

Global Entrepreneurship Monitor 2008 The Netherlands

*The hidden entrepreneurial forces of the
Dutch economy*

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1 Introduction

1.1 The Global Entrepreneurship Monitor

The Global Entrepreneurship Monitor (GEM) is a research program executed annually with the aim to obtain internationally comparative high quality research data on entrepreneurial activity at the national level. This academic research consortium started as a partnership between London Business School and Babson College in 1999 and initiated with 10 countries in this year. Over the years, GEM has expanded from 10 countries in 1999 to 43 countries in 2008. Currently, GEM is the single largest study of entrepreneurial activity in the world. The GEM research program provides a harmonized assessment of the level of national entrepreneurial activity and conditions to which it is subject for all participating countries. The Netherlands has participated in GEM since 2001.

In this report, we focus specifically on entrepreneurial attitudes, activity and aspirations in the Netherlands. Hereby, we follow the entrepreneurial engagement ladder, consisting of latent entrepreneurship, early-stage entrepreneurial activity, established business activity and entrepreneurial exits. In order to measure early-stage entrepreneurial activity in a country, GEM developed the Total early-stage Entrepreneurial Activity rate, abbreviated as the TEA. This rate includes both the prevalence of nascent entrepreneurs and that of owner-managers of young or new businesses. The group of nascent entrepreneurs refers to individuals within the adult population (18-64 years of age) who are actively involved in their own new firm start-up, as full or part owner and for whom no salaries or wages have yet been paid for over three months. The group of young or new business owners refers to individuals who are, as owner and manager, actively involved in operating a business that is less than 42 months old and which has paid salaries or wages for between 3 and 42 months.¹

The GEM data collection covers the complete life cycle of the entrepreneurial process. This cycle starts with personal assessments of attitudes and perceptions towards entrepreneurship. The life cycle continues with individuals who have the intention to start a business within the next three years (pre-nascent or prospective entrepreneurs). Next, the cycle refers to individuals at the point when they commit resources to start a business they expect to own themselves (nascent entrepreneurs), when they currently own and manage a new business that has paid salaries for more than three months but not more than 42 months (new business owners), and when they own and manage an established business that has been in operation for more than 42 months (established business owners). The aggregate of nascent entrepreneurship and young/new business entrepreneurship forms the TEA. Distinction can be made between entrepreneurs who are primarily driven by opportunity-based motivations (i.e. opportunity TEA) and those who are pushed into entrepreneurship because they have no better options to earn a living (i.e. necessity TEA). Finally, data are collected of individuals who have exited a business in the past year (either with business transfer or closure).

¹ It should be noted that if a person is both a nascent entrepreneur and a young business owner, this person is counted as one active person in the adult population in case of calculating TEA.

GEM data are collected by a standardized telephone survey (Adult Population Survey (APS)) in all participating countries, among approximately 2,000 or more respondents per country. As far as the Netherlands is concerned 2,534 individuals between 18 and 64 years of age were interviewed in 2008. The data were re-weighted by the actual distribution of the Dutch population in terms of age, gender and educational level to make them representative for the Dutch adult population (18-64 years of age).

1.2 The role of entrepreneurship

Although it is widely acknowledged that entrepreneurship is an important force shaping a country's economy, the understanding of the relationship between entrepreneurship and economic development is still far from complete. The quest to unravel this complex relationship has been hampered particularly by a lack of cross-national harmonized data on entrepreneurship. Since 1999, the GEM Research program has sought to address this by collecting relevant cross-national harmonized data on an annual basis. GEM focuses on three main objectives:

- To measure differences in the level of entrepreneurial activity between countries
- To uncover factors determining national levels of entrepreneurial activity
- To identify policies that may enhance the national level of entrepreneurial activity.

In addition to these three main objectives, GEM's goal is to study the contribution of entrepreneurship to national economic growth. Traditional analyses of economic growth and competitiveness have tended to neglect the role played by new and small firms in the economy. GEM takes a comprehensive approach and considers the extent of involvement in entrepreneurial activity within a country, identifying different *phases* of entrepreneurship and *stages* of a country's economic development level. As far as the phases of entrepreneurship are concerned, GEM distinguishes between early-stage entrepreneurship and established businesses. The main focus in this report is on early-stage entrepreneurship, this can be split into nascent entrepreneurship and new/young business entrepreneurship.

