

For a more effective entrepreneurship policy. Perception and feedback as preconditions

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1. Introduction

The design of a policy needs objectives - such as the promotion of value creation in the economy and society - and instruments. Very often the success and effectiveness of policy will be hampered by the so-called information and communication gap between policy makers and target groups such as entrepreneurs. The main problem is not lack of competence or lack of commitment. Very often the problem is perception. The problem can arise on both sides: sometimes the perception of the target groups does not correspond to what policymakers want; sometimes also the perception of their feedback by the policymakers is not the same as what they want to say. This may happen at several levels. We discuss three examples about government policy: one on the local level and one on the national level in Belgium, a third on the European level.

2. Role of the government

The public authority is an element of the external environment of the entrepreneur. We can make a distinction between three important functions: regulating agency, stimulating agency and potential customer.

2.1. The public authority is a regulating agency.

It sets certain limits to the freedom of action of the enterprise, but it also provides a legal framework for economic action. In a competitive economy, it is important that the rules of the competition are transparent and very clear. The government also must make sure that its rules (e.g. corporate law, protection of the consumer, labour laws etc.) are implemented effectively.

It is preferable that the same – or at least compatible - basic rules are applied over the whole territory that constitutes an internal market, e.g. a national state. If certain states open up their markets to each other, they have to make their rules compatible to avoid unfair competition. This was a key element in the construction of the European Union.

Besides being a regulating agency through the rule of law, a government agency also can impose other obligations on enterprises, e.g. taxes.

2.2. The public authority is a stimulating agency

Any government (national, regional, local) wants to maintain a sufficient level of economic activity in its territory in order to have sufficient employment and economic growth. There exists a large literature on economic policy. For the context of this paper we just keep in mind that the government needs enterprises. They create value added and employment which are

essential for the generation of purchasing power and tax receipts. So it is logical that the government actively wants to stimulate enterprises to settle in its territory. There are two basic ways to do that: either to attract investments from elsewhere or to pursue an entrepreneurship policy aiming to encourage entrepreneurship within the local population. *So we can state that entrepreneurship policy essentially is a stimulating policy.*

2.3. The public authority is a potential customer

Any government has to make certain purchases in order to maintain its own functioning. It is not uncommon that it will have a bias for enterprises that are located in its territory. This could be supported by a "Keynesian" argument, where a government can stimulate its economy by injecting money. However, in an integrated market, the government may not disturb fair competition by granting an unfair advantage to local competitors. If the government pays a price that is artificially high for its procurements, this will be at the expense of the taxpayers.

The perspective to provide goods and services to the government can be a stimulus for entrepreneurs but this must be kept in balance with the rules of fair competition.

3. Structure of the government

There is a wide variation in the organization of governments over the world. In textbooks we often find an agency named 'government', behaving rationally and pursuing the general interest. In reality the organization of governments can be very complicated. Government can be divided over several branches, each with its own agenda, sometimes in competition or even conflict with other agencies.

If we disregard the branches and confine ourselves to the levels of government, we will find at least three levels: local, intermediary (provincial or regional) and national or federal. Very often we have more levels: in many countries we will find provincial and regional levels while the impact of supranational levels (such as the E.U. or the W.T.O.) is increasing.

The design of the competences of these government levels, as well as the design of the borders between the territorial entities, is not the result of a rational decision-making process. Usually it is the result of historical circumstances and political compromises.

Entrepreneurship policy usually needs an interdisciplinary and transversal approach so its instruments can be in the hands of different government levels. Here also the division of labour between government agencies is more the result of history and politics than of a rational analysis. Even if these agencies act rationally, their interaction can cause a loss of consistency, leading to a wrong perception by the target groups, specifically the entrepreneurs.

We take as an example the *Brussels Capital Region* in Belgium. Outside Belgium people will associate the name of 'Brussels' with the location of several international institutions such as the Commission of the European Union and the General Secretary of NATO. Brussels, however, also has a very interesting, mostly service-oriented local economy. Within Belgium it is the 'third' Region, next to Flanders and Wallonia. Brussels has no provincial structure but there are 19 municipalities within the region, each with its own elected local government. If you make a shortlist of the most relevant elements of economic policy and entrepreneurship

policy and you want to know ‘who is responsible for what?’, you can find the following division of responsibilities between government agencies in Brussels.

- The European Union

Main competences: organizing the market, e.g. general competition rules.

- The Belgian (federal) government

Main competences: mostly regulating competences such as social security, most taxes, corporate law, fighting "big" crime.

- The governments of the Flemish Community and the French Community

Main competences: mostly stimulating and “person-oriented” competences such as education and training.

- The government of the Brussels Capital Region

Main competences: mostly stimulating and “territory-oriented” competences such as supporting start-ups and all policy instruments with regard to encouraging and supporting (local or foreign) investment. Also some taxes.

