

# **Outline of a Contemporary Small Business Policy**

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## **Preface**

In this report we embark on an interesting but difficult task. The aim is to outline a new approach to small business policy. With a new approach we mean to suggest initiatives based on research findings that could serve as sound arguments for different proposed initiatives. The cornerstone of our approach is to view entrepreneurs and markets as ongoing processes. The basis for our thinking is to be found in the so-called Austrian and institutional economic literature.

The method used is based upon structured discussions with entrepreneurs, experts, researchers, and policy makers. Both national and international experts and researchers have participated. On the theoretical side we have used the established body of literature but also several reports and books published the past year, see e.g. Hjalmarsson 1998 and FSF 1998:8. Both these reports have shown the lack of theoretical arguments supporting the SME policy in Sweden. One conclusion is that each responsible authority running public support measures should be able to answer the following questions (see FSF 1998:8, p 273):

- **Which problem in the SME sector is a specific policy programme supposed to solve?**
- **For what reasons should this problem be solved with public interventions?**

These general questions are very seldom answered. Another main problem is the lack of operational objectives, creating substantial problems when evaluating the measures. Very often, one of the conclusions was that "the target is whatever you happen to hit". This report does not however directly address the evaluation problem. This issue is well covered in another report dealing with evaluation in theory and practice (Storey 1998).

In this report we start with the two questions stated above, without focusing on present SME policy. The idea is to build a new policy based on the answers given to the two questions. Many people have been involved in the process, both in Sweden and abroad. FSF's International Reference Group has spent several days during 1998-99 discussing these issues. In a series of seminars in Sweden over 50 persons participated in total (see appendix 1).

The study has proceeded from a platform where priority is given to general perspectives, patterns and principles instead of in-depth analysis of operative aspects concerning small business policy. The report is written with the purpose to receive attention among a wide spectrum of different readers and we hope that the core message of the report will function as an invitation for all these groups to participate in the ongoing debate in the area.

The report will take the case of Sweden as a point of departure. Many descriptions and examples are explicitly linked to the situation for SMEs in Sweden and the Swedish small business policy. However, an ambition has been to extend the analysis and make the conclusions more general. To complement the Swedish case, a number of references to international experiences are made. Our aim is to attract readers from other countries and we are convinced that a contemporary small business policy can indeed be developed, in a continuous global exchange process of knowledge and experience.

As mentioned above this report is a part of the FSF research programme "Effects of programmes on development of SMEs". At the same time this specific project has received financial support from the EU fund 'The SME Initiative' and from NUTEK and this support is hereby gratefully acknowledged. The main objective of the 'SME Initiative' is to create help for small and medium-sized enterprises to adapt to the Single Market and to improve their competitiveness. As this report will show the small business policy has the role of creating a platform or fundament for small firms to develop we hope that our results and analysis will give a positive contribution to the long term process to create better competitive advantages for small firms.

Finally, we wish to thank all of those who have participated in the process. Without all the information, knowledge and ideas that have been obtained throughout the process, this report could not have been written. Thank you all for your contribution.

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## 1. Introduction

What should the characteristics of a modern policy for growth, renewal and jobs be? In what way can conditions be created for new and old SMEs so that they can to a much greater extent than today create the new jobs and the economic and social development needed?

Numerous studies, proposals from the government and the public debate have argued that growth is held back if SMEs suffer from an unfavourable business climate, a shortage of risk capital, of information and of access to business advisory services. The general consensus is that large companies have advantages compared to smaller companies. Large companies have access to risk capital and can exploit information and external consultants more effectively and profitably. According to this point of view, if markets are to function better, if more jobs are to be created and if higher growth is to be achieved, SMEs must be compensated for the disadvantages they face compared with large companies.

Already in the 70's a number of research projects and policy documents dealt with the question to compensate for the disadvantage of being small.<sup>1</sup> The state and municipalities have over a number of decades worked on providing different types of SME programmes for financial and business advisory services, as well as different types of joint resources such as industrial development organisations and resource centres for new companies.<sup>2</sup>

The majority of these SME policy resources have been described and analysed within the framework of the programme run by the Research Foundation, FSF, Effects of programmes on development of SMEs, and the report FSF 1998:8 Swedish SME Policy – Structure, Results, and International Comparisons.<sup>3</sup> This report ends with a number of recommendations. Some focus on policies of the kind mentioned above; i.e. measures taken to compensate SMEs for their smallness and to make the

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<sup>1</sup> In the beginning of the 1970s, the Bolton report presented "the model for how information and advice could increase renewal and growth amongst SMEs". Bolton, I.E., (1971) Small Firms. Report of the Committee of Inquiry on Small Firms. A summary of the early research in Sweden into SMEs discussing the disadvantages faced by small companies can be found in Ramström, D. (1971) Mindre företag – problem och villkor (Small Companies – Problems and Conditions). See also the arguments in SOU 1972:78 Företagsservice (Business Advisory Services).

<sup>2</sup> Cook, R.G & Barry, D. (1993) When Should the Small Firms be Involved in Public Policy? Gnyawali, D.R. & Fogel, D.S. (1994) Environment for Entrepreneurship Development: Key Dimensions and Research Implications. Storey, D.J. (1994) Understanding the Small Business Sector. Bartik, T.J. (1996) Eight Issues for Policy Toward Economic Development Incentives. Welbourne, T.M. & Andrews, A.O. (1996) Predicting the Performance of Initial Public Offerings: Should Human Resource Management be in the Equation? OECD Jobs Strategy (1998) Fostering Entrepreneurship.

<sup>3</sup> FSF 1998:8. Lundström, A., Boter, H., Kjellberg, A. & Öhman, C. Svensk småföretagspolitik Struktur, resultat och internationella jämförelser (Swedish SME Policy - Structure, Results, and International Comparisons).

markets for finance and services more efficient. Others focus on policies for stimulating enterprise, with a focus on the individual entrepreneur and the process of change. In the following, we will primarily address the question of how to enhance entrepreneurship and economic change, and not focus on the distribution of given resources. A guiding principle behind this approach is the maxim that:

**It is people, not companies, who are doing business in open  
and changing markets**

While this statement does not strike many people as radical, it is in effect fundamentally different from much of the small business policy thinking that has prevailed for many years. The implications of such a people-centred and change-centred view are many, and we will be exploring them below.

### *1.1 Markets and Entrepreneurship – A Perspective on Reality*

The second-hand bookshop in the neighbourhood, the estate agent or the small software company is not doing business in isolation from others, or in abstract markets. The legal entity – the company – is in fact not doing anything. It is people who are doing business.

The notion of people doing business on open and changing markets is an important building block in our thinking. Traditional theory, often referred to as the neo-classical model, often involves a closed system explaining the allocation of given resources. In the model, given production functions and demand functions are producing a market price, of which all rational economic actors are aware.<sup>4</sup> People and entrepreneurs have no creative role to play. Economic life is guided by an "invisible hand".

However, seen in another perspective often referred to as an Austrian or institutional approach, prices are completely dependent on how buyers and sellers act and value different products and services, indeed dependent on "visible hands". For instance, the price of a book in a second-hand bookshop is determined by people acting in specific situations. It might happen that the bookseller buys a book very cheaply or even gets the book for free. This means that the seller/donor does not value the book particularly highly. The bookseller's customer, on the other hand, may be a person who has been looking for this very book for many years. In this case, price is determined by different values, and not by general abstract supply and demand curves.

Similarly, the estate agent refers to "the right buyer", the person who is prepared to pay extra for a sea view, a calm backyard or other attractive features. Similar situations occur in many markets. What is the market price for strategic advice, for a computer system or a wildlife journey? Here as in many other cases, there is no homogeneous demand and no given market

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<sup>4</sup> See for instance Lancaster, K. (1969) *Introduction to Modern Micro Economics*.

price. Instead, the market is open, in the sense that the opportunities for supplying these specific demands are unlimited. The only limiting factor in terms of what can be bought and sold is imagination.<sup>5</sup> What sellers and buyers could agree on.

To expand on the bookshop example above, there could very well be another bookseller in another part of the city selling the same book for a fraction of the price that the buyer was prepared to pay. But the buyer will probably never find out about this, as he is perfectly satisfied with his purchase. In a real market world, information is always lacking. In fact imperfect information is the nucleus of business. Still, it is likely that the seller in the less expensive bookshop will eventually discover that there are people who are willing to pay more for those books, and he will also try to reach these customers.

For this reason the market will change and access to information improve (and in this case, prices will usually fall) as a result of the ongoing competition between economic actors in their efforts to do the best possible business.<sup>6</sup>

The simple example above, which can be extended to many other areas, illustrates the Austrian basic assumption that it is people, not companies, who are doing business in open and changing markets. This is an assumption of central importance for what can be regarded as an effective policy for entrepreneurship and change.

## *1.2 A Theoretical Focus on Entrepreneurship and Change*

Often SME policy, in cases where theoretical arguments have been explicitly stated, is based on the dominant economic neo-classical model, which deals with more or less given resources and assumes that prices and quantities are determined by market factors.

From this perspective the individual entrepreneur is regarded as a rational decision-maker that responds rationally to signals from the market. If instead of talking about given resources and making the "rationality" assumption, we assume that the entrepreneur is a creative individual triggering change, the neo-classical assumption loses much of its validity.

A common denominator in the Austrian or institutional perspective is that entrepreneurship and change are the key factors. Business is carried out by more or less creative entrepreneurs with more or less entrepreneurial and creative buyers in changing and open markets. Competitors learn from their

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<sup>5</sup> Eliasson, G. (1996) Firm Objectives, Control and Organisation – the Use of Information and the Transfer of Knowledge within the Firm.

<sup>6</sup> Kirzner, I. (1973) Competition and Entrepreneurship. Kirzner, I. (1997) Entrepreneurial Discovery and the Competitive Market Process: An Austrian Approach.

rivals and from customers, who also learn from each other. A market is therefore not a static system where parameters can be regarded as fixed and definite.<sup>7</sup>

A market could be regarded as an arena where people through different reciprocal processes learn and change.<sup>8</sup> Seen in this light, business becomes more a question of human activities, in which the individual and values, attitudes and views must be put in the forefront. From this perspective, it becomes more interesting and relevant to consider what it is that makes these people want to do business on changing markets, rather than to discuss whether existing markets can be said to be functioning more or less well.