The role and nature of entrepreneurship are considered to differ according to a country's stage of economic development. Three major stages are recognized (ordered from least developed to most developed): factor-driven economies which are based primarily on the extraction of natural resources, efficiency-driven economies in which industrialisation and increasing scale-intensity are the major drivers of development and innovation-driven economies in which the service sector strongly expands and the industrial sector evolves in terms of variety, R&D and knowledge intensity¹. These consecutive stages are part of the (revised) GEM model that is discussed in the next section.

It should be noted that elements of all three principal stages of economic activity (factor-driven, efficiency-driven, and innovation-driven) are present in all na-

¹ These phases correspond to the classification of the World Economic Forum (WEF) into factor-driven, efficiency-driven and innovation-driven economies, presented in the Global Competitiveness Reports (GCRs).

tional economies. A nation is marked as primarily factor-driven, efficiency-driven, or innovation-driven depending on the activities that are most significant for a nation's economic development.

1.3 The revised GEM model

The major indicators of a country's potential to foster entrepreneurship are captured by GEM's Entrepreneurial Framework Conditions (EFCs). These conditions reflect major features of a country's socio-economic milieu that are expected to have a significant impact on the entrepreneurial sector. Different framework conditions apply to different phases of the entrepreneurial process, and the framework conditions are also specifically related to the stages of economic development. To capture these links GEM developed a revised¹ model which is graphically presented in figure 1. It can be seen in this new GEM model that for factor-driven economies, emphasis is on *basic requirements*: development of institutions, infrastructure, macroeconomic stability and health and primary education. These basis requirements will help sustain necessity-based entrepreneurship, but may do little to enable opportunity-based entrepreneurship. As economies progress and scale economies become more and more relevant other conditions, which are called *efficiency enhancers* and which ensure a proper functioning of the market, become important. Even though these conditions are not directly related to entrepreneurship in the Schumpeterian sense², they are indirectly related since the development of markets will also attract more entrepreneurship. For countries whose economic development is primarily innovation-driven, the Entrepreneurial Framework Conditions (EFCs) become more important as *innovation and entrepreneurship enhancers* than as basic requirements or efficiency enhancers.

The economic conditions described above are, in many ways, related to entrepreneurship. Three main elements of entrepreneurship may be identified: entrepreneurial attitudes and perceptions, entrepreneurial activity, and entrepreneurial aspiration (Acs and Szerb, 2008). *Entrepreneurial attitudes and perceptions* - capturing attitudes and perceptions towards entrepreneurship - can influence entrepreneurial activity but can also be influenced by entrepreneurial activity. Entrepreneurial attitudes are important because they express the general feelings of the population toward entrepreneurs and entrepreneurship. *Entrepreneurial activity* - reflecting a process rather than an event - consists of various components (i.e. entrepreneurial intentions and nascent, new and established business activity). These multiple components of entrepreneurial activity make it possible to explore differences between the entrepreneurial process across the three major stages of national economic development: factor-driven, efficiency-driven and innovation-driven economies. Finally, *entrepreneurial aspirations* or ambitions measure the qualitative nature of entrepreneurial activity (e.g. product and process innovation, internationalisation, ambition for high growth). If aspirations