- The nineteen municipalities

Main competences: all local matters such as urbanisation policy, local taxes, fighting "small" crime.

Even when all these levels pursue a rational policy, they must take account of their interaction and of the perception of their policy by the target groups. However, the existence of multiple government agencies also has certain advantages. The ‘higher’ levels such as the European Commission and the national government can guarantee that the competition is fair and that the same or compatible rules are applied and implemented over the whole internal (European) market. Within this framework, the ‘lower’ levels such as the regional and local authorities are often best placed to implement additional stimulating measures, adapted to a local situation.

In the next sections we discuss three cases.

4. Perception of policy on the local level. The case of Anderlecht

In the past, we have seen that local authorities have shown their interest in research on local entrepreneurship and small business policy issues (see for example reports on two Flemish municipalities in Donckels e.a. 1988 and Donckels e.a. 1990). More recently we also surveyed the Brussels municipality of Anderlecht. (See also Lambrecht e.a. 2003). Although the full report has not yet been made public, we can point to some intermediary results.

Anderlecht is one of the 19 municipalities within the Brussels Region. On January 1, 2003, there were 91,759 inhabitants. They represent a share of 9.25 % of the Brussels Region. Anderlecht is located on the western side of the agglomeration. Besides the City of Brussels itself, Anderlecht is the most well-known municipality because it is the home of one of the most famous Belgian soccer teams.

Anderlecht used to have an industrial tradition, but for some decades we have been witnesses to a slow process of deindustrialization and a conversion of the local economy to trade and services. Although there still is a considerable presence of industrial firms, unemployment is considerable and there is a large immigrant population.

In a survey on local issues we had interviews with 10 entrepreneurs and two local policy-makers. We discussed four subjects: the perception of the municipality, local problems, local solutions and the profile of Anderlecht.

4.1. Perception.

Following a general perception the quality of local businesses deteriorates. The reason behind this perception is a perceptible deterioration of the average quality of local shops. Shops of high standing are disappearing and are replaced by shops of lower quality. This is part of a general demographic movement, where middle and higher income groups are moving out while lower income groups are coming in. Nevertheless there still is considerable business activity in Anderlecht but the deterioration of the quality of shops is highly visible and induces a perception that there is a 'general' deterioration of business activity.

Another aspect contributing to this perception is the spatial differentiation: Anderlecht has 'rich' and 'poor' quarters, but the latter are more visible. However, some respondents emphasize that things can also change rapidly in a positive way because a poorer quarter has certain competitive advantages such as a mix of cultures and a spirit of solidarity between the residents, in combination with lower real-estate prices.

4.2. Local problems

When asked which problems they consider most important, all the respondents quote the disappearance of the shops of high standing. Also the problems of insecurity and crime and (lack of) cleanliness get 'high' scores. These problems cause a general perception of dissatisfaction and induce the respondents to attach much more importance to other issues. For instance the disappearance of shops of high standing makes the respondents very critical about the presence of shopping malls. The sense of insecurity causes a perception of 'lack' of illumination and 'lack' of police control, so the issues of public illumination and police patrols are 'raised' to issues of high sensitivity. The insecurity problem also induces the businesses to invest more in security, at the expense of their profit margins.

4.3. Local solutions

The respondents are very positive about the so-called 'town-managers'. These town-managers are a positive example of interaction between different levels of government. A town-manager is remunerated by the regional government and is dispatched to a 'problem' neighbourhood but reports to the municipal authority (so neither government level feels 'threatened' by the other). Local residents and local business people can report problems to the town-manager. The town-manager will either arbitrate or call in the competent government agency and so avoid the perception that 'nothing is being done' about the local problems.

4.4. The profile of Anderlecht

International football is 'big business' but the presence of a leading soccer team can be an important asset for the local business community. The presence of a large number of supporters and the accompanying security measures were 'perceived' as a disturbing element by (a part of) the business community but this can be developed to a promotional element for the name and the image of the municipality.

5. Perception of policy on the national level. The weight of administrative duties

Governments, in their roles of regulating agencies, very often have to charge the enterprises with administrative duties. The rationale behind these duties is that the government needs information and transparency in order to collect taxes and to enforce fair competition. Sometimes also other specific interests (consumers, employees, environment ...) need consideration. However, entrepreneurs very often consider their administrative duties as 'bureaucratic' and 'expensive'. Their complaint is not that they have to provide information to the government but the problem is very often that the rationale of the government is concealed behind a lot of small rules and is not always clear and transparent, to say the least.

In Belgium, the Federal Planning Bureau (Joos and Kegels, 2004) has conducted a survey with enterprises and independent workers in order to have an idea of the perception of the business community and to make an estimate of the total cost of the administrative duties. In the summer of 2003, questionnaires have been sent to a sample of 2,511 enterprises and 3,789 independent workers. The enterprises received a questionnaire related to taxation, environment or employment. The independent workers received a questionnaire on taxation or environment. Of the enterprises invited, 23.3 % actually did participate, for the independent workers 16.6 % did participate.

