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**Green Paper**

**Entrepreneurship in Europe**

(presented by the Commission)

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## I. INTRODUCTION - EUROPE'S ENTREPRENEURIAL CHALLENGE

**Europe needs to foster entrepreneurial drive more effectively. It needs more new and thriving firms willing to reap the benefits of market opening and to embark on creative or innovative ventures for commercial exploitation on a larger scale.**

In the middle of the last century, economists predicted the dominance of large firms. Size was needed to obtain economies of scale, to exploit foreign markets and to keep abreast of regulations and of new opportunities in technology. Indeed, in the 1960s and 1970s, large companies dominated the economy. Since then, the trend has started to reverse. Large firms rationalised by restructuring, outsourcing or downsizing and the number of business owners in OECD countries increased from 29 million to 45 million between 1972 and 1998.<sup>1</sup>

Structural changes in the economy shifted Europe's comparative advantage towards knowledge-based activities. Globalisation increased competitive pressure on manufacturing firms in high-cost locations, which led not only to a shift in production capacity to low cost countries,<sup>2</sup> but also to increasing productivity by using technological inputs. Meanwhile 'Information and Communication Technologies' (ICTs) gave rise to new markets, such as personal computers, software and ICT-based services, which revolutionised production processes in many industries and led to growth of the service sector.

The Internal Market, created by the European Union, is evolving through the removal of barriers and through mutual recognition and harmonisation. It facilitates trading in a market of 380 million people soon to expand to 450 million after enlargement.

These changes have led to opportunities for new entrepreneurial initiative, particularly in the area of services. The increased complexity of production processes requires a variety of specialised inputs. Also, the reduced costs of transmitting knowledge across space makes inputs by external providers relatively cheaper. Increased market opening allows firms in niche markets to operate on a more European or worldwide scale.

The capacity to adapt to economic changes is crucial for competitiveness.<sup>3</sup> In Lisbon in 2000, the European Council defined its objectives in terms of employment, economic reform and social cohesion. For 2010, the Union aims "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". In 2001, the European Council agreed on a strategy for sustainable development and added an environmental dimension to the Lisbon strategy. The Council recognised the need for radical transformation of the economy, in order to create some 15 million new jobs by 2010.<sup>4</sup>

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<sup>1</sup> 'Entrepreneurship: Determinants and policy in a European US comparison', David B. Audretsch et al., 2002.

<sup>2</sup> Between 1991 and 1995, manufacturing employment in German plants decreased by 1 307 000 while it increased in foreign subsidiaries by 189 000, 'Entrepreneurship: A survey of the Literature', David B. Audretsch, October 2002.

<sup>3</sup> Comparison between Europe, the US and Japan suggests that change in European manufacturing may not have been fast enough in relation to change in demand and technology. 'The European Competitiveness Report', SEC (2000) 1823, 30.10.2000.

<sup>4</sup> 'Increasing labour force participation and promoting active ageing' Council document 6707/02, 08.03.2002, adopted on the basis of COM (2002) 9 final, 24.01.2002.

A friendly environment for starting and developing businesses is central to reaching these goals. The Council adopted the Charter for Small Enterprises,<sup>5</sup> setting out recommendations for small enterprises to take full advantage of the knowledge economy. The European Commission develops initiatives in this area, including annual implementation reports on Member States' and the Commission's efforts towards reaching the objectives of the Charter for Small Enterprises, the report on the Activities of the SME Envoy and the forthcoming Communication on Innovation Policy. In particular the Commission has adopted last December a Communication on industrial policy in an enlarged Europe and the discussion on the Green Paper on entrepreneurship has to be seen also in this context.<sup>6</sup>

At the Barcelona Spring Council in 2002, the Council took note of the Commission's intention to present a Green Paper on Entrepreneurship. The importance of entrepreneurship has been reaffirmed in the Commission's 2003 Spring Report to the Spring European Council which places particular emphasis on boosting investment, jobs and growth through knowledge, innovation and business dynamism.<sup>7</sup>

## **II. THE DYNAMICS OF ENTREPRENEURSHIP**

### **A. What is entrepreneurship?**

Entrepreneurship is multi-dimensional and although it can occur in different contexts, economic or other, and in all types of organisations, this Green Paper focuses on entrepreneurship within a business context.

#### *i. Exploitation of creativity or innovation*

Entrepreneurship is first and foremost a mindset. It covers an individual's motivation and capacity, independently or within an organisation, to identify an opportunity and to pursue it in order to produce new value or economic success. It takes creativity or innovation to enter and compete in an existing market, to change or even to create a new market. To turn a business idea into success requires the ability to blend creativity or innovation with sound management and to adapt a business to optimise its development during all phases of its life cycle. This goes beyond daily management: it concerns a business' ambitions and strategy.

#### *ii. Entrepreneurs*

Entrepreneurship is about people, their choices and actions in starting, taking over or running a business, or their involvement in a firm's strategic decision-making. Entrepreneurs are a heterogeneous group and come from all walks of life. Yet there are certain common characteristics of entrepreneurial behaviour, including a readiness to take risk and a taste for

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<sup>5</sup> The 'Charter for Small Enterprises', adopted on 13.06.00 by the General Affairs Council, was endorsed at the Feira European Council on 19-20 June 2000. It covers ten key areas: Education and training for entrepreneurship; Cheaper and faster start-up; Better legislation and regulation; Availability of skills; Improving online access; Getting more out of the Single Market; Taxation and financial matters; Strengthening the technological capacity of small enterprises; Making use of successful e-business models and developing top-class small business support; Developing stronger, more effective representation of small enterprises' interests at EU and national level.

<sup>6</sup> These documents are available after their official publication on [http://europa.eu.int/comm/enterprise/index\\_en.htm](http://europa.eu.int/comm/enterprise/index_en.htm).

<sup>7</sup> 'Communication from the Commission, Choosing to grow: Knowledge, innovation and jobs in a cohesive society', Report to the Spring European Council, 21 March 2003 on the Lisbon strategy of economic, social and environmental renewal', COM (2003) 5, 14.01.2003

independence and self-realisation.<sup>8</sup> The British Household Survey found that individuals seriously considering starting a business regard themselves as relatively more imaginative and creative than others.<sup>9</sup>

### *iii. Applications of entrepreneurship*

Entrepreneurship can occur in any sector and type of business. It applies to the self-employed and to firms of any size throughout the various stages of the business life-cycle, from pre-start to growth, transfer or exit and re-start.

Entrepreneurship is relevant for firms in all sectors, technological or traditional, for small and large firms and for different ownership structures, such as family businesses, firms quoted on the stock exchange, social economy enterprises<sup>10</sup> or non-profit-driven organisations, which often have significant economic activities. According to the Global Entrepreneurship Monitor (GEM) survey 7% of new entrepreneurs<sup>11</sup> create a significant new market niche or economic sector if their business is successful, whereas 70% of new enterprises are providing products or services in existing markets where there is already considerable competition and where the critical technology has been available for more than a year.

*Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management, within a new or an existing organisation.*

## **B. Why is entrepreneurship important?**

### *i. Entrepreneurship contributes to job creation and growth*

It is increasingly new and small firms, rather than large ones, that are the major providers of new jobs.<sup>12</sup> Countries exhibiting a greater increase in entrepreneurship rates tended to exhibit greater subsequent decreases in unemployment rates.<sup>13</sup> During the 1990s, fast-growing firms contributed considerably to job creation. For example in the Netherlands, between 1994 and 1998, 8% of fast-growing firms created 60% of employment growth within existing enterprises.<sup>14</sup> In the US 350 000 fast-growing firms created two-thirds of all new jobs between 1993 and 1996.<sup>15</sup> Research suggests that entrepreneurship provides a positive contribution to economic growth, although GDP growth is influenced by many other factors.<sup>16</sup>

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<sup>8</sup> Some examples are mentioned in Kimmo Hyrsky 'Reflections on the advent of a more enterprising culture in Finland: An exploratory study', Jyväskylä Studies, *Business and Economics*, 2001.