Today many people are looking for explanations in the deeper structures of society, in fact in the fields where "institutionalist scholars" are working. They consider that the assumptions of traditional micro theory, e.g. individual ability and preferences, are far too simple and only provide extremely limited opportunities for describing and explaining economic behaviour. Instead they argue along the lines of the Austrian model, that the human being is complex and more or less unique. Likewise, companies can very broadly be regarded as the product of ideas and systems of values that are transmitted and borne by individuals. It is thus important that the understanding and analysis of attitudes and values, i.e. the roles of institutions, are integrated with economic theory. When doing that it becomes possible to more fully analyse the economic impact of co-operation between people and how formal regulation and formal organisations interplay with informal rules, norms and values.

From an institutional perspective, this means focusing on legal structures, values and attitudes surrounding these economic processes. Researchers<sup>9</sup> are interested in issues concerning ethics and values, in anything connected with honesty, willingness to work and views on creativity.

A simple description of the two views – the neo-classical and the Austrian-Institutional – is presented in figure 1 below.

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<sup>7</sup> The Austrian perspective is also called "the Human-action tradition" which underlines the importance of individuals and their actions as the way to understand economic conditions in society. Early advocates for this perspective were Hayek and Mises. Hayek, F.A. (1945) *The Use of Knowledge in Society*. Mises, L. (1949) *Human-action. A Treatise on Economics*.

<sup>8</sup> Lachmann, L.M. (1986) *The Market as an Economic Process*.

<sup>9</sup> See for instance North, D. (1993) *Institutions, Growth and Welfare*. Best, F. (1990) *The New Competition*.

**Figure 1. Two perspectives for entrepreneurial understanding**

| <u>Austrian-Institutional perspective</u> | <u>Neo-classical perspective</u> |
|---|----------------------------------|
| Focus on the entrepreneur                 | Focus on the firm                |
| Dynamic analysis                          | Static analysis                  |
| Open system/positive-sum                  | Closed system/zero-sum           |

In this report, we will discuss how the use of the Austrian-Institutional approach calls for a different view on SME policy and on SME-related issues in general.

### *1.3 A Need for Additional Explanatory Models*

Increasing numbers of practitioners – officials in ministries and in regional and local authorities – have also started to focus more attention on "softer", "entrepreneurial" issues. Earlier interest focused virtually without exception on analysing shortages on the existing market, primarily in terms of the lack of risk capital and information. Now, interest is being refocused on dynamic issues that the Austrian-Institutional school has been studying for some time.

In the spring of 1998, FSF arranged five seminars with a total of around 50 Swedish and international researchers and experts, business people and former leading politicians. Almost total unanimity about the basic principles of the Austrian-Institutional perspective was expressed in these seminars.

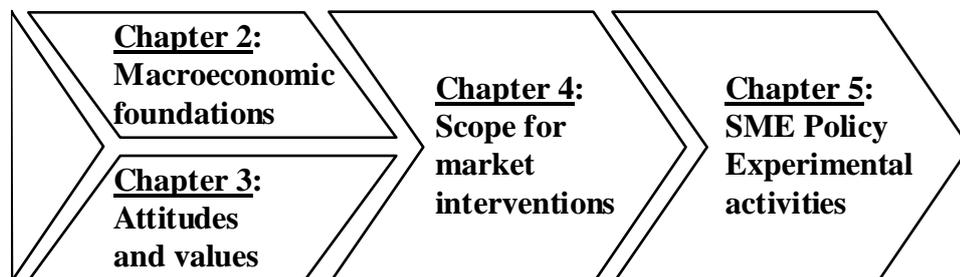
In areas where practitioners and empirically oriented researchers are working, less interest is to be found for theories and policy conclusions based on narrow neo-classical theory, in which the active and creative entrepreneur on an ever changing market is essentially disregarded.

#### **Outline of this report**

The following discussion will examine a modern policy for generating business enterprise and entrepreneurship inspired by Austrian and institutional scholars. Initially, in chapter two, the *macroeconomic foundation* for a successful SME policy will be considered. We underline the need for stable playing rules and deregulation. But we also stress the scope for matching change by new and updated rules. Chapter three discusses, in accordance with our theoretical line of thinking, the role of *values, attitudes and beliefs* in economic development and small business policy. The importance of an entrepreneurship-friendly educational system and media, as well as service-minded authorities, is emphasised. Chapter four elaborates on the scope for *direct market interventions*. What can central and local authorities do to promote business enterprise, seen in light of our framework?

Finally we conclude with a discussion about public *SME policy*. An important starting point in the Austrian perspective<sup>10</sup> is that companies constantly test and experiment with new products and services. Those that result in customer approval are developed further, whilst unsuccessful efforts are rapidly eliminated. By analogy, it might be reasonable to look at SME policy as a series of experiments where new measures are being continuously tested and evaluated. Successful policy innovations will survive and continue to be developed, and those that are unsuccessful would be rapidly eliminated. Figure 2 below summarises the structure of the report.

**Figure 2. Structure of the report**



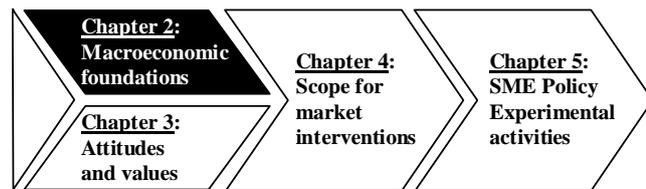
**CONCEPTS FOR REVIEW (chapter 1):**

- Allocation of given resources versus business in open and changing markets*
- Neo-classical approach versus Austrian-Institutional perspective*
- A need for new perspectives in small business policy*

**QUESTIONS FOR DISCUSSION (chapter 1):**

- *Why has the policy discussion focused on making given markets work rather than on how to create conditions for change and renewal?*
- *Why is it important to introduce an Austrian-Institutional model?*

<sup>10</sup> Eliasson, G. (1990) The Firm as a Competent Team.



## 2. Macroeconomic Foundations

Policy documents such as the OECD 1991 Industrial Policy and Swedish Government Bills 1991/92:51 on a New Policy for SMEs and 1997/98:62 on Regional Growth Agreements argue that good general macroeconomic conditions are of vital importance for providing opportunities for SMEs to develop and thrive. There is every reason to emphasise that a balanced state budget, reasonable tax rates and stable playing rules etc. are vital for growth and renewal. But if we take as our starting point our previously stated premise that it is people and not companies who are doing business, the policy argument will in some respects be different from those reported in the policy documents mentioned above.

### 2.1 *Stable Playing Rules –Impossible in a Dynamic Society?*

Macroeconomic conditions must be such that entrepreneurs desire have the resources and are prepared to invest. And if the political playing rules – tax rates, subsidies and other relevant factors – are seen as reasonable and relatively stable over time, this will obviously also facilitate a favourable climate for business enterprise. With stable playing rules, in terms of reliable legal structures, entrepreneurs can be encouraged to take business risks and take advantage of changes in the market; in other words, to transact business.

The notion of playing rules has two dimensions. The first has to do with the economic soundness of macroeconomic policy. For instance, this includes low inflation, stable interest and exchange rates, etc. These conditions are desired in most industrialised countries. Here, fundamental neo-classical economic theory serves as a useful point of departure when assessing hard facts concerning the scope for savings and investments and other fundamental economic factors.

The other dimension of playing rules is more subjective but nevertheless no less important. It has to do with what is socially accepted in a given country. Tax rates, working hours and other labour regulations, income inequalities, etc. These factors are as much part of the "playing rules", but they vary – sometimes quite drastically – from country to country and sometimes even between regions within the same country. It is within the constraints of these two dimensions of the playing rules that business operates and that policy is developed.

*Playing rules – a part of the culture*

From an institutional perspective, playing rules are regarded as an integral part of the culture and society in which an entrepreneur is active. There are thus extremely limited ways of determining in absolute terms whether e.g. a tax rate is too high or wage differences are too small or too large. Within the relatively wide scope given by neo-classical analysis, this depends on what people in that society regard as right and proper.

In the middle of the 1980s the American consultancy group, the Brookings Institution, carried out an analysis of the Swedish labour market.<sup>11</sup> Their starting point was that an economy with such small differences in salaries, such high taxes and so many rules on the labour market as existed in Sweden would not be able to function. Surprisingly, economists at the Brookings Institution found that the Swedish labour market was functioning relatively well, with high mobility and low frictional rates of unemployment.

A conclusion to draw from this is that a system that is functioning well in Sweden would not function at all in, for instance, the United States. The cultures are very different. What most people regarded as reasonable in Sweden is, because of differences in values, regarded as a totally unreasonable system in the United States.<sup>12</sup>

What is vital, nevertheless, is that the actors on the market regard the rules as reasonable. An important element in an active and effective SME policy is to develop good macroeconomic conditions. But it is not sufficient to just make changes in taxes or labour market legislation. Greater emphasis must also be put on creating an understanding of the rules and systems that have been decided upon democratically. A strategy for "marketing" the playing rules in operation could thus become a new element in an effective SME policy.

*An acceptable tax system*

As far as the tax system is concerned, Sweden has for a long time been at the top in comparison with other industrial countries when it comes to marginal tax rates and the total tax burden. In 1990 a tax reform was implemented involving, among other things, ceilings of 50 percent on marginal tax rates and of 30 percent on income from capital.

In addition, double taxation of dividends (where taxes are first levied on a company's profits and later on distributed earnings) was abolished. After the

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<sup>11</sup> Rivling, A.M. (ed) (1987) The Brookings report 1987. Future prospects of the Swedish economy.

<sup>12</sup> Peterson, R. (1988) Understanding and Encouraging Entrepreneurship. Dennis, W.J.J. (1997) Small Business Policy in the United States.

change in Government in 1994 double taxation of profits was reintroduced and marginal taxes raised.

Under present tax rules, SMEs pay in practice a tax on distributed earnings in the range of between 60 and 70 percent. The fact that two thirds of profits are subject to tax has been criticised by the business community. They consider that the level is too high. However, this should be compared with taking out a salary from the company. In principle this produces the same tax level, that is approximately two thirds of each 'krona' payable as salaries goes to income and the payroll taxes.

