

# How can I make this country more entrepreneurial?

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# What are we trying to achieve?

- More new firms?
- More firms?
- Better firms?
- Fewer firm failures?
- More jobs?
- Less unemployment?
- Higher productivity?
- Overcoming disadvantage for groups?

# Two key Choices

1. More (new) firms or “better” firms?
2. Delivery via Micro or Macro policies



# Choice 1

- More (new) firms
- “Better” firms

# General firm Creation policies: the case for

Source : Paul. D. Reynolds

- Higher levels of firm (and job) churning is associated with subsequent increases in net job growth and productivity increases
- New (not small) firms are one major source of jobs (some for short periods of time, some for longer).
- Some firms grow (creating create jobs) by expanding the economy, others by driving out competitors leading to offsetting job losses with less net job creation.



# General firm creation policies: the case against

- Promoting firm creation is a waste of resources – 2/3 die in six years and <1% of new firms have >20 employees after 5 years.
- It encourages optimistic but poorly resourced individuals to take a risk and in many cases make their own position worse
- The link between general firm creation rates and economic development remains opaque

# “Better” firms: The case for

- Significant job creation takes place in only a tiny proportion of firms
- It is the gazelles that transform an economy by changing the economic and competitive landscape
- There are examples of long run, government-funded selective technology projects -SBIR in the US
- There are too many businesses for everyone to be helped



# “Better” firms: the case against

- Selecting the businesses to support is very difficult
- The VC sector gets most of its investments “wrong” – but makes its money from the extreme successes
- It is too politically risky for governments to have this form of payoff
- The net impact on employment – in a sector/region/economy of gazelles can be much less than the gross impact
- Delivering selective policies is really tricky - Denmark



# Choice 2

Delivery via:

- Micro policies
- Macro policies

# Micro policies: The case for

- Every developed country has them
- Information; Training; Advice ; access to finance; public procurement; export support etc
- SMEs expect this form of support on the grounds that governments also help large firms (even more!)
- Self-report data indicates those using this support find it helpful.
- It can be targeted at specific types of firms [high tech?] or owners [females?] or locations [areas of deprivation?]



# Micro policies: The case against

- Careful evaluation studies assessing whether the assistance influences the performance of the assisted firms point to very weak and sometimes no impact.
- Delivering micro policies requires a substantial bureaucracy and an enlightened and well-informed political system
- It can be very expensive indeed



# Macro Policy components

- Competition policy
- Ease of doing business
- Rule of Law
- Macro-Economic stability
- Tax regime
- Formal/ Informality
- Immigration

So, what policies seem to  
work?

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So, what policies seem to work?

- It depends



# So, what policies seem to work?

- Varies by “problem” being addressed
- Varies by country and region
- Varies by assessment method used
- Varies with macro-economic circumstances
- Varies with level of economic development
- So, no “one size fits all”
- BUT Macro policies seem to have clearer impacts than micro policies

# Where is the Jury still out?

- Policies to change “attitudes”
- Policies to encourage SMEs to provide more workforce training
- Policies to provide firms or individuals with “advice”



# Implications for Jamaica The Macro dimension

## **Access to finance is key**

- Dominated by 3 large banks
- Stimulate competition in this marketplace
- Role of foreign owned banks

## **Researchers**

- World Bank Enterprise Surveys 30 LACs

IS ACCESS TO CREDIT A CONSTRAINT FOR LATIN AMERICAN  
ENTERPRISES? AN EMPIRICAL ANALYSIS WITH FIRM-LEVEL DATA

A.Presbitero and R.Rabellotti 2014



# Conclusion

- New and small firms **can** contribute to economic welfare and development
- Governments **can** contribute to or **reduce** that contribution
- The effectiveness of policies depends on the circumstances of the country/region
- Very broadly there seems clearer evidence of the impact of macro policies –regulation, tax, macro-environment, competition, policy delivery
- Less evidence of impact of micro policies on access to finance, advice, training or cultural change

# Appendices

Evaluation Studies

# Impact of Advice on SME Performance

UK Enterprise Initiative Wren and Storey 2003

	Survival	Sales Growth of Survivors	Sales Growth including non-survivors	Employment Growth with non-survivors
Small	-	+ 20%	+	
Medium	+	+10%	+ 3.2%	2.3%
Large	-	+10%	+	
Overall	none	+	+	+



# Impact of Business Advice: North Jutland Denmark

Gabriel Pons Rotger et al , Assessing the effectiveness of guided preparation for new venture creation and performance: Theory and practice, Journal of Business Venturing , 2012

	2 year	3 Years	4 Years
Survival (Level 3) <b>Recession</b>	8% (7%) <b>12.6%</b>	6 (7%)	5% (6%)
Emp Growth (Level 3) <b>Recession</b>	0.5 jobs (0.2) <b>No impact</b>	0.3 (0.5)	No impact (0.5)
Sales Growth (Level 3) <b>Recession</b>	178,000 DKK (225) <b>No impact</b>	131 (294)	127 (357)

# Swedish Innovation Center (SIC)

SIC provided support to 'innovators in their absolute earliest phases of Development with financial capital, advice and networks' in the years between 1994 and 2003. It was transferred to ALMI in 2004.

- Impact of the support to early stages ventures given by the public programme SIC is weak or non-existent.
- The higher number of outliers in the supported groups could be an indication of prospective success if the time span is prolonged over seven years.
- Our test of the projects that programme officials considered to be most promising did not support their belief.
- **Charlotte Norrman and Lars Bager-Sjögren, Entrepreneurship policy to support new innovative ventures: Is it effective? International Small Business Journal, 28(6), 2010, 602-619**

# Changes in Sales in Years 1 and 2 of New Businesses (Frankish et al, 2009)