<sup>9</sup> 'Findings from the Household Survey', SBS Performance Analysis, 31.03.2002.

<sup>10</sup> Social economy enterprises include co-operatives, mutuals, associations and foundations.

<sup>11</sup> New entrepreneurs in the survey including those setting up a business or who are the owner/manager of an active business for less than 3 1/2 years. 'Global Entrepreneurship Monitor (GEM) 2002 Summary Report', Reynolds, Bygrave, Autio and Hay.

<sup>12</sup> 'Entrepreneurship: A survey of the literature', David B. Audretsch, October 2002.

<sup>13</sup> 'Entrepreneurship: A survey of the literature', David B. Audretsch, October 2002.

<sup>14</sup> 'Entrepreneurship in the Netherlands, Innovative entrepreneurship. New policy challenges!' Ministry of Economic Affairs and EIM, February 2002.

<sup>15</sup> 350 000 out of a total of out of 6 million US businesses with employees. 'White Paper, Embracing innovation: entrepreneurship and American economic growth', National Commission on Entrepreneurship (NCOE) 2001.

<sup>16</sup> For example in 'Entrepreneurship: A survey of the literature', D. Audretsch, October 2002, 'Entrepreneurship: Determinants and policy in a European-US comparison', edited by Audretsch, Thurik, Verheul and Wennekers, 2002 and in the annual GEM Survey Reports.

Entrepreneurship can also contribute to fostering social and economic cohesion for regions whose development is lagging behind, to stimulating economic activity and job creation or to integrating unemployed or disadvantaged people into work.<sup>17</sup>

ii. *Entrepreneurship is crucial to competitiveness*

New entrepreneurial initiatives, either starting a new firm or reorienting an existing one (e.g. after the transfer of a business to a new owner), boost productivity. They increase competitive pressure, forcing other firms to react by improving efficiency or introducing innovation. Increased efficiency and innovation within firms, whether in organisation, processes, products, services or markets, enhances the competitive strength of an economy as a whole. This process offers consumers benefits through greater choice and lower prices.

iii. *Entrepreneurship unlocks personal potential*

An occupation is not just a way to earn money. People have other criteria in their career choices, such as security, level of independence, variety of tasks and interest in their work. Higher income levels may prompt people to fulfil 'higher needs', such as self-realisation and independence, through entrepreneurship. The British Household Survey found that, in addition to material motivations (money and status), people chose to become entrepreneurs as a means to self-fulfilment (freedom, independence and challenge).

For some, who cannot find a regular job to their satisfaction, the choice of becoming an entrepreneur may stem partly or entirely from economic necessity. Becoming an entrepreneur may provide them with the prospect of creating a better position for themselves.

Job satisfaction among entrepreneurs is higher than among the employed. In a survey, 33% of self-employed without employees and as many as 45% of self-employed with employees reported being very satisfied with their working conditions against only 27% of employees.<sup>18</sup>

iv. *Entrepreneurship and societal interests*

Entrepreneurs are the drivers of the market economy and their achievements provide societies with wealth, jobs and diversity of choice for consumers. In response to growing public expectations regarding the impact of business activities on society and the environment, many large companies have adopted formal strategies on Corporate Social Responsibility. This includes voluntarily integrating social and environmental concerns in their business operations and in their interaction with stakeholders, recognising that responsible business behaviour can support business success. Such behaviour can include, for example, a commitment to producing in an environmentally friendly manner ('eco-efficiency') or respecting consumer concerns and doing business in a consumer-friendly manner. SMEs demonstrate 'responsible entrepreneurship' in a more informal way but they provide the fabric and focal point for many communities.<sup>19</sup>

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<sup>17</sup> See also 'Joint Report on Social Inclusion' Council of the European Union, 15223/01, 12.12.2001.

<sup>18</sup> 'Third European survey on working conditions 2000', European Foundation for the Improvement of Living and Working Conditions.

<sup>19</sup> Commission initiatives in this area include 'Commission Staff Working Paper on Sustainable Industrial Development', (SEC) 1999, 1729, European Commission, 25.10.1999 and 'Communication from the Commission concerning Corporate Social Responsibility: A business contribution to Sustainable Development', COM (2002) 347 final, European Commission, 02.07.2002.

Entrepreneurship can also play a positive role in delivering health, education and welfare services efficiently. Social economy enterprises encourage the participation of stakeholders in the management and delivery of such services, enhancing innovation and client-orientation. Such an approach can supplement public resources and extend the range of services offered to consumers.

### **C. The European Union's entrepreneurial gaps and potential**

How does the European Union perform on entrepreneurship? To answer this we must look not only at people's attitudes towards entrepreneurs or the number of actual entrepreneurs, but also to dynamism in entrepreneurial activity and entrepreneurs' performance.<sup>20</sup>

#### *i. Measuring entrepreneurship*

##### *People's preferences for self-employment*

Europeans prefer employee over self-employed status according to the Eurobarometer survey. In Southern Europe, Ireland and the UK there is a relatively higher preference for self-employment. Compared to the EU average of 45%, as much as 67% of US citizens would prefer to be self-employed.<sup>21</sup>

##### *People's involvement in entrepreneurship*

The incidence of entrepreneurs, including self-employed and business owners, varies widely across Europe, from around 6% in Denmark and Luxembourg to 13% in Spain, 15% in Portugal and over 18% in Greece and Italy. This compares with just over 10% in the US.<sup>22</sup>

Regarding involvement in *new* entrepreneurial initiatives, the Eurobarometer survey reported that 4.5% of EU citizens are currently taking steps to start a business, have set up a business or taken one over in the last three years, ranging from over 6% in the UK and Ireland to less than 2% in France. At 13%, the rate in the US is significantly higher. More than twice as many Europeans than Americans gave up their efforts to start a business.

##### *Entrepreneurial dynamism*

Despite evidence suggesting a similar degree of "churning" (entry and exit rates of firms), in some European countries and the US, there is less entrepreneurial dynamism in Europe. US firms are on average smaller at birth than European firms, but (employment) expansion among successful entrants in the US is much stronger in the initial years after start-up. Entrepreneurs in the US appear to test the market by starting on a small scale and, if successful, expand rapidly, whereas in Europe many business ideas never even see the market as their viability is questioned even before they are tested in the market place.<sup>23</sup> Indeed, the

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<sup>20</sup> In-depth analysis of factors influencing business dynamics can be found in 'Entrepreneurship: A survey of the literature', David B. Audretsch, October 2002 and 'Business Demography in Europe', Observatory of European SMEs / No 5, European Commission, 2002.

<sup>21</sup> Flash Eurobarometer 134 'Entrepreneurship', November 2002, Further references to the Eurobarometer concern the 2002 edition unless specified otherwise.

<sup>22</sup> Entrepreneurship as a percentage of the labour force. Entrepreneurs are defined as owners of incorporated and unincorporated businesses, excluding unpaid family workers, salary workers operating a business as a secondary activity and business owners in the agricultural sector, 'COMParative Entrepreneurship data for International Analysis' (Compendia 2000.1), EIM.