This report does not go into a discussion of absolute levels of tax rates. However, it is obvious that the tax-wedge makes a very substantial difference between working in the formal or the informal economy. In the long run, such tax-wedges slow down economic growth and the formation of new companies, and may even spur tax evasion.

High taxes are generally accepted in Sweden and the problem of tax evasion and tax protests has in international terms not been great. Yet, in recent years the issue of tax evasion and "black" undeclared income has been increasingly discussed in different contexts.<sup>13</sup>

Furthermore, during the last decades there has been an obvious increase in the internationalisation of business life, and Sweden is now a member of the European Union. One specific national economy is thereby closely interlaced with other economies and in the future, the Swedish tax-system and other parts of the macroeconomic foundation must be synchronised to the equivalent in other countries if they are to be sustainable in the long run.

A number of studies into the forces underlying entrepreneurship have also been focusing on how taxes affect entrepreneurs and companies and the conclusion drawn is that economic progress is dependent on a favourable tax system. This has also led to a generally accepted view that reducing the tax burden will lead to an increase in entrepreneurship. However, international studies provide only weak support for this hypothesis and moreover, the results are sometimes open to interpretation. In a study from 1993 it was claimed that a reduction in taxes in the UK had the opposite effects, namely that SMEs actually worked less when they could support themselves on shorter working hours.<sup>14</sup> But in these cases the tax-burden is much lower than in Sweden.

If we look at SME policy with an Austrian-Institutional perspective, the question should be whether the tax system – within a reasonable economic framework – is *perceived* as being legitimate or not. In the long run it is necessary to reduce taxes in order to avoid an increase in "black" work and widespread evasion of tax. One must also consider what happens if more

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<sup>13</sup> See e.g. RRV 1995:32 Fusk - systembrister och fusk i välfärdssystemen (Cheating - System Inconsistencies and Fraud in the Swedish Welfare System).

<sup>14</sup> Rees, H. & Shah, A. (1994) The Characteristics of the Self Employed: The Supply of Labour.

company owners start to reason in terms of: "Why should I pay tax if the company next door or my neighbour who works on the 'black market' does not pay taxes?"

## *2.2 The Social Insurance Model Discriminates Against Entrepreneurship*

There is a widespread agreement that an operational social security system – with unemployment benefits, active labour policy measures, sickness benefit based on a social protective network – are vital preconditions for dynamic industrial life. Where the individual does not need to bear the costs of re-training or short-term unemployment, it becomes much easier to accept necessary changes. In Sweden as in other countries, there is an ongoing discussion on whether the security system is excessively limited or over-generous. In both cases it is thought that the forces for change may be inhibited.

An important part of being an entrepreneur is to assess the risks and take necessary decisions and measures to prevent business failure. The social security premiums paid by the company help create a security net appropriate for the entrepreneur and for the company. Still, an OECD Study<sup>15</sup> has compared the social security contributions for self-employed and persons employed in various countries and found that the self-employed pay considerable lower amounts than employees and employers combined. The social security system seems to be less attractive for the self-employed.

Further, the differences between employees and entrepreneurs are underlined by the fact that when an employee loses his job or chooses to participate in labour market policy programmes, he receives a compensation for lost wages. A person who instead chooses to start his own business more or less leaves the regular security system and ends up in a more complex situation. In the future, people will also to a greater extent move between employment and entrepreneurship many times during their lifetime, and this calls for an effective social security system that can handle pension credits, sickness benefit, etc.

It is reasonable to suppose that the number of entrepreneurs would increase significantly if the security system gave company owners and employees equal economic benefits.

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<sup>15</sup> OECD (1994) Taxation and Small Firms.

### *2.3 Demonopolisation and Exposure to Competition*

In an economy where people are doing business in open and changing markets, it also become natural to reflect on why entrepreneurs sometimes are not allowed to run their activities without restrictions in all areas, why there are state, municipal and natural monopolies.

However, there is in this context a problem with what is sometimes referred to as natural monopolies or public goods. This could be over the supply of electricity, refuse collection or the construction of bridges. In cases where there is technically scope for just a single actor (e.g. where refuse collection or the supply of electricity can be carried out more efficiently by a single company as opposed to two competitors), it is not self-evident that opening these activities up to competition will result in lower prices for consumers in the municipality. Publicly regulated monopolies could in such cases be preferable to private monopolies.

Still, competition is a concept not only applicable to the private sector but must also include the main part of public organisations and activities. The public and private sectors are normally interlaced actors in the same economic system, a system built on the idea that the various types of markets for products and services best are developed on competitive grounds. So the most far-sighted municipalities have identified competition as one of the most effective ways of promoting business enterprise. This implies allowing business enterprise into areas where municipal production has had excessive control. These municipalities have opened up markets to competition in various areas of production, such as healthcare and childcare.

Exposure to competition has sometimes led to situations where private suppliers now can provide services and goods previously produced by the public sector. But in many cases the public producer has turned out to be competitive. Irrespective of the outcome, exposure to competition has increased the scope for entrepreneurship, both in private and public activities.

In a modern policy to promote business enterprise and entrepreneurship, it thus becomes important to discuss competition conditions as a meaningful instrument for promoting SMEs.<sup>16</sup>

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<sup>16</sup> See e.g. IVA (1998a) *Departement och myndigheter utmanas* (Challenge to Ministries and Authorities).

## 2.4 Administrative Burden and "Red tape"

From the perspective of a small business policy, the question of stable playing rules and the need for deregulation is highly topical. There are many reasons why entrepreneurs and their lobbying organisations often refer to the major problems caused by administrative burden and red tape.

For the company, tax collection and regulations lead to extra administrative work quite apart from the administration required for normal business activity. In total this administration can become very complex and the individual company may experience that many of these tasks are burdensome and difficult to handle. International studies have also measured the total resources that have to be allocated to processing administrative tasks in SMEs. Rough estimates indicate that this may amount to as much as 3-4 percent of GNP.<sup>17</sup>

The situation is said to be extra difficult for the very small companies, since their resources are even more limited. If company owners are overwhelmed by administrative work this will impact negatively on the establishment of companies and growth. There will be no time left over to run the business. However, there is meagre empirical support for the view that business operations in SMEs are substantially damaged by an inefficient administrative system, and there are even studies<sup>18</sup> that show that small businessmen themselves rank such impediments very low in comparison with problems in areas like e.g. marketing and R&D.

Organisations representing company interests argue that more jobs could be created if all the routines concerning employee taxation and labour legislation could be simplified and changed. Simpler routines for setting up companies, auditing, annual reports etc, would also, according to these organisations, lead to an increase in the number of new companies. Also, simpler administrative procedures for receiving support when a company is on the verge of a development breakthrough would also help in increasing growth in SMEs. During the last two decades several commissions have been appointed with the mission to investigate the administrative infrastructure for business and to suggest improvements. Long-term positive results from these commissions are hard to identify.

But what is really meant by simple and stable playing rules? In a society where the climate for business is radically changing in many areas, it is also necessary to change regulatory systems and develop these so they are in tune with changes in the society.

New rules are needed in some areas in order to ensure that business can be carried out without unreasonably high transaction costs in terms of

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<sup>17</sup> EIM Small Business Research and Consultancy. (1997) How can administrative burdens of enterprises be assessed?

<sup>18</sup> SIND 1990:1. Lundström, A. & Öhman C. Upp, upp och iväg (Up, Up and Away).

administration, checking and monitoring. It can be argued that there is a demand for constructive rules in industrial life. A look to the east towards Russia shows very clearly that weak regulatory mechanisms – shortcomings in the legal system, low taxpayer morale and weak security legislation – foster uncertainty and make it more difficult and expensive for people to do business.

Information technology is another area where many argue that more playing rules – not less – are needed. New rules for intellectual property rights are in fact a precondition for a company working with software to invest in product development. In the area of e-commerce via the Internet, new regulatory systems are needed to provide secure transactions and protect property rights.

The conclusion is that administrative simplification is needed but even more important is the necessity to continuously adjust legislation and administrative routines to new conditions in business life.

#### *Deregulation without impact*

This view on necessary regulatory systems is also supported by the weak results achieved by official deregulation delegations all over the world. A careful review of these clearly shows that existing rules are in most cases based on a property rights perspective, as well as security and environmental aspects and other factors. It is thus very seldom that governments have succeeded in reducing the number of rules. And as we move further into the information society many new and well-justified rules are expected in order to facilitate business activities.

In the same way as with taxes and fees, this is more an issue of making sure the actors on the market regard the regulatory systems as legitimate. It may be the case that it is the lobbying organisations that through their ongoing struggle against rules, which they perceive as being unnecessarily bureaucratic, are sometime creating a climate of dissatisfaction among company owners.

In business enterprise in reality, of course, only a small part of the regulatory system and the bureaucracy is visible. And usually the "red tape" is something that the accountant can handle. It may also be the case that complex regulatory systems and the difficulties they create provide a lucrative market for many small consulting companies.

In a policy embodying Austrian-Institutional elements it could thus be appropriate to not just discuss deregulation per se, but also broaden the discussion and consider new regulations that would facilitate business enterprise and protect property rights. Issues concerning the "marketing" of taxes and rules must be discussed. If entrepreneurs do not understand why a rule has been introduced it is less likely that he or she would comply to the rule in question.

## *2.5 A Note on Competitiveness*

From the perspective that people are doing business in open and changing markets, there are reasons to re-evaluate the concept of competitiveness. A number of Austrian oriented economists (in Sweden Erik Dahmén and Gunnar Eliasson) have pointed at the danger of regarding competitive strength as equivalent to good relative price levels vis-à-vis competing countries and regions e.g. to focus on given resources instead of the mechanisms underlying innovation and change.

Dahmén<sup>19</sup> claims that recurring devaluations, to re-establish competitiveness in terms of costs, do not lead to development but to stagnation. This is the case partly because companies as a result of devaluation or an ongoing depreciation of the currency become used to the state taking responsibility for the cost levels, obviating the need to rationalise. With recurrent state interventions is not necessary to make the effort of rationalisation, but instead earn money as a result of low wage costs.

