge exists about how entrepreneurship policy is constructed - what it actually looks like, what policies characterize its make-up and how policymakers make decisions about the mix of these policies. More knowledge about this will be very important for governments to have in light of rapidly changing industrial and economic policy paradigms where entrepreneurship is becoming a recognized force in the attainment of positive economic outcomes.

Implementation of SME and entrepreneurship policies requires an appropriate delivery structure and a commitment of human and budget resources. The investment of public funds is substantial with the potential to affect the economic system in various ways. Therefore, policy and program evaluation issues need to be considered. Issues of evaluating SME policies have been well articulated by Audretsch [2]. International organizations, such as the European Commission, are increasingly emphasizing the importance of proper policy and program evaluation and working with member States and countries to develop more systematic approaches. The



evaluation issues have been much in focus during the recent process of assessing the overall impact of the EU Structural Funds Program.

## **Conclusion**

We find a great deal of important input to our understanding of the factors creating a context model for Entrepreneurial Support in a society. One of our main conclusions is that in making entrepreneurship policy, context certainly matters. We find that it is difficult to find simple correlations between factors influencing entrepreneurship and the level of entrepreneurial activity and, for example, economic growth. Entrepreneurship support policy is an emerging area of economic policy development that is not yet well developed. Government interest in the role of entrepreneurship in economic development and growth begins to intensify, but there is a limited knowledge about entrepreneurship as a policy area or about how strategically design and implement such a policy area. There appears to be a considerable confusion around what constitutes policies to stimulate the development of entrepreneurship versus the traditional and well-entrenched set of policies to promote SMEs. Based on our analysis we hold the view that the set of policies necessary to increase entrepreneurial activity levels are qualitatively and quantitatively different than those that should be implemented to protect and strengthen the SME sector. Although entrepreneurship is emerging as a policy issue, we believed that as a policy domain, it suffers from a lack of clarity and specificity. If entrepreneurship policy is to stand as a distinct policy field, it would need better definition and articulation.

We discovered that measures to stimulate and support the emergence of entrepreneurship support that can be called a „holistic“ entrepreneurship policy approach is the ideal one. But unfortunately Czech policy to support entrepreneurship can be rather called „added-on“ to existing SME policies or, to a lesser degree is incorporated within innovation policy frameworks.

As an outcome of the study we have drafted policy analysis cycle in steps by isolating problems, defining objectives and selecting measures. We have also identified contextual factors that are essential to any effective entrepreneurship support policy, challenges related to the effective design and delivery of entrepreneurship policy that is in need of further examination, including development of appropriate performance indicators and evaluation measures and national and regional level implementation structures.

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