<sup>23</sup> The analysis covered eight EU Member States, the US and Canada. 'The role of policy and institutions for productivity and firm dynamics: Evidence from micro and industry data', working paper No 329, Stefano Scarpetta et. al., ECO/WKP(2002)15, 23.04.2002.

Eurobarometer showed that 46% of Europeans agreed that “*one should not start a business when there was a risk it might fail*” against only 25% of US citizens.

To illustrate the growth of entrepreneurial dynamism in the US, it took 20 years to replace one third of the Fortune 500 companies listed in 1960, against four years for those listed in 1998. Moreover, 8 out of America’s 25 biggest firms today did not exist or were very small in 1960. In Europe, all of the largest firms in 1998 were already large in 1960.<sup>24</sup>

### *Job creation*

Despite efforts to reduce unemployment from 11% in the early 1990s and although rates vary between Member States, an average unemployment rate at 7.4% is still a major issue. In the second part of the 1990s, all Member States recorded positive annual birth rates for enterprises,<sup>25</sup> but there is scope for further improvement. Europe has not developed so many of the fast-growing entrepreneurial ventures that are an important job engine. During the first years of the 1990s, 19% of mid-sized firms in the US were classified as fast-growers, compared to an average of 4% in six EU countries.<sup>26</sup>

#### *ii. The challenge for Europe*

People’s attitudes towards and involvement in entrepreneurship vary widely across the EU Member States, and differences are even greater between regions. On average, the European Union has no lack of business owners. However, people’s inclination towards developing new entrepreneurial initiatives in the European Union could be improved. Compared to the US, there is less entrepreneurial dynamism in the European Union. Europeans are less involved than Americans in new entrepreneurial initiatives and European businesses do not grow as much as in the US.

The European Union’s persistent high unemployment rate, again a more pressing problem for some Member States than others, suggests that efforts should be made to better exploit the job creation potential of entrepreneurial activity. Besides encouraging new entrepreneurial initiatives, the growth potential of the European Union’s existing firms should be unlocked. They are the core of the Union’s economy and provide continuity, jobs and sound experience. Out of roughly 20 million SMEs in Europe, some 30% declare growth as their main ambition.<sup>27</sup>

*The challenge for the European Union is to identify the key factors for building a climate in which entrepreneurial initiative and business activities can thrive. Policy measures should seek to boost the Union’s levels of entrepreneurship, adopting the most appropriate approach for producing more entrepreneurs and for getting more firms to grow.*

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<sup>24</sup> ‘Entrepreneurship in the Netherlands: Innovative entrepreneurship. New policy challenges’ Ministry of Economic Affairs and EIM, the Netherlands, 2002 and ‘White Paper, Embracing innovation: entrepreneurship and American economic growth’, National Commission on Entrepreneurship (NCOE), 2001.

<sup>25</sup> ‘Business Demography in Europe’, Observatory of European SMEs / No 5, European Commission, 2002

<sup>26</sup> Definition: Fast growing firms, doubling their turnover between the reference periods (Europe 90-93 US 91-94), as a percentage of all mid-sized companies. ‘An international comparison of hypergrowth enterprises’, EIM Small Business Research and Consultancy, in ‘Fostering Entrepreneurship in Europe, the UNICE Benchmarking Report’, 1999.

<sup>27</sup> The 20 million enterprises concern the EU, EEA and Switzerland. Ref. Observatory of European SMEs / No 1 Highlights from the 2001 Survey, European Commission, 2001.

### III. POLICY OPTIONS FOR ENTREPRENEURSHIP

Policy can contribute to boosting levels of entrepreneurship. The GEM report observed that, notwithstanding the important influence of macro-economic conditions on entrepreneurial levels, the ranking order of these levels in the countries surveyed remained relatively stable, suggesting that enduring national characteristics also have an impact.

The European Union has already put in place a strategy for growth- and stability-oriented macro-economic policies, which is a prerequisite for creating a climate conducive to entrepreneurial initiative. The Council issues annual “*Broad Economic Policy Guidelines*” addressing the Member States’ national policies. In 2002 the guidelines recommended fostering entrepreneurship through, for example, the tax and regulatory environment for new and existing businesses, insolvency law reforms and promoting efficient financial markets.<sup>28</sup>

Besides economic opportunities, many other factors condition an individual’s decision to start a business or the ambition of an entrepreneur to take risks or expand. More economic opportunities does not automatically lead to more entrepreneurship. This also depends on people’s preferences, abilities and the available alternatives. Even when individuals consider being an entrepreneur, they weigh the pros and cons of entrepreneurship against the advantages and security they may have to forego.

A comprehensive approach to promoting entrepreneurship must work on three levels – individual, firm and society.

- To motivate **individuals** to become entrepreneurs, they should be made aware of the concept of ‘entrepreneurship’, and this should be made a sufficiently attractive option. They should be equipped with the right skills to turn ambitions into successful ventures.
- For entrepreneurial ventures to develop into healthy **firms**, supportive framework conditions are essential. These should allow firms to develop and grow, and not unduly hinder contraction and exit.
- Entrepreneurial activity depends on a positive appreciation of entrepreneurs in **society**. Entrepreneurial success should be valued and the stigma of failure reduced.

*Entrepreneurship policy aims to enhance entrepreneurial vitality by motivating and equipping entrepreneurs with the necessary skills. A supportive environment for businesses is key for businesses to start, stop, take over, thrive and survive.*

#### A. What does it take to produce more entrepreneurs?

##### i. Entry barriers

**Despite recent improvements, Europeans still consider administrative barriers as a major hurdle to starting a business. Business start-ups have difficulties in getting the seed and early-stage finance they need. Risk-sharing between public and private sectors can help increase the availability of finance.**

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<sup>28</sup> Council Recommendation of 21 June 2002 on the Broad Economic Policy Guidelines of the Member States and the Community, 2002/549/EC, OJ L182, 11.07.2002.

When Europeans were asked in the Eurobarometer survey to express their views on obstacles to starting a business, 69% agreed that the existing administrative procedures were complex and 76% noted a lack of available finance.

Administrative procedures for enterprise creation have already received substantial attention. In a benchmarking study the European Commission observed a favourable trend in terms of time taken to start a business.<sup>29</sup> The average time taken to set up an individual enterprise is 12 working days and 24 for a private limited company; these figures continue to fall. However, some Member States still have some way to go in reducing the time and costs of establishing an enterprise to the European benchmarks. There is scope for further improvement regarding multiple procedures, contact points, forms, licences and permits needed and costs.

#### *A one-stop-shop for creating a firm*

*In Portugal Business Formalities Centres have been set up since 1997 to facilitate the registration of new firms. These centres bring together representatives of all public departments responsible for the different formalities required in registering a new firm (concerning, for example, the articles of association or the business and social security registers). Future entrepreneurs can obtain advice from a help desk, located within the same centre. At the same time, procedures have been simplified. As a result the time to set up a business has been reduced by as much as 80% compared to the mid-1990s and Portugal has committed itself to a further reduction of 50% in 2003.*

Access to finance remains a major barrier for new entrepreneurs: They have difficulty securing bank loans or finding risk capital. Banks want a positive track record and collateral – which new firms, particularly those developing knowledge-based activities, generally do not have. Start-ups also experience serious difficulties in covering their working capital needs.

In addition to bank lending, start-ups should have better access to alternative sources of finance. Besides venture capital, the potential of informal investments, e.g. family, friends or business angels, should be further explored. The GEM survey found that informal support for start-ups was five times that of domestic venture capital support and whereas venture capital support declined significantly between 2000 and 2001, informal support was more consistent. To increase their interest in risky enterprises, private investors have expressed a need for incentives such as tax breaks.