Devaluation usually leads to inflation and high interest rates. This has a negative impact particularly on new and growing companies, which need to borrow or receive additional financing for their development. Competitiveness achieved through new devaluations therefore preserves existing structures and can become a major obstacle for new companies as a result of the high rates of interest and returns imposed on them. Allowing cost changes to affect the behaviour of companies will have a long-term favourable impact on development.

The same point is made in Porter's international studies of competitiveness in different countries.<sup>20</sup> A Swedish sub-study<sup>21</sup> argues that the tools that the state authorities are using, e.g. grants, devaluations and regulation, are counterproductive. Instead of working as a stimulus for development, such a policy brings about a long-term decrease in company productivity and weakens the dynamic competitiveness. The state should instead focus on developing the educational and research sector and stimulating the development and demand for new and advanced products. In addition, the policy ought to aim at facilitating fair competition in sectors that have earlier been outside or have been in strictly regulated areas.

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<sup>19</sup> Dahmen, E. (1994) Dynamics of Entrepreneurship, Technology and Institutions. A Theoretical and Historical Approach.

<sup>20</sup> Porter, M.E. (1990) Competitive Advantage of Nations.

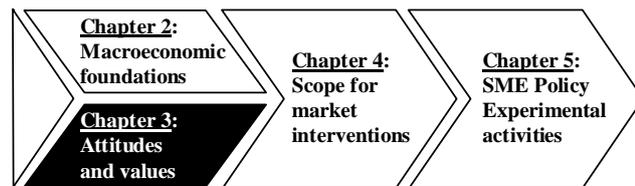
<sup>21</sup> Sölvell, Ö., Zander, I. & Porter, M.E. (1991) Advantage Sweden.

**CONCEPTS FOR REVIEW (chapter 2):**

- ❑ *Macroeconomic foundation, sustainable and acceptable tax-system, stable and dynamic playing rules*
- ❑ *Deregulation versus new and updated playing rules, lowering transaction costs and reduced administrative burdens*
- ❑ *Marketing of rules and legislation*
- ❑ *Social security system for entrepreneurs*
- ❑ *Open up markets for competition and entrepreneurship*
- ❑ *Competitiveness as cost advantages or dynamic conditions for change*

**QUESTIONS FOR DISCUSSION**

- *How should an acceptable and sustainable tax-system be designed?*
- *Why are new playing rules as important as abolishing old rules?*
- *What do we mean by the idea of “marketing rules and regulations?”*
- *How could a social security net be worked out that promote new ventures and entrepreneurship?*
- *Why is competitiveness best seen as a process and not as a steady state phenomenon?*



### 3. Attitudes and Values for Entrepreneurship

From an Austrian-Institutional perspective, entrepreneurs and the surrounding social structure are the main focus of a small business policy discussion. In that respect, the purely economic conditions are only one of several determinants in a successful business community. Social conditions are just as important. Social structures – in the broadest sense – must provide good soil for people who want to do business on open and changing markets. How are such fertile conditions created? What are the attitudes, values and legal systems, i.e. the institutional conditions, favouring growth, renewal and the creation of new jobs? What can be done to make the people in the education system, public authorities and media more business friendly?

#### 3.1 Entrepreneurship, Education and Development

Support programmes for training and education of entrepreneurs and personnel in SMEs are essential parts in the small business policy. However, studies indicate that this type of direct support often offset the disadvantages and barriers that SMEs have in relation to training and in the end this can result in a low take up rate of offered support. One factor that makes training difficult is that small firms usually work close to maximum capacity and for that reason they give low priority to courses, seminars, and educational programmes.<sup>22</sup> Other impediments to organise effective training efforts are that small firms often have rather specific and urgent problems and it is difficult for public support programmes to have the range of variation and delivery methods that fulfil these needs. In section 4 below direct market interventions in terms of information, advisory service and training will be further developed.

In recent policy debates, there has been an increasing focus on the role of the school in growth, entrepreneurship and business development. A number of experts consider that today's school is excessively oriented to educating students for careers as employees in private or public enterprise. They assert that too little schoolwork focuses on preparing students for a future as

<sup>22</sup> Bennet, R.J. (1995) The Re-Focusing on Small Business Services in Enterprise Agencies: The Influence of TECs and LECs. Curran, J., Berney, R. & Kuusisto, J. (1999) A Critical Evaluation of Industry SME Support Policies in the United Kingdom and the Republic of Ireland.

entrepreneurs running their own companies. They want to see education with greater focus on creative entrepreneurship, from the initial stages of childcare right through to higher education.<sup>23</sup>

Johannisson and Madsén<sup>24</sup> consider that the term entrepreneurship is closely related to basic human skills. By building a broader view of schooling, it also becomes possible to analyse different levels of the education system as well as the best measures for promoting increased entrepreneurial activity. Early schooling should thus focus on developing positive attitudes to entrepreneurship, for instance by encompassing features emphasising creativity, taking initiative and other creative dimensions. Later on during the education, teaching should also focus on taking responsibility, self-esteem, developing greater independence, and also encourage interaction with others. Gradually over time more business-oriented elements can be introduced. At the university level, greater emphasis can be put on different forms of skills training such as organisational skills and the development of different company functions.

Even if the Swedish school system mainly is working according to traditional models, with only marginally involvement of 'entrepreneurship', a number of experiments, projects and full-scale programmes with such profile have started the last years. Such efforts are done at many levels, in primary and secondary schools, in special colleges, in universities and in retraining schemes. Examples of new initiatives are presented below.

"Network for Entrepreneurship in the School" (NESK) is the name of a group of organisations that co-operate with the purpose to stimulate the development in this field. The mission for the group is to develop working networks and structures for prospective entrepreneurs. Practical tools and methods are being developed, information and knowledge from research is disseminated and a large number of projects are under way. Within this network, further training for teachers will also be provided and different pedagogical methods developed. The long-term goal in the practical work is to provide the foundations for a more entrepreneurial society by bringing about closer co-operation between schools and the business community.

Another noteworthy initiative is Young Enterprise (Ung Företagsamhet), an organisation that works as a link between the business community and upper secondary school level with the purpose to give knowledge and understanding about enterprising. About 10 percent of an age group is today engaged in various pilot project where pupils can start and develop real

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<sup>23</sup> Gibb, A.A. (1993) *The Enterprise Culture and Education. Understanding Enterprise Education and its Links with Small Business, Entrepreneurship and Wider Educational Goals.* Gorman, G., Hanlon, D. & King, W. (1997) *Some Research Perspectives on Entrepreneurship Education, Enterprise Education and Education for Small Business Management: A Ten-year Literature Review.*

<sup>24</sup> Johannisson, B. & Madsén, T. (1997) *I entreprenörskapets tecken (In the Mark of Entrepreneurship).*

micro-companies and the school teachers together with external mentors will give support.

The Swedish Foundation for Enterprise Education (SFEE) is active in around 50 upper secondary schools with the concept to stimulate the pupils to combine theoretical studies and experiences of real life projects. Co-operation with companies is an important part, along with the introduction of information technology in teaching methods.

Further, during 1997-98 the Academy of Engineering Sciences (IVA) was the principal organisation behind a national programme with the purpose of creating a more entrepreneurial business climate. A major part of the resources were used for youth programmes.<sup>25</sup> According to the programme, educational activities in order to promote entrepreneurship should have broad target groups, students, teachers, teacher-training institutes, school management, politicians and educational counsellors. Good role models should be given prominence at the same time as it should be clearly demonstrated that it is not "super geniuses" who start and run companies. In addition, it is important to broaden the understanding of business to cover both manufacturing companies and all forms of service activities.

The programme emphasises that the school world must be more closely linked to society in general and to business community in particular. A number of models were drawn up to bring about co-operation between industry and the school (guest lectures, student work place practice, study visits, mentors, supervisors). In addition, a TV programme was produced to capture the interests of young persons and provide information about education and work. Results showed that young persons appreciated receiving information in this form.

Within the framework of the Light Year Programme, special efforts were made to strengthen the role of teacher training within a policy for promoting business enterprise and entrepreneurship. The project shows that institutes of teacher training gradually are changing their way of working.<sup>26</sup> This depends not least on IT breakthroughs involving more of distance learning and the development of new pedagogical approaches. In addition, there is a growing appreciation that the borders between school and society are become increasingly fluid, since many teachers will be working both in and outside the school as teachers and entrepreneurs. The institutes of teacher training are taking on a role of preparing students not only for being employees, but also for being entrepreneurs running businesses on the market.

In conclusion, an effective policy for enhancing growth must contain a number of different projects at grass-root level, changing the educational and training system in a bottom up perspective. Here the American

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<sup>25</sup> IVA (1998b) Ljusårets ungdomssatsning (The Light Year Programme for Youth).

<sup>26</sup> IVA (1997) Kilsved, H. & Clevestam, D. Lärarhögskolan i Stockholm - Det tredje uppdraget i praktiken (Institute of Education in Stockholm – the Third Task in Practice).

expression "skunk works" is appropriate. This term was adopted by the Lockheed company as the name for their "far out" research facilities. These units were quite unlike the well-organised, formal product development and engineering organisation, but virtually all the revolutionary designs for aircraft came from these informal and small working teams - the skunk works.

The national curriculum for the school system in Sweden is an important policy document for management and control of education, but also a very rigid instrument where change and development only can be realised via a lengthy political process. So, this implicates that the driving force to create and integrate entrepreneurship in the school system must to a large extent come from local experiments in small units at all levels. In the society there must exist enough freedom of action so it is possible for dedicated persons, intrapreneurs, and groups within the school system to challenge the established model. A focus on such "skunk works" in the school system will give dynamic injections, produce good role models for other actors and also influence the political process to develop national curriculum where pedagogy and substance have the aim to foster entrepreneurship in society.

### *3.2 Authorities with Understanding of Running Small Enterprises*

From an institutional perspective, public authorities also play an important role in creating a good business climate and good conditions for starting and running small enterprises. There are many examples of how municipal civil servants together with officials from national authorities in co-operation with private enterprise have been able to create a highly attractive business climate in many places.<sup>27</sup>

A good climate for enterprise and trustful interaction between public and private activities is based on a number of different conditions.<sup>28</sup> One of the most important conditions is that there is a long tradition of enterprising in a given place that produces an understanding of what SMEs need. It is also important that constructive role models can be found, as is the case in Swedish regions such as Gnosjö, Anderstorp and Skellefteå.