The cost of administrative duties for 2002, as reported by enterprises in the survey, is estimated at 6.3 billion euro or 2.4 % of the Belgian GDP. Independent workers report an administrative burden of 2.7 billion euro or 1.0 % of GDP.

For enterprises, 72.5 % of the total administrative cost is related to employment, 17.4 % to taxation and 10.1 % related to environment. For independents, 77 % is related to taxation, 23 % related to environment.

The survey also shows that there are differences following the dimension and the location of the respondents. In general the relative share of the burden increases as the dimension of the firm gets smaller. On a regional level we see that Walloon enterprises and the Flemish independent workers have the largest burdens while the average cost per employee is the largest in Brussels but is decreasing. Moreover, in the perception of the respondents the administrative burdens are increasing over time.

There also is an important qualitative part in the survey. Contrary to a widespread belief the entrepreneurs do not blame the civil servants or so-called bureaucrats for the inconvenience of administrative duties. Most respondents are satisfied about their contacts or relations with the government agencies. In their perception the blame is with the quality of rules. So in this example we may observe a wrong perception (by the government) of the perception (of the entrepreneurs). Policymakers often think that the entrepreneurs have a problem with the civil service and overemphasize the need to 'reform the bureaucracy' while the problem is with the rules themselves. Priority should be given to a simplification of the legislation. Moreover, the main problem about the rules is not a lack of transparency but a lack of flexibility.

6. Perception of policy on the European level. How do entrepreneurs perceive an enlargement of the market?

We have an interesting case in Europe. In the nineties the European Union proceeded to a full integration of the domestic markets in the Member Countries.

Integration of the European markets

In reality, European businesses have been confronted with several concurrent policy measures during the nineties. From a policy point of view these measures were intended to integrate the E.U. market. From a business point of view, especially in the small member countries, these measures lead to a great extension of the market. *The home market is no longer defined as the national market but as the E.U.-market.* For business this implies a better competitive position on the markets of the other member states of the Union, but also an increased competition from these other member states on the former national home market.

The Single Act, drawn up in 1986 and ratified in 1987, confirmed the 1985 White Paper proposals, and added a coherent policy framework by stressing coordination in a number of policy areas (Monetary Union, social standards, regional development, science and technology, and the environment). The 1987 agreement of the member states constituted a decision to complete the internal market on the first of January 1993.

Perception by the entrepreneurs

How was the perception of these measures by the entrepreneurs? In 1993, a survey by Eurochambres indicated that the entrepreneurs generally voiced disappointment with regard to the effects of the real impact of the internal market. They were confronted with new regulations and adjustment costs, uncertainty over the pace of implementation, inequalities in this pace among individual member states, major adjustment problems within the institutions in charge of implementation.

In 1996, 1997 and 1999, the European Network for Small Business Research (ENSR) made surveys for the European Observatory. These surveys showed that the SME perceptions changed over time. On balance, the majority in 1996 (44 %) and in 1997 (46 %) regarded then the European single market as an opportunity ; 14 % in 1996 and 18 % in 1997 considered it as a threat while the rest (42 % in 1996 and 36 % in 1997) neither saw it as an opportunity nor as a threat. However, differences were found following sectors and enterprise size. In general, manufacturing enterprises and larger SMEs tended to identify more opportunities. In 1999, more than half of the enterprises did not recognize any major advantage or any major disadvantage of the single market. Smaller enterprises saw even fewer effects. A size effect was also present with regard to the expectation of the positive effects of the euro. The larger enterprises were more likely to expect positive effects, ranging from 22 % for enterprises without employees to 46 % for medium-sized enterprises (50-249 employees).

Let's discuss the effects with regard to internationalization, growth, competition, and employment.

Internationalization

In the survey by Eurochambres in 1993, the entrepreneurs referred to major technical barriers that limited the impact of the single market on intra EU trade such as the new VAT system and the fact that several member states had only partially adopted EC law. However in 1996, it was estimated that roughly a quarter of all enterprises had experienced higher export shares thanks to the specific measures implemented by the EU. The abolition of physical barriers and the reduction of fiscal barriers had stimulated the export performance of all direct exporters, irrespective of their size or sector of activity. Since 1997, the evolution of internationalization

has been mixed. For 1997 there is no statistical proof that the internal market program had a positive impact on the export performance of individual enterprises but for 1999 such a positive impact of the single market on the growth rate of export turnover has been found.

Growth

In 1996, 1997 and 1999, the larger selling market was regarded as an important opportunity, especially for the larger SMEs and the manufacturing enterprises. In 1996 as well as in 1997, a positive impact of the internal market program on the growth of real turnover of the enterprises was found, independent of size or economic activity. It was the reduction of fiscal barriers that affected positively this turnover growth.