Risk-sharing between banks and investors in the private sector and public financial institutions specialised in SMEs, or through mutual guarantee societies, is an efficient way of leveraging scarce public funds and has proved to be successful in increasing funding for business start-ups.

#### *ii. Risk and reward*

**In Europe, the risks associated with entrepreneurship are not adequately offset by the prospect of reward. This calls for a re-examination of the balance of the risks and rewards associated with entrepreneurship.**

A failed entrepreneur faces the stigma of failure. When the Eurobarometer asked Europeans to identify their primary concerns in relation to the risk associated with entrepreneurship, going bankrupt and losing personal property were prevalent. In addition to the social stigma, a

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<sup>29</sup> 'Benchmarking the administration of start-ups', European Commission, January 2002.

personal bankruptcy implies severe legal consequences. Discharge of remaining debts may take years, bankrupts may lose their possessions and be subject to certain restrictions. Such consequences are justified in cases of fraud or dishonesty, but failure is an intrinsic part of economic life and a proportion of entrepreneurs go bankrupt because they cannot compete in the market. Insolvency laws could be reviewed to reduce barriers to making a fresh start for honest entrepreneurs. This should not, of course, unduly harm creditors' interests, which might increase their reluctance to invest in small and new ventures.

#### *Insolvency laws*

*Belgium* has adapted its insolvency legislation with a view to allowing entrepreneurs to attempt to rescue businesses when facing temporary problems and to liquidate non-viable firms as quickly as possible. Courts can declare honest bankrupt entrepreneurs to be 'excused', allowing them to make a fresh start in business.

People might be more willing to accept the risk of entrepreneurship if it were compensated by the prospect of reward in the event of success. A recent trend to reduce tax levels on the self-employed and small businesses is observed in the European Union and steps are being taken to reduce the tax burden on potential self-employed people. Nonetheless, in some Member States such tax rates remain high,<sup>30</sup> reducing the possibility for entrepreneurs to create and retain wealth. In becoming self-employed, one often has to opt for reduced social protection. A social protection system tailored to the needs of entrepreneurs could make entrepreneurship more attractive.

#### *Reducing the cost of entrepreneurship*

The **French** government intends to facilitate the change-over from employee to entrepreneur. This action, which is part of a comprehensive initiative to boost firm creation, includes measures to reduce barriers for employees who want to start up a company either independently or with their employer. It will also remove discriminatory fiscal and social charges for nascent entrepreneurs who still have employee status.

More than twice as many Europeans would prefer starting a business than taking over an existing one.<sup>31</sup> However, taking over a firm may be an attractive alternative with less risk involved. For example, in Austria 96% of successful business transfers survive the first five years after a transfer in comparison with 75% of start-ups.<sup>32</sup> Around one-third of enterprises in the European Union are expected to need new owners in the next ten years, either due to retirement or for other reasons. These will provide many opportunities for taking over existing firms.

#### *iii. Fostering capacity and skills*

**Education and training should contribute to encouraging entrepreneurship, by fostering the right mindset, awareness of career opportunities as an entrepreneur and skills.**

The Eurobarometer revealed that 37% of Europeans are considering or had considered becoming entrepreneurs, yet only 15% turned their aspirations into reality. Surveys seem to indicate that knowing about how to start a business increases the likelihood of becoming an

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<sup>30</sup> 'Communication from the Commission to the Council, Draft Joint Employment Report', COM (2002) 621 final, 13.11.2002.

<sup>31</sup> Flash Eurobarometer 107 'Entrepreneurship', November 2001

<sup>32</sup> 'Business transfers and successions in Austria', Austrian Institute for Small Business Research, 2002.

entrepreneur. Respondents in the Eurobarometer survey with self-employed parents were found to be more 'self-employed-oriented' than those with parents who were employees. The GEM survey found that people who are confident about their skills and experience are between two and seven times more likely to be involved in starting or running a new business; those that know someone who recently started a business are three to four times more likely. The British Household Survey found that those previously exposed to entrepreneurship (through friends, family or education) were more likely to seriously consider starting a business. The education system can provide both skills and exposure as a contribution to fostering entrepreneurship.

#### *Running a virtual enterprise within school*

*Virtual enterprises are used as a training aid for students in the Sivitanidios Technical School in Athens, Greece. The students divide their time between theoretical courses and running a virtual enterprise. This programme will be extended to all technical schools due to its very positive results. A course on entrepreneurship has also been added to the curricula, which will cover entrepreneurship theory and practical guidance on preparing business plans. Liaison offices will ensure that students receive advice and support for entrepreneurial career options.*

Setting up a business calls for drive, creativity and persistence, whereas developing a business gradually requires more managerial skills, such as efficiency, effectiveness and reliability. Considering that both personality and management skills are key elements for success, personal skills relevant to entrepreneurship should be taught from an early stage and be maintained up to university level, where the focus can concentrate on building management capacity.<sup>33</sup> The European Commission found that most Member States, to varying degrees, are now committed to promoting the teaching of entrepreneurship in their education systems.<sup>34</sup>

Within universities, entrepreneurship training should not only be for MBA students, it should also be available for students in other fields. For example in technical universities entrepreneurship training may contribute to matching entrepreneurial and technological potential. Entrepreneurship education in combination with public research programmes brings together the ingredients to match scientific excellence with the commercialisation of results.

#### *Support for starting entrepreneurs within the campus environment*

*Enterprise Ireland is implementing a strategy for developing high-growth start-ups with a focused package of support geared to increasing the number and intensity of campus-based ventures. The programme is part of the Irish regional growth strategy and includes a one-year incubation programme for graduates who wish to start a firm, providing hands-on and management support. Under the Campus Company Programme, academics can obtain financial support for turning their research results into commercial reality.*

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<sup>33</sup> Study from the University Nijenrode, April 2000 in 'De succesvolle ondernemer', Ministerie van Economische Zaken en de Nederlandse Vereniging van Participatiemaatschappijen, Den Haag, Nederland, November 2001.

<sup>34</sup> Best Procedure Project on 'Education and Training for Entrepreneurship', European Commission, 2002.

Business incubators are effective in delivering support to new entrepreneurs. Firms in incubators have better chances of survival than those outside and incubators are a cost-effective instrument for the promotion of public policy objectives. This success explains why their numbers are growing rapidly; there are now over 850 in the European Union.<sup>35</sup>

iv. *Making entrepreneurship accessible to all members of society*

**Entrepreneurship should be widely promoted, with particular focus on women and other underrepresented groups. Ethnic minorities display high levels of entrepreneurial flair and even greater potential. The business support services available seem to respond less well to their specific needs.**

There are considerably fewer female than male entrepreneurs in Europe, proportions of self-employed women ranging from 16% in Ireland to 40% in Portugal.<sup>36</sup> Women entrepreneurs face the difficulties commonly faced by all entrepreneurs, but in certain cases these issues, for example raising finance, appear to be more significant for them. Women also frequently lack the necessary confidence and skills to successfully start and run a business. There are a variety of reasons for this including the choice of activity, information gaps, perceived discrimination, lack of networks or difficulties in combining work with family obligations.<sup>37</sup>

The European Commission has facilitated exchanges of good practice on policy to promote entrepreneurship among women through the 'WES Network', which brings together government officials with responsibility for promoting women entrepreneurs.<sup>38</sup>

*Women consultants for women entrepreneurs*

*NUTEK, in Sweden, started the Business Consultants for Women Project, under which female consultants provide advice and non-financial assistance to women entrepreneurs. This responds to evidence showing that many women prefer to turn to other women for advice when it comes to running a business. The consultants advise on business issues and wider concerns such as how to combine family life with running a business. NUTEK provides training and exchanges of experience for the consultants.*

Ethnic minority businesses in Europe display a strong entrepreneurial capacity and potential. Ethnic entrepreneurs are a heterogeneous group in terms of language, socio-economic positions and culture, which is reflected in the nature of their business activities. Even so many are concentrated in low entry threshold activities and have difficulty in breaking out of these. The problems ethnic entrepreneurs face are generally similar to those of all entrepreneurs, but they seem to benefit less than average from public business support services and are less involved in business organisations.<sup>39</sup>

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<sup>35</sup> 'Benchmarking of Business Incubators', European Commission, February 2002.