During the spring 1998 the Government SME Delegation presented a package of proposals on how communication between companies and authorities could be improved.<sup>29</sup> A recurring feature of these proposals is

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<sup>27</sup> A contemporary small business policy with a bottom-up perspective underlines the importance of regions. Research projects have also showed that local industrial development, local entrepreneurship, regional advantages, etc. implicate that the regions and local communities have important roles for entrepreneurship and small business development. See for example Johannisson, B. (1978) *Företag och närsamhälle* (Companies and Local Community). Nilsson, J-E. 1999. *Blomstrande näringsliv* (Flourish Business Community).

<sup>28</sup> Putnam, R.D. (1993) *Making Democracy Work*. Civic Traditions in Modern Italy. Davidsson, P. (1993) *Kultur och företagande* (Culture and Entrepreneurship).

<sup>29</sup> SOU 1998:78. *Regelförenkling för framtiden* (Simplifying the Rules for the Future).

that they involve simplifying information, forms etc. The delegation also pointed out that the authorities should increasingly start to regard companies as customers, which could lead to longer opening hours and the like. In addition, the authorities and municipalities should according to the SME Delegation appoint special liaison persons for each company, primarily to facilitate communication between companies and municipalities.

A number of the proposals above were also in line with the Swedish Administrative Policy Bill 1997/98:136 on state administration for the benefit of citizens. The Government stated among other things that: "The Swedish state administration should with a high degree of legal certainty, efficiency and democracy, be accessible and accommodating and thus gain the full confidence of its citizens. The state administration should provide business with good conditions for growth and work."

In order to accomplish this, a number of changes must be done. One of the most substantial necessary alterations has to do with the incentive structure for civil servants. Today, a public official is to a large extent rewarded for following rules and regulations and not doing mistakes, and not at all being rewarded for contributing to a constructive business climate. In an efficient SME-policy business friendly incentives must be elaborated.

### *3.3 Media and Markets*

The media shapes attitudes and values. Newspapers, TV and radio (together with the Internet and other new media) provide information about business. The information and the attitudes and values thus being created is of great importance for shaping the basic conditions for a good enterprise climate. The media has the power of identifying those who may come to serve as constructive role models and those who will be chosen for scapegoats. In the media coverage of business, there appears to be a built-in distortion in the sense that "good news are no news". When companies are working well, producing and developing their products, this is not worthy of mention in the news. It is only when things are unsatisfactory, when salaries or severance payments for top management are unacceptably high that they become news.

At the local level the picture is somewhat different. A number of municipal representatives are consciously working on informing journalists about the positive events taking place in the municipality. They consider it important that newspapers, TV and radio not only describe problems, bankruptcies and embezzlements, but also give the other side of the entrepreneurial picture. At the national level, there are many examples of how journalists and columnists get a more balanced picture of business enterprise once they themselves become freelancers.

An important part of the media strategy should also be to give journalists better opportunities during their training to become familiar with different

types of enterprise so that they are in a better position later on to describe this part of society. During their training, journalists should also receive a background on what is involved in running a business.

The Atlantic Canada Opportunity Agency (ACOA) is a Canadian organisation playing an important role in enterprise policy.<sup>30</sup> The organisation has a very wide mandate and co-ordinates a large number of programmes that in other countries are carried out by a number of different organisations. The long-term goal of the policy is to create a more entrepreneurial oriented climate in society – "Advance the interests of entrepreneurs and small businesses in the public and private sectors, and society at large". Individuals with interest and motivation are regarded as being a basic condition for creating new businesses. From this platform, different forms of support are then built up for information, providing advice and company networks as well as making sure there are different ways for developing competence and raising education levels.

In the Canadian policy and the work of ACOA, media issues play a prominent role. The work systematically aims at creating an awareness of entrepreneurship through TV programmes, education, training courses for teachers, production of material and advice etc.

An effective SME policy contains a clear strategy for the media. This involves actively using the media for disseminating information about business enterprises and means e.g. using TV and newspapers to inform about macro policy and the system of rules. Other equally important tasks are to present role models and publish success stories of various kinds in order to enhance the interest for starting, running and expanding businesses.

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| <b>CONCEPTS FOR REVIEW (chapter 3)</b> |
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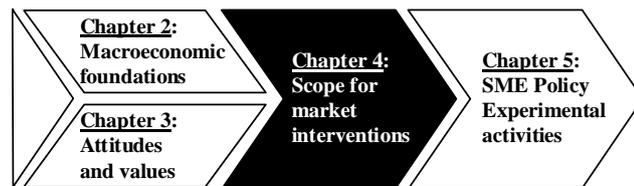
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<sup>30</sup> OECD & Atlantic Canada Opportunities Agency (1996) *The Implementation of an Entrepreneurship Development Strategy in Canada: The Case of the Atlantic Region.*

- ❑ *Education for entrepreneurship, grass-roots projects and "skunk works"*
- ❑ *Trustful interaction between business and authorities*
- ❑ *Liaison officers for each company*
- ❑ *New incentives for being business friendly*
- ❑ *Tradition and knowledge*
- ❑ *Media policy, constructive role-models*

**QUESTIONS FOR DISCUSSION**

- *How could entrepreneurship and business become more in focus in training, education and development?*
- *What is characteristic for a service minded public authority?*
- *How could public authorities become more service minded?*
- *Describe some vital parts of a media-policy aiming at enhancing start-ups and growth in SMEs?*



## 4. Scope for Market Interventions

Today there is a wide range of publicly financed measures to support small enterprises. At the national level in Sweden, there are organisations such as NUTEK, Swedish Industrial Development Fund, ALMI Business Partner, the Swedish Trade Council and the National Board of Trade. Out in the regions there are the county administrative boards and the county councils, both with different activities for promoting new and existing businesses.

At the municipal level, there are with few exceptions officials responsible for business issues and throughout the country there are a very large number of what are called resource centres. Among these are the New Business Enterprise Centres as well as co-ordinating bodies between higher education and industry. Over the last three years a large number of new bodies have come into existence through financing from the EU structural funds.

The bodies providing support can be divided in two groups, financiers and advisers respectively, advisers also including all kinds of networking activities.

### 4.1 Financiers

There is a long tradition in Sweden and the western world of supporting SMEs with loan and equity capital. In this report we divide the discussion into two parts, one concerning loans and one concerning equity capital. We use the term equity to cover all forms of investment capital (e.g. risk capital or venture capital) that carries with it a right to take part in ownership decisions. In Sweden bodies, such as ALMI Business Partner and a large number of public or semi-public companies, provide SMEs with different types of capital. Is it possible to find economic arguments for these interventions?

#### *The homogeneous market for loans*

In a homogeneous market for loans, capital is supplied at a market price and there is a more or less fixed market rate of interest. In this kind of market the conditions are often standardised and all lenders require the same kind of security for their loans. Relatively little information is required for transactions on homogenous markets like this. Of course, a credit assessment is needed but the crucial phase is often to identify and determine

a proper security. In the event of bankruptcy, the loans fall into the category given priority for compensation.

In practice such markets are instruments for channelling capital from savers to investors, without taking more substantial risks. Lending is simply an activity where the bank or other lender handles *other people's* money with high demands on security.

#### *Heterogeneous equity capital*

The heterogeneous market for equity capital is different. Here capital is made available under completely different conditions. The provider of equity capital receives his or her return as a residual, after all other capital costs have been covered. If things work out, the return can be extremely good. Otherwise the funds may not be recoverable when the owner of the capital has no security, apart from what is laid down by company statutes. The decision to offer capital must thus be made on completely different grounds than the issue of a loan. Instead of identifying securities, the assessment must rest exclusively on a more or less intuitive perception of the skill of entrepreneurs, their business ideas and the company's capacity to generate future profits. It involves taking into account *new* markets and products. And it is ultimately a question of taking commercial risks.

A basic rule when doing business and taking commercial risks is that this should be done with one's *own* money.

#### *Arguments for state intervention*

The question of providing capital for SMEs has been the subject of a large number of investigations. The majority of these has taken as their theoretical starting point the neo-classical model and its assumption that different types of economies of scale favour large companies and discriminate against SMEs.

The role of the state has in accordance to this been regarded as compensating SMEs so that they can compete on *equal conditions* with large companies. It is an argument funded in the neo-classical thinking aiming at enhancing the functioning of the market.

There is also a more political argument underlying the present policy. It is the ambition of subsidising research and development and thereby *increase development efforts* as a whole throughout the economy. Behind this lies the assumption that when companies are not certain that they can retain profits generated from a successful development project, they will decide that it is not worth the risk. For society and the economy, there is no difference in principle over who exploits a development project. The state therefore intervenes and shoulders part of the risk to increase level of investment up

to a level desired on socio-economic grounds. Sometimes this is labelled compensating for external effects or financing public goods.<sup>31</sup>

During the end of the 1980s state interventions in Sweden to support SMEs with capital began to be questioned. A Governmental Commission was appointed on the issue. The Commission<sup>32</sup> argued that the capital markets now functioned so well that they should be able to support SMEs with both loans and equity capital. According to the Commission no supplementary state measures were needed.

The proposals of the Commission did not, however, lead to any concrete changes in the state's role in terms of supporting SMEs. The government maintained that there was still a need for state interventions in capital markets. They did not share the Commission's view that the markets were now functioning satisfactory.

In this report, with its Austrian-Institutional perspective, we regard state interventions from a different angle, more in line with the investigation in the late 1980s. If we suppose that it is reasonable to assume that people do business in open and changing markets, it is also reasonable to assume that they do business with money just as with any other commodity or input material. It is entrepreneurs (in this case people with capital) who buy and sell capital. It is nothing particular about money. Problems occur on the capital market only if somebody (e.g. the state) rations the supply of capital or steers the price. This can cause a monopoly situation or a general shortage of capital on the capital markets. In the Swedish case, high income and property taxes interfere with savings and investments. Due to excessive taxation Sweden suffers from a shortage of private investors, so called "business angels". Even with this decisive exception a general opinion is that the capital market has improved substantially during the last decade.