Competition

In the Eurochambres survey in 1993, the entrepreneurs denounced the distortion of the competition. They blamed the taxation rules, favoring of national enterprises in public procurement and enforcement of environmental regulations. This contrasts with the SME perceptions from 1996 onwards. The enterprises then quote increased competition from foreign enterprises as the most important threat (23 % in 1996 and 34 % in 1997). However in 1999, following the perceptions of the entrepreneurs, domestic competition within the single market had been increasing to a much greater extent than international competition.

Employment

In the period 1993-1995, the employment pattern was stable for the very small enterprises but less for the other groups. In 1996, there was no clear-cut impact of the completion of the internal market on employment growth but the picture of this impact becomes more positive from 1997 on. However, in most SMEs the number of employees remains stable.

Does reality match the expectations?

The next table confronts the expectations and the perceptions of the entrepreneurs with regard to the European integration with the reality (see also Lambrecht 2002). We can derive three main conclusions.

- For two themes, *overall effect and competition*, expectations have unequivocally come true. After a perception of disappointment in 1993, the overall effect of the European integration process is now perceived as positive. The SMEs also clearly experience more domestic competition, where their most important market is mostly situated.
- The impact for the other three themes, *internationalization, growth and employment*, is more mixed, mainly due to size and sector effects. Higher *export shares* – a first expectation in the domain of internationalization – have not always been realized (positive impact in 1996 and 1999, but no impact in 1997). The larger as well as manufacturing enterprises refer more to *growth as an opportunity* and the larger ones also enlist growth more as a *policy choice*. Nevertheless, the SMEs play rather a stable role on the growth and employment scene.
- The SME perceptions with regard to European integration follow a *dynamic pattern*. In 1993, when the single market was launched, the tenor was one of *disappointment*. Gradually, this attitude changed to one of *indifference* (European integration as neither an advantage or as a disadvantage) or regarding European integration as an *opportunity*...

Table: Comparison between expectations of European integration with regard to SMEs and SME perceptions and reality with regard to European integration

Theme	Expectations with regard to SMEs	SME perceptions and reality	Fit between expectations and reality
Overall effect	Positive	From disappointment in 1993 to an opportunity in the second half of the nineties (size and sector effect)	Yes
Internationalization	- Higher export shares in turnover - More cooperation with foreign firms	From limiting the impact in 1993 to higher export shares in 1996, no impact in 1997, positive impact in 1999 and less and less enterprises experiencing a positive development in international business contacts	Mixed
Growth	More SME growth opportunities	Larger selling market as an opportunity (size and sector effect), positive impact on growth but majority are defensive with survival and consolidation as policy choice	Mixed
Competition	More in domestic markets	From distortion in 1993 to competition as most important threat in 1996 and 1997, and higher domestic competition in 1999	Yes
Employment	Increase	From no clear-cut to positive impact, but for the majority stability on employment scene	Mixed

Source : ENSR.

7. Policy Recommendations

Governments have to pursue an economic policy to make sure that there is creation of value added, incomes and employment. However, they cannot do this themselves. They need private business to perform the job. So the government must create a favorable framework or environment for business. Entrepreneurship is at the core of private business so entrepreneurship is a key element of economic policy.

An extensive literature has been developed on policy recommendations and on the necessity and relevance of certain measures to foster entrepreneurship and to create and promote a more entrepreneurial society. Important contributions have been made by Johan Lambrecht (1998) and by Lundström and Stevenson (2001). Actions are also discussed by government agencies such as the E.U. Commission.

Supporting entrepreneurship means promoting creativity and innovation. On the one hand entrepreneurship policy has a quantitative aspect (to induce more people to start a business),

on the other hand there are qualitative aspects (working for a better business environment, giving businesses more opportunities to grow).

In this paper we have tried to show that one of the main conditions for success in entrepreneurship policy, just like for other types of policy, is that its objectives and instruments must be perceived the right way by their target group, the entrepreneurs. Equally important is that the governments make evaluations of their policy on a regular basis. One of the key elements in this evaluation procedure is that they must take account of the perception of their policy by the target groups.

We discussed some ‘good practices’. On a local level, where the policies of multiple government agencies interact but where a dialogue with the local entrepreneurs is possible, a so-called ‘town-manager’ or ‘area-manager’ can avoid wrong perceptions of the government policies by the entrepreneurs and at the same time provide these governments with feed-backs. On a national or international level, other techniques – such as surveys – are necessary. However, there is one last point. These ‘good practices’ can work only if there is follow-up. The ‘town-manager’ must have the ear of the policy-maker. Entrepreneurs who participate on a survey want to be sure that ‘something’ will be done with the results. Without feed-back, all efforts are futile and policy will lose its effectiveness.

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