<sup>36</sup> 'Annual Labour Force Statistics', European Commission, 2001.

<sup>37</sup> Best Project on 'Promoting entrepreneurship amongst women' and the study 'Young Entrepreneurs, Women Entrepreneurs, Co-Entrepreneurs and Ethnic Minority Entrepreneurs in the European Union and Central and Eastern Europe', European Commission, July 2000.

<sup>38</sup> Further information at <http://europa.eu.int/comm/enterprise/entrepreneurship/craft/craft-women/wes.htm>.

<sup>39</sup> 'Young Entrepreneurs, Women Entrepreneurs, Co-Entrepreneurs and Ethnic Minority Entrepreneurs in the European Union and Central and Eastern Europe', European Commission, July 2000.

A European-wide network of ethnic entrepreneurs has been suggested to facilitate sharing of experiences and to suggest remedies to the issues identified.<sup>40</sup> In the context of its policy on immigration, the European Commission has put forward two proposals for directives, which will contribute to facilitating business start-ups by entrepreneurs from third countries.<sup>41</sup>

## **B How can enterprises be geared to growth?**

Entrepreneurs are faced with many obstacles. Complying with administrative regulations and their related costs remains a significant burden. Access to skilled workers, the degree of flexibility of the labour market and appropriate finance are also constraints on business performance.<sup>42</sup> In addition, businesses should be helped to make the most of the opportunities offered by the Internal Market and to innovate.

### *i. The regulatory environment*

#### **Despite ongoing efforts for improvement, entrepreneurs still point to red tape as a major hurdle to running a business, particularly for those who want to operate and grow within the Internal Market.**

Regulation is not generally differentiated according to firm size, and therefore often disproportionately affects smaller firms. Public authorities must be encouraged to ‘think small first’, keeping regulation as simple and appropriate as possible. To reduce administrative burdens, a number of Member States have established exceptions for SMEs or provide administrative services to support them. Provision of information and support can help entrepreneurs in dealing with red tape.

#### *EasyPay*

*Denmark* has introduced a new system for handling salaries. By signing up for ‘EasyPay’, which is voluntary and free of charge, employers can provide information about salaries and employees to one place. This is then distributed to all relevant authorities. EasyPay is part of the “E-administration” initiative, which also includes [www.indberetning.dk](http://www.indberetning.dk), where all forms from public authorities relevant for businesses are collected electronically, and Webreg, which enables new limited liability companies to register online. Registration via Webreg is made legally binding by use of digital signature.

#### *Virtual help with administrative procedures*

*Austria* has introduced a website ([www.help-business.gv.at](http://www.help-business.gv.at)) offering entrepreneurs concise information on administrative procedures. All procedures which can be accomplished on-line are accessible via one administrative tool (@mtsweg online). Entrepreneurs can fill in their municipal tax declarations using a tool called HELP, which sends the data to the competent authority. The website also provides extensive information on various aspects of running a business, from ‘registering staff’ to ‘annual leave’.

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<sup>40</sup> This suggestion grew out of a seminar on ethnic entrepreneurship, involving academics, policy-makers and business organisations, and organised by the European Commission in June 2002.

<sup>41</sup> ‘Proposal for a Council Directive on the conditions of entry and residence of third-country nationals for the purpose of paid employment and self-employed economic activities’, COM (2001) 386 final, 11.07.2001, ‘Proposal for a Council Directive concerning the status of third-country nationals who are long-term residents’, COM (2001) 127 final, 13.03.2001.

<sup>42</sup> ‘Observatory of European SMEs / No 1 Highlights from the 2001 Survey’, European Commission, 2001, ‘European Business Survey’, Grant Thornton, 2002; and ‘Business Views on Red Tape’, OECD, 2002.

Following a survey among European firms on the quality of their regulatory environment, the European Commission estimated that €50 billion could be saved with better quality legislation.<sup>43</sup> The Commission is committed to improving the quality of legislation<sup>44</sup> and has therefore taken a set of initiatives at EU level, including an action plan for better regulation, minimum standards for consultation on new policies and a systematic approach to impact assessment.<sup>45</sup> The Commission is also developing mechanisms for consulting businesses under the ‘Interactive Policy Making Initiative’ and has created a platform for the Member States to exchange views on their own Business Impact Assessment systems.<sup>46</sup>

In 2002 an SME Envoy was nominated within the European Commission to act as an active interface with the business community and to ensure that the interests of SMEs are identified and properly taken into account across the relevant Commission services. Similar initiatives have also been taken in some Member States.

The Internal Market has considerably reduced barriers to doing business in the European Union. The Union has continued to make good progress in extending the Internal Market (e.g. in the financial sector),<sup>47</sup> but a gap persists between the vision of an integrated European economy and the reality as experienced by providers and users. The Internal Market Strategy,<sup>48</sup> a five-year programme, focuses on those areas where progress is most urgently needed, such as intellectual property, public procurement rules and barriers affecting services.<sup>49</sup> European entrepreneurs have an interest in further harmonisation to enhance consumer protection,<sup>50</sup> as cross-border business activities would benefit from an Internal Market attractive to consumers.

## ii. Taxation

### **Appropriate tax measures can contribute to the development, growth and survival of firms.**

The structure of the tax system, including income and corporate tax, labour tax and VAT, influences the ability of firms to expand. The complexity of tax systems is in itself an administrative burden for entrepreneurs. The European Commission has identified a number

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<sup>43</sup> ‘Internal Market Scoreboard’, No 9, European Commission, 19.11.2001.

<sup>44</sup> ‘European Governance - White Paper’, COM (2001) 428 final, 25.07.2001.

<sup>45</sup> Communications from the Commission ‘European Governance: Better Lawmaking’, COM (2002) 275 final, ‘Impact Assessment’, COM (2002) 276 final, ‘Consultation document: Towards a reinforced culture of consultation and dialogue – proposal for general principles and minimum standards for consultation of interested parties by the Commission’, COM (2002) 277 final, ‘Action plan: Simplifying and improving the regulatory environment’, COM (2002) 278 final 05.06.2002.

<sup>46</sup> Interactive Policy Making Initiative, IPM C (2001) 1014. Final Report from the Business Impact Assessment Pilot Project, March 2002.

<sup>47</sup> ‘Communication of the Commission, Risk Capital: A key to job creation in the European Union’, SEC (1998) 552, 31.03.1998; ‘Communication of the Commission, Financial Services, Implementing the framework for financial markets: Action Plan’, COM (1999) 232 final, 11.05.1999.

<sup>48</sup> ‘Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions, 2002 Review of the Internal Market Strategy, Delivering the promise’, COM (2002) 171 final, 11.04.2002.

<sup>49</sup> The ‘Report from the Commission to the Council and the European Parliament on the State of the Internal Market for Services’, COM (2002) 441 final, shows the existence of a huge ‘delivery’ gap for services.