Apart from this aforementioned general shortcoming in the Swedish economy, a common standpoint is that it is no longer capital itself, which is the major problem. Increasingly, observers say that the major problem lies in the difficulties that entrepreneurs and other project owners face in clarifying their finance needs in such a way that private financiers can assess projects and their related risks. Under such conditions, access to capital is linked to the entrepreneur's capacity to argue for and convince others to invest capital in a given project, i.e. ultimately it deals with whether a company has the capacity required to be successful at attracting resources for the company.

In later commissions into capital support for SMEs, a continuing need for state financing measures has thus been argued.<sup>33</sup> However, most experts appear to agree that markets are now functioning better than in the 1970s and 1980s. The price of capital reflects the market conditions and rationing

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<sup>31</sup> Stiglitz, J. (1986) *Economics of the Public Sector*.

<sup>32</sup> SOU 1989:24. *Statligt finansiellt stöd (State Financial Support)?*

<sup>33</sup> SOU 1996:78. *Kompetens och kapital (Competence and Capital)*.

appears to be less evident. Markets have also been opened up to international competition, which in practice has made both price and supply more flexible.

In terms of loans most economists argues that there is an operating market, which has also become more international. There is thus no general need for the state to act on the market for loans.

Still, many analysts argue that there is a shortage of equity capital. However, viewed from an Austrian perspective, it is must be discussed if this shortage really exists. The theoretical and empirical arguments for intervening in the equity market are still to be developed.

However, if the state decide to use taxpayers' money on the equity market, the practical implications of this must be discussed.

If the role of the state is to compensate small enterprises for a lack of equity capital, this would impose great demands on the competence of the state/financiers to handle the money. As mentioned above, decisions on the equity market calls for a very different set of arguments in comparison to issuing of loans. One of the most vital differences is that issuing loans calls for analytical decision-making, whereas investments in equity are about making intuitive and entrepreneurial assessments.

Why invest in certain (minority) shares and not others? For the private investor, it is often difficult to give in retrospect the reasons for making individual investments. They refer to business sense, entrepreneurial alertness or just "a feeling". However, this is less important when the investor has his own money. But when taxpayers' money is used, a better basis for decision making is required.

In addition, it is common that private financiers combine their investments with management competence in the development of the company's business activities, often as a member of the board of directors. Such arrangements are difficult to make for state financiers. Public officials are often not allowed to take part in the actual management in SMEs. Accordingly their skills are usually rooted in an administrative culture with less knowledge about running a concrete business activities.

The need to clearly state the reasons for investments and the limited capacity to take part in management leads to a situation where public actors must focus more on minimising losses instead of trying to pick the winners. The result of this is that the public investor probably will avoid losses. But with the same rational, he will not achieve substantial gains. This presumably means that the public investor, when gains and losses are summarised, loses more money than private investors do. A convincing argument for this is that if a rational model for "picking the winners" existed on the stock market, it would be possible for everyone to make a fortune. This is of course not the case.

The conclusion is that in principle it is less appropriate to use taxpayers' money when speculating in equity and shares. And even if public funds are viewed as suitable, it would seem that public owners would find it more difficult to get a sufficient return compared to private actors. The reason is that a private investor is in a position to take bolder risks with his own money and rely on his entrepreneurial alertness, without having to give "rational" reasons for the investment.

*An intermediate area between loans and share capital*

In an efficient SME policy with institutional features, there should be an in-depth analysis of whether there is rationing or price regulation on capital markets. If there were no such obstacles, a reasonable starting point would be that capital should be regarded as an input like any other. It is then up to different entrepreneurs on open and changing markets to buy and sell capital without direct state involvement.

Even with this as a starting point there is, however, a need for further analysing the need for information, training, networking and other ways to make it easier for investors and entrepreneurs to meet and do business.

In the debate on SMEs and the need for capital, another type of capital has arisen: it is neither a loan, nor equity capital, but rather a type of conditional loan that is written off if the project fails. In addition, it could be appropriate, as mentioned above that the state subsidises research and development to raise levels of activity. For the same reason, the state subsidises new start-ups and those who are developing new products. These subsidies sometimes go under the description of "seed" capital and grants for product development.

As a final point in this discussion of SME financing and the role that the state can play, it is important to distinguish between the different types of financing solutions (loans, equity, conditional loans, subsidies, etc.). In particular, it is necessary to be clear about the motives behind public involvement. We have argued that it is difficult to find support for interventions in economic theory.

Explicitly or implicitly, state interventions are usually built on some kind of political consideration: In most cases, public SME financing is seen as a part of the state's labour market policy. In some cases, the policy addresses regional imbalances by promoting business activities in lagging regions. In yet other cases, intervention is motivated by some kind of overall industrial policy (to invest in new industries or sectors that are otherwise not yet attracting private capital). The need for equal opportunities (between men and women, with regard to young people, to immigrants, etc.) is also used as motivation for state involvement. These considerations must be clearly stated and included in any assessment of investment performance and evaluation of public interventions in the capital market.

## 4.2 Information and Advice

In the same way as with capital, the state has in different ways tried to improve information and the market for business advisory services to SMEs. An in many instances capital and business advisory service is seen as a package of support. A common concept in Sweden is "competent capital" meaning a combination of conditional loans and advice.

Large amounts are invested annually in giving information and advice to SMEs. ALMI, municipal bodies, resources centres connected to higher education and others are working on providing advice to SMEs.

According to the reasoning above, it makes sense to understand that it is people and not organisations that provide different types of information and advice to those starting and running companies. What type of information and advice may be reasonable? And is it possible to find solid theoretical arguments behind this kind of measures? In order to discuss this it is appropriate to distinguish between different kind of business advisory services.

### *Different forms of advice/information*

Three types of information and advice can be distinguished. First, there is what we refer to as *general standardised information and advice*. This involves answering questions of the type put by those starting businesses concerning state and municipal infrastructure, and the different forms of support that are provided. A special effort to inform people starting business – the telephone service "start-line" – is one good example of this kind of information.

The second type of information or advice is sometimes referred to as operative advice, covering issues such as accounting, logistics, legal advice etc. State interventions in this area are often based on an ambition to make markets more workable. The rationale behind this is the neo-classical closed system approach and its market imperfections, caused by economies of scale and external effects. In accordance with this line of thinking, this kind of public service/information could be seen as a way of making the market "more perfect". Without this intervention, it is claimed, there is an under-supply of advisory services and thus an under-utilisation of knowledge and expertise.

There is, however, an obvious problem in differentiating these kinds of interventions from the information and advice provided by considerable parts of the large – and growing – private business service sector. It is obvious that the private sector is the main provider of technical consultation, auditors, lawyers and business development services. If the state subsidises or produces such services, it becomes difficult for the private sector to compete. In the worst case of "displacement", a well-conceived programme from the state on providing general information and

concrete operational advice means that the private sector is faced with severe and unjust competition.

This is why there have been discussions for a long time on whether the state and state-financed bodies should work only with information that concerns the immediate interests of the state and the municipalities such as e.g. the regulatory framework and infrastructure. This usually involves "hard" types of general information, which are for the most part, fact-oriented (e.g. legislation and certain technical data). By means of rational handling involving the use of IT media, this type of basic information can be stored and disseminated to SMEs.<sup>34</sup> A common view is that the state and state-financed bodies should concentrate only on those services *not* provided by private consultants.

A third kind of business advisory services is the strategic advice related to the continuous development of the business idea. If the notion is accepted that people do business and that individual entrepreneurs are more or less unique, it then follows that companies have unique needs for consultancy services in different situations. The opportunities are thus limited for public or private organisations to know in advance exactly what knowledge they will need.

Strategic advisory services are from this perspective seen as dependent of the subjective actor and of the context. The SME support system must therefore take into account the active and reflexive character of the entrepreneur. The support must also view business as an ongoing experimental activity, e.g. with a constant flow of new products and services on an ever-expanding market.<sup>35</sup>

There is a need for general standardised information of a kind that SMEs and new starters could benefit from, but they are not willing to pay for it. There is no real market for this kind of information and advice. It is widely regarded as a free utility, something that the public sector should provide. The operative services are, on the other hand, widely sold on commercial markets. Here SMEs do business with each other to a large extent.

Finally, the situation concerning strategic advice is quite different. Here it is less obvious how the service should be designed. In the market for operative advice, accountants and technical consultants offer more or less ready-made solutions to common problems. But strategic advice can not by definition be

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<sup>34</sup> Examples of such dissemination of basic information are the SME link and NUTEK's Start Line. The SME Delegation also proposes (SOU 1998:64) an Internet based information system for all types of information that an entrepreneur may need for contacts with public organisations.

<sup>35</sup> In Johansson, A. W. (1997) different kind of service situations are analysed and the results indicate that the identity of the client is important. The "anti-client" does not accept advice, the "ideal client" accepts without self-reflexion. The "consultant modifier" deals with strategic advice in a constructive way, in a dialectic relation with the consultant. Johansson, A.W. (1997) Att förstå rådgivning till småföretag (To Understand Advisory Service to Small Firms).

ready made. Each and every entrepreneur calls for his or her specific solution. That is why this kind of consultant activity is less common on the private market. In order to improve the strategic functions of SMEs, strategic advice and activities are financed by the public sector. In the concluding parts of this chapter we elaborate on the special arrangements that must be done in order to provide this kind of services. Again, the starting point is more of an Austrian-Institutional point of view.

#### *Sounding board or a process consulting approach*

In order to provide SMEs and entrepreneurs with additional support, business and entrepreneurial oriented measures must thus be developed. This involves supplying entrepreneurs with strategic, subjective, tacit and dynamic information – often to facilitate the development of ideas and business strategies that the entrepreneur had previously not thought of. In this respect, what we have identified above as strategic advice is not about providing ready made solutions but has to do with providing the entrepreneur with a more or less permanent speaking partner or a context where new ideas can emerge.

In practice, in Sweden and abroad, SME support of this kind has been implemented as process consulting activities. In regional development programmes in Sweden, the concept of a "sounding board" is sometimes used. The point is to provide the entrepreneur with a "partner" with solid experiences from working in or with SMEs. This partner is supposed to ask the right questions and be instrumental in finding new suppliers of expertise and new business network connections. To some extent, the sounding board acts as an additional member of the board of directors (as SME boards only on rare occasions have members outside the family or the peer-group).