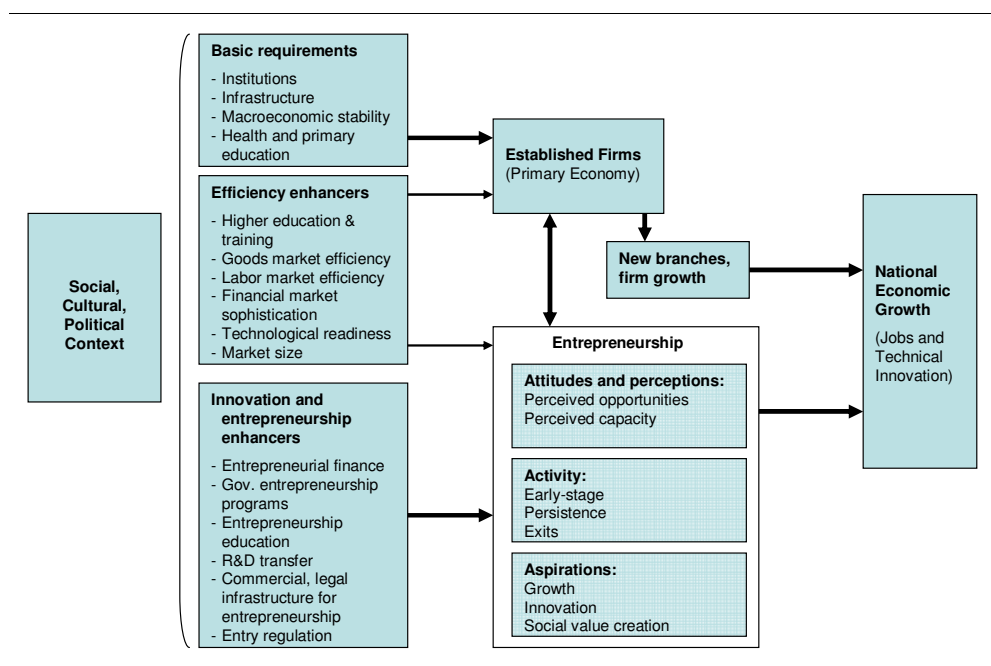
¹ We refer to previous Global GEM Reports for a description of the original GEM model (see www.gemconsortium.org).

² Entrepreneurship in the Schumpeterian sense relates to the so-called regime of *creative destruction* in which new entrepreneurs dominate innovation instead of large and established businesses, as is the case in the regime of *creative accumulation*.

are realized, they can significantly affect the economic impact of entrepreneurial activities.

It is important to recognize that all phases and types of entrepreneurial activity are present in all national economies, whether factor-driven, efficiency-driven or innovation-driven. But their relative prevalence - and their contribution to economic development - varies. Thus the relative importance of the Entrepreneurial Framework Conditions (EFCs) for a country may also vary by stage of economic development. We follow the Global Competitiveness Report (GCR) proposition to classify a country into a certain stage of economic development on the basis of its level of per capita income (Porter and Schwab, 2008). See table 1 for the precise income thresholds.

Figure 1 The revised GEM model



Source: EIM/GEM (GEM 2008 Executive Report).

Table 1 Income thresholds for establishing stages of economic development

Stage of economic development	GDP per capita (in US\$)
Stage 1: Factor-driven	< 2,000
Transition from stage 1 to stage 2	2,000 - 3,000
Stage 2: Efficiency-driven	3,000 - 9,000
Transition from stage 2 to stage 3	9,000 - 17,000
Stage 3: Innovation-driven	≥ 17,000

Source: The Global Competitiveness Report (GCR) 2008-2009 (Porter and Schwab, 2008).

1.4 Participating countries in GEM 2008

43 countries participated in the GEM in 2008. Among this number, there are 19 OECD¹ countries and 15 countries that are a member of the European Union (EU), see table 2. The countries are classified according to their stage of economic development i.e. whether their economy is (mainly) factor-driven, efficiency-driven or innovation-driven. Table 2 also presents the sample size for each country, that is, the number of surveyed persons aged between 18-64 years. The sample size ranges from 1,490 in Angola to 30,879 in Spain. The average sample size equals 2,953, but this is strongly influenced by the relatively large Spanish sample and to a lesser extent those of the United Kingdom and Germany.

Table 2 Participating countries GEM 2008

<i>Countries</i>	<i>Member OECD</i>	<i>Member EU</i>	<i>Sample size</i>
<i>Factor-driven economies</i>			
Angola			1,490
Bolivia			1,879
Bosnia and Herzegovina*			1,586
Colombia*			2,000
Ecuador*			2,142
Egypt			2,603
India			1,919
Iran*			3,119
<i>Efficiency-driven economies</i>			
Argentina			1,731
Brazil			2,000
Chile			4,068
Croatia**			1,696
Dominican Republic			2,013
Hungary**	✓	✓	1,994
Jamaica			2,399
Latvia		✓	2,011
Macedonia			1,746
Mexico	✓		2,433
Peru			1,990
Romania		✓	1,667
Russia			1,660
Serbia			1,813
South Africa			2,719
Turkey	✓		2,400
Uruguay			1,645

¹ Organisation for Economic Co-operation and Development.