<sup>50</sup> Eurobarometer 57.2 Flash Eurobarometer 128 ‘Public opinion in Europe: Views on business-to-consumer cross-border trade’, 14.11.2002

of tax obstacles to cross-border activities in the Internal Market and highlighted remedies, which are being further examined.<sup>51</sup>

As marginal income tax rates increase, entrepreneurs tend to expand their business more slowly, to invest less and to hire fewer staff.<sup>52</sup> The level of labour tax may also influence firms' decisions to hire staff. Tax reforms in recent years have contributed towards a clear trend in reducing the tax burden on labour in the European Union although labour taxes in a number of Member States remain high.<sup>53</sup>

As regards national activities, the Commission has made recommendations<sup>54</sup> specifically geared towards SMEs to encourage transfers of businesses by, for example, waiving registration fees or deferring taxes, but little progress has been made. The tax treatment of business transfers is of particular concern to family businesses, which make up a significant proportion of Europe's firms. Retirement and succession can be hindered by inappropriate or complex tax arrangements. At worst this can result in the immediate closure of such businesses or can damage the future viability of the firm.

#### *Reduction of inheritance and gift taxes*

*In Spain, in the case of a mortis causa or inter vivos transfer of an individual business, a professional business or of shareholdings, a 95% reduction of the value of the taxable amount may be applied in certain cases, provided that the holding is maintained for ten years and the beneficiary is entitled to an exemption from Estate Tax during the same period (the latter applies only in the event of inter vivos transfers).*

#### *iii. Access to skilled labour*

### **Bottlenecks in the labour market create barriers to growth and efforts to develop the skills of workers need to be intensified.**

Although unemployment still constitutes a major challenge for the European Union, recent years have also witnessed increasing recruitment difficulties in certain regions and sectors. In the later 1990s, most new jobs were for medium to highly skilled workers, whereas employment for low skill workers fell. The growth of demand for highly skilled workers has outstripped the growth of supply.<sup>55</sup> The Council emphasised the need to ensure that the skills of the labour force correspond to the economic and technological evolution.<sup>56</sup> Life-long learning is an effective means of building such skills. Today many Europeans are involved in

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<sup>51</sup> 'Communication from the Commission to the Council, the European Parliament and the Economic and Social Committee Towards an Internal Market without tax obstacles', COM (2001) 582 final, 23.10.2001 and the 'Commission Staff Working Paper, Company Taxation in the Internal Market' SEC (2001) 1681, 23.10.2001.

<sup>52</sup> 'Economic policy and the start-up, survival and growth of entrepreneurial ventures', Holtz-Eakin & Rosen, prepared for the Small Business Administration, Washington DC, May 2001.

<sup>53</sup> 'Communication from the Commission to the Council, Draft Joint Employment Report', COM (2002) 621 final, 13.11.2002.

<sup>54</sup> 'Commission Recommendation of 07.12.94 on the transfer of SMEs', 94/1069/EC, OJ L 385, 31.12.1994

<sup>55</sup> 'Commission Staff Working Paper, European Competitiveness Report', SEC (2002) 528, 21.05.2002.

<sup>56</sup> 'The concrete future objectives of education and training systems' Council of the European Union, 5980/01 EDUC 23, 14.02.2001.

life-long learning, but to varying degrees.<sup>57</sup> Other bottlenecks affecting the flexibility of labour market should also be addressed.

Firms are already responding to the skills gap, for example by providing either formal or informal training to their staff. In a survey 46% of respondents would consider employing (more) people from another country, particularly for professional positions. Among the main obstacles mentioned were language skills, work permits and administrative complications. Almost all EU businesses expected enlargement to have a positive or neutral impact on the firm's labour supply.<sup>58</sup>

The European Commission adopted an Action Plan on Skills and Mobility in 2002 to improve occupational and geographic mobility.<sup>59</sup> In 2001, the Commission adopted a proposal to facilitate recruitment from third countries where there is a proven economic need for workers in a specific job or sector that cannot be filled within the European Union (e.g. through unifying the residence and work permits into a single permit).<sup>60</sup>

#### *Enterprise management incentives*

*The UK government provides incentives to help small higher-risk companies to recruit and retain the employees they need to help them achieve their growth potential. The scheme enables companies to give fiscally attractive share options to key employees.*

#### *iv. Access to finance*

**Access to finance is indispensable for growth but many SMEs have difficulties, as the risk capital market is underdeveloped and banks increasingly avoid risky lending.**

About 20% of small enterprises report problems accessing long-term finance.<sup>61</sup> Despite differences between Member States, loans continue to dominate SME finance in the European Union. Banks increasingly use mechanisms to rate SMEs, which means that loan costs are adapted to the level of risk associated with an individual SME. Furthermore, the high overhead costs of small loans make these unattractive for banks.

Europe should continue to develop its risk capital markets as an alternative to bank lending. US firms tend to have stronger balance sheets than European ones (with on average about 50% of equity capital, against only about 30% in Europe). Although about 7 000 European firms received early-stage or expansion capital from venture capital funds in 2001, these tended to be high-tech and high-growth firms.<sup>62</sup>

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<sup>57</sup> The percentage of the population aged 25-64 participating in education and training over the four weeks prior to the survey varies from some 20% in the UK to only around 5% in several EU Member States. 'Structural indicators', Eurostat, 2002

<sup>58</sup> The survey included Austria, Belgium, Croatia, Czech Republic, Denmark, Germany, Greece, Cyprus, Hungary, Iceland, Italy, Luxembourg, Portugal, Romania, Slovenia, Turkey and the UK. 'European Business Panel Survey 2002, Skills, mobility and training for competitiveness', Eurochambres, 2002.

<sup>59</sup> 'Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions - Commission's Action Plan for skills and mobility', COM (2002) 72 final, 13.02.2002.

<sup>60</sup> 'Proposal for a Council Directive on the conditions of entry and residence of third-country nationals for the purpose of paid employment and self-employed economic activities', COM (2001) 386 final, 11.07.2001.

<sup>61</sup> 'European Business Survey, Grant Thornton, 2002'.

<sup>62</sup> 'Annual survey of pan-European private equity and venture capital activities', EVCA Yearbook 2002.

To act as catalysts for private investors and to increase the supply of SME guarantees, public institutions have developed programmes in support of SMEs covering a range of instruments from micro-credits to venture capital. At EU level, the European Investment Fund manages a series of financial instruments funded under the Multiannual Programme for Enterprise and Entrepreneurship.<sup>63</sup> Within the Structural Funds, the European Commission has asked Member States to privilege risk capital financing; this has resulted in a doubling of such financing under these programmes.

#### *Access to micro-loans*

*Finnvera, the public SME finance institution in **Finland**, runs a micro-loan programme for existing and new micro-enterprises, which has financed investments, working capital and business development for 2 741 entrepreneurs amounting to €45.5 million in 2001. It finances up to 75% of the total financing requirement. Loans are between €3 400 and €35 000. This programme combines state and EU regional fund guarantees against losses and includes a business assessment tool aiming to promote a high survival rate among the entrepreneurs.*

Entrepreneurs should be helped to overcome their reluctance to accept outside investors. Investors need quality information about firms, which entrepreneurs must be able to provide.