There may, however, be a problem of unfair competition when it comes to this kind of subsidised public support. If an entrepreneur participates in a business development programme resulting in him taking business from a neighbouring competitor, this may be perceived as unfair competition brought on by state grants.

From an Austrian-Institutional perspective where markets are regarded as open and experimental, this is not a major problem. Each company develops its own expertise and orientation resulting in new or improved products and services. This development creates new opportunities for all, far from the traditional closed system approach with the notion of displacement that has dominated the SME policy thinking for many years.

#### *Providing Arenas for Strategic Interplay between Entrepreneurs*

Entrepreneurial and strategic support to modern SMEs could be efficiently arranged as meeting places or strategic arenas. Regional development activities are often implemented as network activities. In several successful

development programmes, the core activity has been to provide entrepreneurs with a "creative arena". This arena could be seen as a place, where entrepreneurs can learn from each other and from experts. Having the right arena is one of the most effective ways of implementing advanced management training activity and providing a basis for innovative activities. In practice temporary and permanent arenas could be identified.

In contemporary entrepreneurial SME policy, the use of *temporary arenas* as an efficient measure has increased. In local and regional development activities in Sweden, ALMI and local government provide various kinds of meeting-places where entrepreneurs can get together and discuss business issues. These kinds of temporary arenas could vary from a one-off occasion to an activity extending over several years. The aim of the activity is twofold. First the entrepreneur has the opportunity to meet people that could provide new knowledge and insights. Secondly and not least important, the temporary arena could give the participants an opportunity to meet with other entrepreneurs. One immediate result is often an enlargement of the entrepreneur's business-network.

In an international or EU-perspective, much attention is put on the so-called *Europartenariat*. In this programme, entrepreneurs from throughout the European Union meet, exchange business ideas and create business opportunities. It is usually a very well prepared activity. Recent evaluations have shown that the participating companies have been selected and introduced to the activities in order to achieve maximal integrative results during the meeting. The results seem very promising.<sup>36</sup>

In the Western world, much more attention is put on creating *permanent arenas* such as science parks and other special geographical areas designed for providing immense opportunities for creative business meetings. In Stockholm one such arena is Kista Science Park. One of the most recognised areas of business development is Silicon Valley in the San Francisco area.

In the industrial policy debate, the concept of clusters is mundane.<sup>37</sup> More and more attention is put on measures taken to improve conditions for the development of clusters.

#### *How are meeting places created?*

Under the national "Light Year Programme", in the reports from the SME Delegation, on the work of creating the Growth Agreement, and in many other contexts, much attention has been devoted to how to create meeting forums for individuals, companies and organisations. There is a general consensus that a good business climate is strongly related to the channels and arenas for communication and dialogue between participating parties.

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<sup>36</sup> FSF 1998:9. *Europartenariat Northern Scandinavia 1996 - Förväntningar, erfarenheter och resultat (Europartenariat Northern Scandinavia 1996 - Expectations, Experiences, and Results)*.

<sup>37</sup> Porter, M.E. (1998) *Clusters and the New Economics of Competition*.

Municipalities, county councils and local industrial actors often work in isolation from each other. A general view is that increased regional dynamics and development are based on co-operation between the parties. A precondition for this is that existing and permanent meeting forums are further developed and that new forms are created for more or less temporary forms of co-operation. Such networks can then provide the basis for one-off co-operation or be a starting point for more strategic and long-term oriented projects.

Programmes for raising and disseminating competence are an important element for achieving a good development climate and efficient development arenas. All such arenas must contain participants not just from industry but also from the public sector. In this context, it also means that changed ways of working and competence raising programmes also mean that public activities should be spun off and run by individual companies.

Innovations and new thinking are influenced not only by physical opportunities for meetings, but also to a great extent by the climate – attitudes and values – characterising the area. This climate should be dynamic so that many parties are allowed to participate, meeting forums are continuously being created, more role models are highlighted and co-ordination projects are started. This is important since innovations and new ideas are born out of unexpected combinations in intensive information environments, as well as from different types of competence, all of which help to bring about a rich foundation of experience. Innovation occurs in complex processes.

The SME Delegation also considers that, since SMEs have a strong local presence, organisations providing public support networks should also be active in the local arena. They also argue that there should be a multiplicity of different bodies so that SMEs have the opportunity to choose between these and not as today be referred to a few large organisations for information and advice.

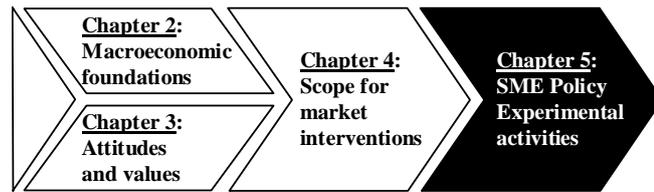
One of the conclusions from this is that an efficient SME policy must clearly identify the borders between what must be left to the private sector and what could be a matter of state interventions. If we view business as a place where people are doing business on open and changing markets, this will be of vital significance for state interventions. The role of a sounding board and the existence of creative arenas becomes more important than functioning as an expert on different issues. It is especially important not to destroy the market by state programmes or perhaps destroy the market for concrete expert services. In such cases, well-functioning state subsidised programmes can become a major barrier to development and renewal among SMEs.

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|---|
| <b>CONCEPTS FOR REVIEW (chapter 4):</b> |
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- ❑ *Loan and equity, conditional loans, identification of securities, entrepreneurial decisions on investing in equity*
- ❑ *General standardised information, operative information and strategic information*
- ❑ *Sounding board, meeting-places, and temporary and permanent strategic arenas*
- ❑ *Clusters, co-operative climate and networks*

**QUESTIONS FOR DISCUSSION (chapter 4):**

- *Explain the difference between the decision making process in issuing a loan and providing equity?*
- *Why will a public investor in general lose more money than a private investor?*
- *Is it appropriate to view capital and services as "ordinary" commodities on the market?*
- *Why is it important that state interventions are rooted in solid economic and/or political rationale?*
- *Why should state support to business advisory service be limited to general standardised information and strategic advice, not operative service?*
- *How could efficient meeting places be created?*



## 5. SME Policy –Experimental Activities

In this report we have outlined an alternative approach to the dominating traditional neo-classical view on SME policy. We have chosen to label our alternative the Austrian-Institutional perspective. With this as a starting point we gain a new understanding of SME policy in theory and practice. The ideas discussed are in line with the conclusions drawn in a previous report of Swedish SME policy.<sup>38</sup>

### 5.1 Problems and Solutions

In this report on SME policy in Sweden as well as in section 3 above, we refer to a Canadian example of enterprise policy.<sup>39</sup> The Canadian policy is on a general level built on three interrelated corner pillars.

- First the need to consider *motivation* as the foundation for entrepreneurship is underlined.
- Second, the urge to produce an environment that will create business *opportunities* is stressed.
- Third, the importance of making it possible for SMEs to develop competence and knowledge, i.e. *skills* is emphasised.

These three corner pillars lay the foundation of growth, renewal and future jobs in the small business sector and in this concluding chapter we will use this three concepts to highlight the need for a more comprehensive Swedish SME policy.

The discussion is divided into two major fields. First we use the trinity of concepts to elaborate on the problems facing the small business community. One major problem, suggested by the neo-classical model, is the lack of *skilled* workers and well-trained entrepreneurs. Another important problem is that private and public monopolies are narrowing the *opportunities* for starting and expanding businesses, often acknowledged by Austrian-Institutionalist scholars. And indeed, is it a question of the business climate not being able to produce the needed *motivation* structure that enhances the number of start-ups and the growth potential in small businesses?

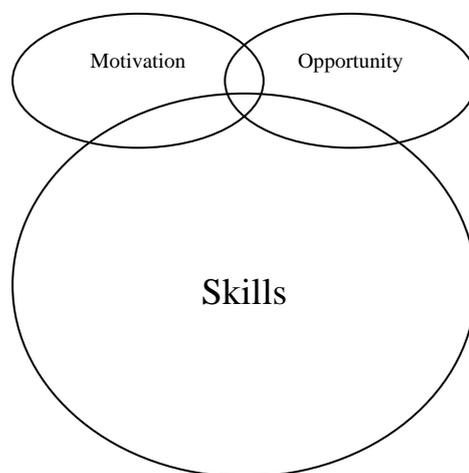
<sup>38</sup> FSF 1998:8 Op.cit.

<sup>39</sup> OECD & Atlantic Canada Opportunities Agency (1996) Op.cit.

If we link these questions to the overall SME policy and to the major fields of interest discussed in this report, several interesting observations can be made. The ideal solution in a contemporary small business policy is that the three building blocks, motivation-opportunity-skills, will represent a triunity in balance, i.e. these blocks can be illustrated with three circles of equal size with interaction and co-operation over domain borders.

In general we can observe that in the case of Sweden, the motivation and opportunity dimensions are rather weak parts in the SME policy, which has a concentration on efforts to enhance the creation of different kinds of skills. This situation is expressed in figure 3 below. The balance between the three dimensions encouraging business activities is replaced by a strong predominance of business skills support.

**Figure 3. Encouraging business activities**



Source: Adapted from OECD & Atlantic Canada Opportunities Agency 1996 - The Implementation of an Entrepreneurship Development Strategy in Canada, p 22.

If we go more into details, we find a more scattered picture. Concerning different incentives in the existing Swedish SME policy, figure 4 below can illustrate the situation. Firstly, what are the main problems that the specific interventions should tackle? Secondly we have estimated the status of the knowledge of this special type of efforts. Thirdly there is a judgement concerning how much resources that are used for this type of measures. Fourthly we try to state if one can argue from a neo-classical and Austrian point of view to use these kinds of policy measures. "Yes" in this column means that theoretical arguments could be found. However, the arguments differ substantially between the two perspectives.