<i>Countries</i>	<i>Member OECD</i>	<i>Member EU</i>	<i>Sample size</i>
<i>Innovation-driven economies</i>			
Belgium	✓	✓	1,997
Denmark	✓	✓	2,012
Finland	✓	✓	2,011
France	✓	✓	1,573
Germany	✓	✓	4,751
Greece	✓	✓	1,962
Iceland	✓		2,002
Ireland	✓	✓	1,924
Israel			1,778
Italy	✓	✓	2,970
Japan	✓		1,879
Korea Republic	✓		2,000
Netherlands	✓	✓	2,534
Norway	✓		1,614
Slovenia		✓	3,019
Spain	✓	✓	30,879
United Kingdom	✓	✓	5,892
United States	✓		3,441

* *Transition country: from factor-driven to efficiency-driven.*

** *Transition country: from efficiency-driven to innovation-driven.*

Source: EIM/GEM.

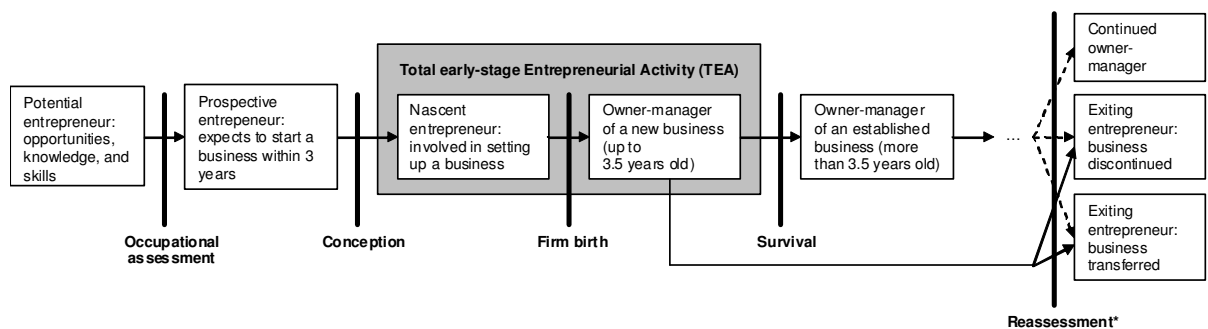
1.5 Outline of the report

This report is organized as follows. Chapter 2 provides an overview of entrepreneurial activity in the Netherlands over time (since 2001), and specific attention is paid to the most recent figures for 2008. In chapter 3, the data for 2008 on entrepreneurial attitudes, activity and aspirations for the Netherlands are compared with data for various groups of countries (mainly factor-driven, efficiency-driven and innovation-driven countries). The focus in chapter 4 is, in particular, on a comparison between the Netherlands and Germany. The following two chapters each highlight a special topic concerning entrepreneurship. Chapter 5 pays special attention to intrapreneurship i.e. employees who are actively involved in new business development for their employer. Chapter 6 sheds some light on informal investment activity i.e. individuals who personally provide funds for someone else's business. The report will be concluded with a summary and policy analysis in chapter 7.

2 Entrepreneurship in the Netherlands, 2001-2008

This chapter will shed light on the development of various aspects of entrepreneurial activity in the Netherlands in the period 2001-2008. For this purpose, we make use of the entrepreneurial process¹ life cycle model depicted in figure 2. We start with the main attitudes and perceptions towards entrepreneurship in the Netherlands, corresponding to the phase named 'potential entrepreneur' in the figure. Subsequently, the focus moves to start-up intentions, corresponding to the phase labelled 'prospective entrepreneur' in the figure. These individuals are called prospective or pre-nascent entrepreneurs. The aggregate of the next two stages forms Total early-stage Entrepreneurial Activity (TEA), reflected by the shaded box in figure 2. This is measured as the proportion of the adult population (those aged between 18 and 64 years) taking steps to set up a new firm and/or being the owner-manager of a young business.