#### v. *Helping firms to exploit knowledge and international opportunities*

**To reap the benefits of the Internal Market and to meet the challenge of fiercer competition, entrepreneurs should be encouraged to innovate and to internationalise. For this, they should have access to knowledge, relevant contacts, training and top-class business support services.**

SMEs consider that the Internal Market has led to more competition, but also to new opportunities for expansion.<sup>64</sup> Competitive pressure drives firms to continuously exploit knowledge and innovation. Firms can innovate in different ways, including technological development, quality management, new ways of organising work or distribution channels, brands or design. Human capital is critical to generating creative or innovative ideas. Firms can gain from capitalising on the informal knowledge, competencies and networks of their own employees. This calls for encouragement of entrepreneurial attitudes amongst employees, which can be done by offering financial participation. The European Commission recently adopted a Communication on employee financial participation.<sup>65</sup> Entrepreneurial attitudes among staff can be further increased where financial participation is accompanied by greater influence of employees in a firm's decision-making process.<sup>66</sup>

#### *Industrial districts*

*The economic landscape in **Italy** is characterised by the presence of a multitude of industrial districts (clusters), which are agglomerations of small firms specialised in a single sector. The districts combine both competition and co-operation between firms to boost their overall*

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<sup>63</sup> Council Decision (2000/819/EC) of 20.12.2000 on a multiannual programme for enterprise and entrepreneurship, and in particular for small and medium-sized enterprises (SMEs) (2001-2005).

<sup>64</sup> 'European Business Survey', Grant Thornton, 2002.

<sup>65</sup> 'Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions on a framework for the promotion of employee financial participation', COM (2002) 364 final, 05.07.2002.

<sup>66</sup> 'Shared modes of Compensation and Firm Performance: UK Evidence', Martin J. Conyon and Richard B. Freeman (LSE and Harvard).

*performance. At national level there is a law on industrial districts, while support and policies are mostly developed at regional level (e.g. Veneto, Lombardy, Emilia Romagna). To enhance their quality and effectiveness a number of districts are organised in the 'Club dei Distretti Industriali', representing 40% of all districts, or 30 000 firms and 250 000 jobs. The Club aims to develop a network among Italian and foreign industrial districts to exchange information, to promote access to research and to represent the districts' interests.*

The conditions for SMEs to internationalise should be improved. Whereas in the Observatory for European SMEs' survey about one-third of SMEs reported an increase in their international business contacts over the last five years, the European Business Survey found that they are no more likely now to be trading in the wider Internal Market than ten years ago. SMEs express a preference for operating independently when they internationalise, but nonetheless rely on advice, through local and regional networks, from other, mainly large international, firms, personal relations and intermediaries.<sup>67</sup> Promoting regional networks or clusters could not only help entrepreneurs to share experience about expansion, but also to gain access to knowledge, partners and advice.

Entrepreneurs need to update and develop their managerial skills to keep ahead in a changing economy, but long working hours make it difficult for most of them to attend courses. Alternative learning tools, such as distance training for managers<sup>68</sup> or mentoring schemes where entrepreneurs can learn from each other, merit further attention. ICT learning tools tailored to the needs of SMEs should be further developed to stimulate the understanding and take-up of such tools by entrepreneurs.

To compensate for the lack of personal expertise in the increasingly varied skills needed to run a business, entrepreneurs must have access to top-class business support. Today, fewer than 20% of small firms make use of public support services.<sup>69</sup> Generally speaking, such services must further develop their client-orientation, ICT facilities and professional standards.<sup>70</sup> The European Commission already provides financial aid, through the Structural Funds, to develop different types of business support services.

vi. *Intrapreneurship and corporate venturing*

**'Intrapreneurship' and corporate venturing provide an effective means of developing entrepreneurial ventures that would otherwise be left unexploited.**

Results from R&D or innovation in large firms, universities or research institutes, which they do not want to exploit themselves, can be commercialised through 'spin-offs', managed by (former) employees: a practice known as intrapreneurship. For example, in the Netherlands almost a quarter of larger firms have helped employees to set up their own business in the past 5 years. Although most firms are positive about intrapreneurship the initiative is usually left to the employees.<sup>71</sup> Many employers nevertheless provide support once the spin-off is started,

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<sup>67</sup> 'Internationalisation of European SMEs', co-ordinated by the Institut für Soziologie, Friedrich Schiller Universität Jena et al., April, 2002.

<sup>68</sup> See also 'A study and analysis of management training techniques for the Heads of SMEs', particularly using the ICTs', European Commission, December 2000.

<sup>69</sup> 'Support services for micro, small and sole proprietor's businesses, final report', European Commission, June 2002

<sup>70</sup> 'Commission Staff Working Paper Creating Top-class Business Support Services' SEC (2001) 1937, European Commission, 28.11.2001.

<sup>71</sup> 'Entrepreneurship in the Netherlands New economy: new entrepreneurs!', Ministry of Economic Affairs and EIM January 2001.

for example in the form of knowledge, contacts, work or finance. In a comparison with other SMEs, spin-offs demonstrated higher than average levels of innovation and growth.<sup>72</sup>

### *Regional networks to foster entrepreneurship*

*The 'EXIST Programme' in Germany was launched by the Federal Ministry of Education and Research to promote regional co-operation between universities, technical colleges, the business sector and other partners. It brings together players who would not otherwise have worked together to jointly create a more entrepreneurial mentality in higher educational and research institutions, to foster knowledge spill-over and to capitalise on the potential of ideas and entrepreneurs. This should lead to more innovative start-ups and new jobs.*

It is natural for firms of all sizes to work together for their mutual benefit. Alliances between large and small firms are increasingly important, providing the flexibility required in the innovative economy and the critical mass to conquer markets on a larger scale. Large firms gain access to new markets, technology and innovations and smaller firms can benefit from improved access to finance, knowledge and networks.

## **C. Towards an entrepreneurial society**

### *i. More positive attitudes towards entrepreneurship*

**Building an entrepreneurial society involves everyone. Attitudes towards entrepreneurial initiative, and failure, must be made more positive. Crucial to achieving this are those on whom today's and future entrepreneurs depend.**

Entrepreneurship was recognised by the Council as worthy of promotion because entrepreneurial skills and attitudes provide benefits to society, even beyond their application to business activity.<sup>73</sup> To appreciate entrepreneurship, society must value and celebrate successful entrepreneurs and tolerate failure. Positive attitudes towards entrepreneurship are particularly important among those on whom today's and future entrepreneurs depend, such as schools, universities, investors, local communities, regions, business organisations, business advisers and the media. One way of encouraging such positive attitudes is by providing role models through the 'showcasing' of success stories.

### *Showcasing entrepreneurship*

*Luxembourg has introduced prizes to reward successful business projects. Supported by the European Commission, the Chambre des Métiers awards a prize to young entrepreneurs. The Ministry in charge of gender equality awards a prize for successful businesses run by women. A high-profile prize for innovative business ventures attracts considerable attention amongst the target audience of industry representatives and young researchers.*

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<sup>72</sup> 'Spin off start-ups in the Netherlands At first glance', EIM, May 2002.

<sup>73</sup> 'The concrete future objectives of education and training systems' Council of the European Union, 5980/01 EDUC 23, 14.02.2001 and 'Detailed work programme on the follow-up of the objectives of education and training systems in Europe', adopted by the Council and the Commission; Council of the European Union, EDUC 27, 6365/02, 20.02.2002 and COM (2001) 501 final.

### *Training teachers*

*The University of Strathclyde in the UK offers a programme to promote a positive attitude towards entrepreneurship amongst teachers. The content of the programme is flexible and geared to 'learning by doing'. Tasks include writing a business plan and taking management decisions, with the support of a tutor. Teachers learn about entrepreneurial skills and attitudes, but also how they can apply this experience to enterprise education in their schools.*

Despite evidence that failed entrepreneurs learn from their mistakes and perform better in their next businesses,<sup>74</sup> they nevertheless face the stigma of failure. They are confronted with a lack of trust among consumers and are often required to provide additional guarantees by investors and business partners.<sup>75</sup> 45% of European citizens said, in the Eurobarometer survey, that they would be less inclined to place an order with such a business. Society should rather give failed entrepreneurs a chance to make a fresh start.