**Figure 4. Small business support. Knowledge, resources and theoretical support**

| Field of study                   | Knowledge    | Resources | Theory        |          |
|----------------------------------|--------------|-----------|---------------|----------|
|                                  |              |           | Neo-classical | Austrian |
| <b>Macroeconomic foundation</b>  |              |           |               |          |
| - Taxes etc                      | Limited      | Limited   | Yes           |          |
| - Deregulation                   | Limited      | Small     |               | Yes      |
| - Administrative burden/red tape | Limited      | Small     | -             | -        |
| - Competitiveness                | Satisfactory | Small     | Yes           | Yes      |
| <b>Attitudes and values</b>      |              |           |               |          |
| - Educational system             | Limited      | Small     | Yes           | Yes      |
| - Service minded authorities     | Limited      | Small     | -             | Yes      |
| - Media and markets              | Limited      | Nil       | -             | Yes      |
| <b>Market interventions</b>      |              |           |               |          |
| - Financing                      | Some         | Large     | Yes           | -        |
| - Information and advice         | Some         | Large     | Yes           | -        |
| <b>Experimental SME policy</b>   |              |           |               |          |
| - Implementation                 | Some         | Large     | Yes           | -        |
| - Evaluation                     | Some         | Small     | Yes           | Yes      |

In the field of macroeconomic foundation surprisingly limited efforts are made to produce knowledge about the economic and social impact of taxes, regulations and red tape. When these vital matters are discussed, the focus is often on hard economic matters, such as saving quotas and general investment trends. This is of course crucial. Without workable economic conditions, growth, renewal and job creation will never occur. But very little is said about other important aspects of the macro conditions, namely creating opportunities and improving the motivation structure. It is thus obvious that neo-classical analysts highlights hard economic factors and that Austrian-Institutional scholars lean towards deregulation for increased opportunities and improved driving forces.

A great numbers of reports on competitiveness have been published, containing in-depth knowledge. Two principally different approaches are suggested. One focusing on cost and efficient allocation of given resources, one on the dynamic development of new resources. Both perspectives are valid, but much more effort must be put on producing knowledge about the dynamic forces behind growth and renewal.

An important area for future efforts must therefore be to analyse the importance of the macro economic foundation, both on hard economic elements and on motivation and opportunities.

The same pattern also holds for the discussion about the role played by the educational system, service minded authorities and media in shaping

constructive attitudes and values. In the debate about education and training, emphasis has been put on quantity, i. e. the lack of skilled people needed in the business community. In a more Austrian-Institutional perspective, focus is on the quality of training and in what extent the educational system produces people with motivation and ability to see business opportunities.

In practice SME policy has come to mean market interventions to solve problems on markets for capital and business services. Traditional neo-classical arguments – economies of scale, external effects and public goods – are frequently put forward in the debate. In this report we have questioned this line of argumentation. Instead of allocating large resources to direct financial support and subsidised business advisory service, we suggest more of creating meeting places and arenas where people can meet and share views and make business deals. It is also important to notice that market interventions never can compensate for shortcomings in the overall business climate, just improve on what is already working.

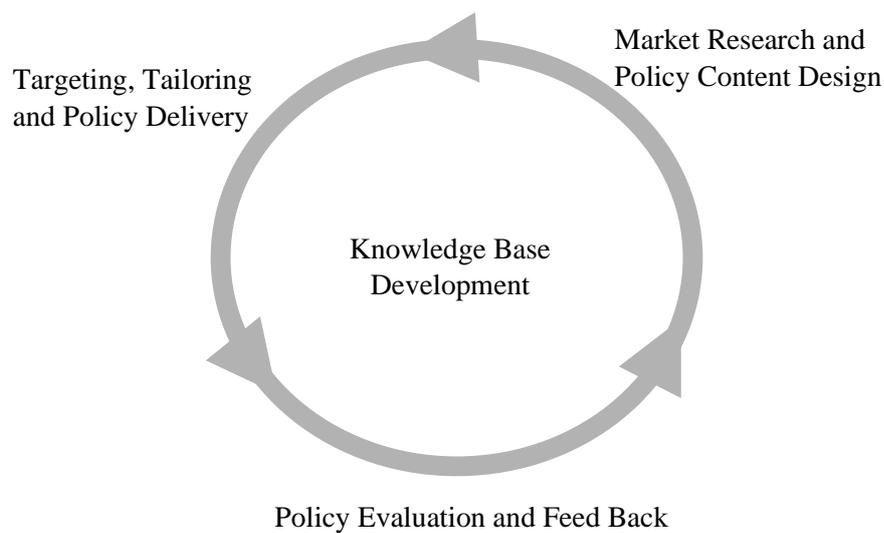
SME policy should not be seen as an activity once and for all solving one or a few "problems". It must rather be seen as an ongoing process addressing the whole set of issues described above. The notion "experimental SME policy" embraces that the policies most rely on empirical knowledge and solid theory. Our conclusion is that much more resources must be set apart for evaluation and implementation processes.

## *5.2 Evaluate, Restructure and Implement*

All modern enterprise and entrepreneurial policies should be seen as an ongoing activity. However, even if the constantly changing SME policy is built on trial and error activities as indicated above, the support programmes must be organised and implemented following certain principles. Traditionally a policy process consists of three steps where the first means that a specific comprehensive programme is developed. Secondly, this programme will be implemented and finally the results from the support activities are evaluated. Experience won from the programme are later used as important input in the next loop, the next efforts in the perpetual process of finding effective ways of stimulating entrepreneurship in society.

An alternative way to present the policy development process is to further underline the importance of evaluation procedures. A traditional process with policy development, implementation, results/evaluation and feedback into next round in the circle has the tendency to be a rather reactive or stereotype way. Instead, the process can become more proactive if best practice development, market research, and evaluation procedures will be put in the forefront. This strategy is illustrated in figure 5 below where the policy development is starting out from a cycle where market research, analysis of small business behaviour and their need of external support, etc. provides the basis for policy design, how to target and deliver the policy. Extensive evaluation and feedback efforts complete the process.

**Figure 5. Policy Development Cycle**



Source: Kuusisto, J., Berney, R., & Blackburn, R. (1999) A Critical Evaluation of SME Support Policies in the United Kingdom and the Republic of Ireland.

Frequently, systematic evaluation of SME programmes is missing. In order to stimulate entrepreneurship using efficient methods it is necessary to develop proper models for evaluation. Such models must be possible to adjust to the specific design of certain support programmes and a spectrum of various tools can be applied, for instance quantitative and qualitative methods, benchmarking and cost-benefit analysis.

Storey<sup>40</sup> has developed a methodology for evaluating SME policy. He believes that in principle it is impossible to evaluate policy if the support programme does not have clearly defined goals. In practice it is unusual that programmes are steered by goals and when this occurs, the goals are often unclear, in conflict with each other and there may be discrepancies between overall goals and the goals for specific activities.

If we assume that programmes contain specific goal formulation, in Storey's view different types of evaluation models can then be developed. The simplest models (follow-up and monitoring) mean that the programmes are described in terms of size and recipients of support funds and usually different measures of the attitudes of persons/companies receiving support. The weakness of this type of follow-up is that it is essentially descriptive, and that companies receiving support are not compared with those not receiving support.

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<sup>40</sup> Storey, D.J. (1998) Six Steps to Heaven: Evaluating the Impact of Public Policies to Support Small Businesses in Developed Economies.

The more advanced models (evaluation) aim at specifying more clearly the impact of a support programme by comparing recipient and non-recipient companies. Studies have, however, shown that recipient companies cannot usually be compared with other companies since they for different reasons are more likely to obtain and use support. This weakness can, however, be circumvented by carefully comparing both groups and selecting a control group which "matches" closely enough the group of recipient companies being studied.

One conclusion that can be drawn is that traditional SME policy has hitherto been primarily concerned with follow-up i.e. the ambition has not been to report outcomes from providing support to companies, but rather describing the amount of support and identifying recipients.

Of course, policy should be evaluated and it is thus necessary to set aside resources for R&D in the area. In the university world attempts are being made to develop theories and techniques of evaluation. Such research, however, is relatively scarce. Many EU financed support programmes can be regarded as models, in that they stipulate in advance procedures for implementation specifying both the extent to which goals should be formulated and the follow-up procedures to be used by all participating parties.

It has turned out to be extremely difficult to make evaluations in practice. Goals are seldom clearly formulated, it is almost always difficult to identify control groups, etc. The evaluations carried out have almost always involved the use of a number of different methods for identifying goals, implementation processes and actual outcomes.

### *5.3 SME Policy as a Learning Process*

Taking a multi-methodological approach in studying policy instruments and programmes means that it is no longer just a question of follow-up or evaluation but of going one step further. The primary task of evaluation is to act as a hub in a process of learning that should be a fundamental characteristic of the SME policy model. The documents and results usually produced as a result evaluation should be used as the next step in the policy to start new activities in an ongoing process for developing specific programmes for providing support to SMEs.

**SME Policy development is a continuous practical and  
theoretical process where implementation and  
evaluation go hand in hand**

### *5.4 Towards an Integrated Entrepreneurship Policy*

The perspective in this report and from the meetings with experts, researchers, small business managers and policy makers show that greater weight should be put on long-term oriented factors and macro-economic aspects. Examples concerning the school system, the flexibility of authorities and the role models used in media were given. When it is a question of more direct interventions, the perspective gives more limited scope, even if there is scope for entrepreneurially oriented programmes.

A contemporary policy for small business development should further be based on the problems encountered by SMEs and on encouraging individuals with viable business ideas to become entrepreneurs. This kind of SME policy must accordingly include following principles:

- Knowledge about entrepreneurship and enterprise must be widely distributed in society at large.
- One must describe which specific problem in the SME-sector that the interventions are supposed to solve and why this should be done with public money.
- Public support efforts must be demand-driven.
- People must regard entrepreneurship and business activities as adequate alternatives.
- Organisations for support must be well known among SMEs and entrepreneurs.
- Encourage the growth of a 'skunk works' culture. Stimulate experiments in different areas as well as on different levels in the society.
- There must be a distinct distribution of responsibility between different support organisations. It is important to decide how a new SME policy should be organised on local, regional and national levels.
- Knowledge gained from international experiences with support models must be distributed and utilised.
- An annual comprehensive evaluation of SME support efforts must be made where stipulated objectives are compared with achievements.

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# Appendix 1

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