Figure 2 The entrepreneurial process



* A reassessment may be implicit or explicit and continual or incidental. Note also that a reassessment can take place at any time after the firm birth.

Source: EIM/GEM.

Once an individual has become an owner-manager of a new business, the stylized model in figure 2 acknowledges two distinct further steps in the entrepreneurial process: survival and reassessment. During the survival step, also known as the step of persistence or consolidation, an owner-manager of a new/young business becomes an owner-manager of an established business (EB), which is defined as a business of more than 3.5 years old². However, the final step of the entrepreneurial engagement ladder (reassessment) may take place before or after a new/young firm becomes an established business. In the end, any owner-manager will either exit with business discontinuation or will transfer the business to another owner.

¹ Also known as the 'entrepreneurial engagement ladder' (Van der Zwan, Thurik and Grilo, 2009).

² In the final chapter of this report we will pay some attention to the owner-managers of established businesses. For this purpose we will not use GEM-estimates but statistical data from EIM's COMPENDIA database.

2.1 Attitudes and perceptions towards entrepreneurship in the Netherlands

The entrepreneurial engagement ladder, described in the introduction, starts with a personal assessment related to his/her potential to be an entrepreneur. Attitudes and perceptions of the Dutch population regarding entrepreneurship in the Netherlands provide insight into the social attractiveness of being self-employed in this country and into the self-perceived capabilities and opportunities for starting a new business. Attitudes are defined as the propensity to respond positively or negatively towards something societal (e.g. a certain idea, object, person or situation)¹. Perceptions are defined as the process by which people translate sensory impressions into an organized and meaningful experience of the world² (Lindsay and Norman, 1972). National attitudes shape individual perceptions and perceptions tend to guide human behaviour.

Attitudes of the Dutch population towards entrepreneurship in the Netherlands are shown in table 3 for the period 2003-2008.³ In the GEM survey statements are made about whether starting a business is a good career choice and whether a successful new business receives high status. It follows from the table that the attitudes of the Dutch population regarding these statements have either improved or remained stable over time. In 2008, 85% considers starting a new business to be a desirable career choice, while this was 77% in 2003. In addition, about two-thirds of the adult population consistently agrees that successful entrepreneurs have a high level of status and respect. In other words, there appears to be a very positive attitude towards entrepreneurship in the Netherlands.

Table 3 Attitudes towards entrepreneurship in the Netherlands, 2003-2008, percentage of the adult population (18-64 years of age) that agree with the statement

<i>Item</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
<u>Entrepreneurship as desirable career choice:</u>						
In the Netherlands, most people consider starting a new business a desirable career choice	77	81	79	80	85	85
<u>Entrepreneurship is given high status:</u>						
In the Netherlands, those successful at starting a new business have a high level of status and respect	66	67	66	65	69	69

Source: EIM/GEM.

Table 4 summarizes the perceptions of the Dutch population concerning their capabilities of starting a new business as well as their perceptions of entrepreneurial opportunities. Fear of failure is an important aspect when determining a person's likelihood of becoming engaged in entrepreneurial activity (e.g. Arenius and Minniti, 2005). In the same way, a person's perceived capabilities (i.e. one's belief of having the skills and knowledge required to start a business) and an individual's perception of entrepreneurial opportunities (i.e. opportunities to start

¹ <http://www.businessdictionary.com/definition/attitude.html>

² <http://www.businessdictionary.com/definition/perception.html>

³ Questions on attitudes towards entrepreneurship were first introduced in the GEM Adult Population Survey in 2003. Therefore no information on such attitudes is available for the years 2001 and 2002.

a firm in the area where he/she lives) affect the probability of becoming involved in entrepreneurship (Koellinger, Minniti and Schade, 2007). The results in table 4 indicate that fear of failure, perceived capabilities and perceived opportunities have remained relatively stable over time. In 2008, just over a quarter of the Dutch adult population stated that fear of failure would prevent them from starting a new business. 38% stated possessing the required skills and knowledge to start a business. Furthermore, 39% believed that there will be good opportunities to start a business in the area in which they live in the next six months. The percentages presented in table 4 can be used as an indicator for the percentage of the adult population that is a potential entrepreneur. And as can be seen from the table, the proportion of potential entrepreneurs has not changed drastically over time.