#### *ii. Entrepreneurship's role in achieving social objectives*

**The social economy and social enterprises apply business principles and efficiency to achieving social and societal objectives. Such enterprises face particular challenges in accessing finance, management training and advice.**

The social economy is made up of enterprises, including co-operatives, mutuals, associations and foundations, whose primary objective is to provide services to their members or to a wider community. Social economy enterprises, accounting for nearly 8% of private sector jobs in Europe,<sup>76</sup> are often able to survive and provide quality services in circumstances that 'investor-driven' firms would find less lucrative. However, their specific management structures, stakeholder groups and capital structures necessitate adapted skills amongst managers and board officials.

Many local authorities have sought to combine the positive aspects of the private and public sectors to increase efficiency in the delivery of public services. This partly explains the growing importance of 'social enterprises', having primarily social or societal objectives, which now provide 3.5 million jobs in the European Union.<sup>77</sup>

## **IV. THE WAY FORWARD**

### **A. A co-ordinated approach to entrepreneurship policy**

#### *i. Co-ordinating entrepreneurship policy amongst all policy-makers*

Entrepreneurship requires a co-ordinated approach because of its horizontal nature. Policy should embrace all the influential elements within the relevant policy areas, to allow these to act in a mutually reinforcing way. Within public authorities, co-ordinating services can forge links between different departments, and regional and local authorities, to identify priorities

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<sup>74</sup> 'Seminar on Business Failure', European Commission and Ministry of Economic Affairs, Noordwijk, the Netherlands, 10-11 May 2001.

<sup>75</sup> 'Bankruptcy and a fresh start', European Commission, August 2002.

<sup>76</sup> 7.92% of full-time equivalent salaried civil employment (1995-1997), 'The Third System and Employment', CIRIEC, 2000.

<sup>77</sup> 'Researching social enterprise', David Smallbone et al., the UK Small Business Service.

and ensure a coherent approach. The European Commission could assume a co-ordinating role at EU level.

#### *A co-ordinated approach*

*In the Netherlands, a co-ordinated approach to entrepreneurship has been put in place, involving interaction between various government departments, public agencies and business owners. It was considered crucial to involve the regions, which are directly involved in implementing entrepreneurship policy. The regions agreed with the Ministry of Economic Affairs to jointly undertake action on key issues, such as stimulating an entrepreneurial spirit within higher education and facilitating the development of integrated support services.*

#### *ii. Learning from the best*

In many aspects of entrepreneurship, some Member States are outperforming others and might serve as inspiration. The European Commission helps Member States to learn from each other on the basis of the ‘open method of co-ordination’ whereby the Commission creates platforms for Member States to exchange good practice and benchmark themselves.

Further benchmarking exercises could be envisaged in areas identified as vital to promoting entrepreneurship. It must be borne in mind that different national or regional contexts will affect the effectiveness of policy measures and, while identifying priorities or implementing policy, a country or region should take its specific context into account. Common guidelines should be adapted to national or regional circumstances. As the availability of comparable and relevant indicators is a prerequisite to the success of such exercises, the Commission endeavours to actively co-ordinate the development of the necessary statistical data.

*1⇒ What should be the key objectives for an agenda for entrepreneurship in the European Union and how should these relate to other political ambitions? How can we build a model for entrepreneurship in an enlarged Europe?*

### **B. Three pillars for action towards an entrepreneurial society**

#### *i. Bringing down barriers to business development and growth*

With regard to the time and costs involved in setting up a business, European benchmarks have been fixed which governments should achieve. When so doing, they should ensure that the public is made aware of their efforts to reduce start-up barriers.

Current work to improve the functioning of the Internal Market and to reduce red tape, must continue to bring down barriers for doing business and the ‘think small first’ principle should be promoted. Also efforts must be intensified to improve access to finance and skilled workers. Entrepreneurs need to be supported in developing the skills required to adapt their business to changing conditions. Sharing experience and working together, in clusters or networks, can help entrepreneurs to find inspiration and advice, access technology and knowledge, or identify partners. Fostering networks could be particularly effective in support of certain sectors or groups of entrepreneurs, such as ethnic minority businesses.

*2⇒ How can we improve the availability of finance (tax measures, public-private partnerships, stronger balance sheets, guarantees) and what alternatives to bank loans should be promoted (business angel finance, leasing, factoring and micro-loans from non-bank lenders)? How can entrepreneurs be supported in obtaining external finance?*

3⇒ *Which factors most hinder growth ((lack of) mutual recognition and EU rules or their (non-)implementation at national level, national tax provisions or the situation on the labour markets)? What actions are best suited to supporting growth and internationalisation (trade missions, market analyses, clustering and networking, information and consultancy services)?*

4⇒ *To ensure high quality businesses, what training and support should be offered for a business start-up (basic training - compulsory or voluntary, incubators, mentoring) and business development (networks, courses, mentoring, distance learning, e.g. e-learning)? Should there be services tailored to the needs of specific groups (women, ethnic minorities, unemployed or socially disadvantaged people) or businesses (knowledge-based activities)? Should the quality of delivery of support services be improved (using ICTs, professional standards)?*

5⇒ *Are the obstacles and incentives for business development and growth in the European Union similar for entrepreneurs in the Candidate Countries, and does the forthcoming enlargement call for specific measures in the Candidate Countries?*

ii. *Balancing the risks and rewards of entrepreneurship*

Risk-taking should be rewarded, rather than punished. Social security and tax provisions must be re-assessed in the light of their effects on entrepreneurs' willingness to take the risk to start a business or grow. Taking over an existing firm should be encouraged and the potential of 'intrapreneurship' could be further explored. To reduce the negative effects of bankruptcy, appropriate measures such as earlier discharge of debts, the retention of certain assets or lifting certain restrictions on bankrupts should be considered.

6⇒ *What can EU Member States do to make the balance between risk and reward more favourable to promoting entrepreneurship (reducing the negative effects of bankruptcy, making more social benefits available for entrepreneurs, reducing the tax burden either in terms of administration or rates)?*

7⇒ *How might more prospective entrepreneurs be encouraged to consider taking over rather than starting a new firm (buyers and sellers databases or marketplaces, special training for family-owned businesses, management or employee buy-outs)?*

8⇒ *How can spin-offs be made more attractive (management buy-outs, showcasing, specialised advice, tax or other provisions for employees and their employers whilst starting a business)?*

iii. *A society that values entrepreneurship*

Although many people express a preference for being an entrepreneur, many lack the confidence and skills to turn their ambitions into action. Young people should be exposed to entrepreneurship and be supported, along with their trainers, in developing entrepreneurship skills. Campaigns could provide role models and success stories to showcase entrepreneurs and highlight the benefits that they bring to society. These should particularly address those that can play a key role in supporting prospective entrepreneurs, such as schools, universities, investors, local communities, regions, business organisations, advisers and the media.

*9⇒ How can education support the development of the awareness and skills necessary for developing an entrepreneurial mindset and skills (entrepreneurship training as part of a school's curriculum, getting entrepreneurs into the classroom, apprenticeships for students to work with experienced entrepreneurs, more entrepreneurial training in universities, more MBA programmes, matching entrepreneurial training with public research programmes)?*

*10⇒ What could business organisations, the media and public authorities do to promote entrepreneurship (role models, media campaigns, open door days of firms, award schemes for entrepreneurs) and at what level (European, national, regional or local)?*