Table 4 Perceptions regarding starting a new business in the Netherlands, 2001-2008, percentage of the adult population (18-64 years of age) that agree with the statement

<i>Item</i>		<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
<i>Potential entrepreneur</i>	<u>Fear of failure:</u>								
	Fear of failure would prevent you from starting a new business	25	24	28	32	29	29	21	26
	<u>Perceived capabilities:</u>								
	You have the knowledge, skills, and experience required to start a new business	37	37	32	37	42	38	39	38
	<u>Perceived opportunities:</u>								
	In the next 6 months there will be good opportunities for starting a business in the area where you live	42	49	29	38	39	46	42	39

Source: EIM/GEM.

2.2 Start-up intentions

When climbing the entrepreneurial engagement ladder, a potential entrepreneur may turn into a prospective/pre-nascent entrepreneur. This implies an occupational assessment, as can be seen from figure 2. The share of the Dutch adult population that stated having the intention to start-up a new business within the next three years equals 5.3% in 2008 (see table 5). The trend in these rates over time is also summarized in this table and it follows that a relatively stable pattern exists. With a low in 2002 of 5.1% and a peak in 2004 of 6.5%, the intention to start a new business seems to follow an inverse U-curve over the period 2001-2008, arriving at a rate of 5.3% in 2008.

Table 5 Intention to start a new business in the Netherlands 2002-2008, percentage of the adult population (18-64 years of age)

<i>Item</i>		<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>
<i>Prospective entrepreneur</i>	You are, alone or with others, expecting to start a new business, including any type of self-employment, within the next three years	5.1	5.7	6.5	6.2	5.6	5.5	5.3

Source: EIM/GEM.

2.3 Total early-stage Entrepreneurial Activity (TEA)

When entrepreneurial intentions are followed by concrete actions to set up a new business, the corresponding entrepreneur has moved on to the next phase of the entrepreneurial process: he/she has become a nascent entrepreneur. The fraction of the adult population that is currently engaged in a new firm start-up¹ is referred to as the nascent entrepreneurial activity rate. After the firm birth, the entrepreneur has again moved up the entrepreneurial engagement ladder and become the owner-manager of a new/young firm. The fraction of adults that are currently involved as owner-manager of a business that is less than 42 months old (i.e. a young firm)² is referred to as the "baby business" rate, or the young firm entrepreneurial activity rate. The aggregate of nascent entrepreneurial activity and young firm entrepreneurial activity is called Total early-stage Entrepreneurial Activity (TEA). The precise definition reads as follows:

Total early-stage Entrepreneurial Activity (TEA) refers to the percentage of the adult population (18-64 years of age) that is actively involved in setting up a business that they will (partly) own and/or currently own and manage a business that is less than 42 months old.

This section presents the trend in TEA over time (2001-2008), as well as the trend in its components, i.e. the nascent and young business ownership rate. Table 6 shows the development of TEA for the Netherlands over time. The table shows that just over 5% of the adult population was engaged in Total early-stage Entrepreneurial Activity (TEA) in 2008. This percentage is the same as in the previous year, continuing the relatively stable pattern of this rate in the past five years. However, 2003 shows a relatively low TEA rate that was probably linked to the recession following the 'dot com bust'. In table 7 comparable dips in TEA's two components can be observed in 2003, but the movements in these underlying rates have been more volatile in recent years.

¹ In addition, the corresponding person should expect to be a full or part owner, and no salaries or wages should have been paid by the start-up during more than three months.

² In addition, no salaries or wages should have been paid for 3 to 42 months.

Table 6 Development of Total early-stage Entrepreneurial Activity (TEA) in the Netherlands, 2001-2008, percentage of the adult population (18-64 years of age)

<i>Year</i>	<i>TEA</i>
2001	4.9*
2002	4.6
2003	3.6
2004	5.1
2005	4.4
2006	5.4
2007	5.2
2008	5.2

* Revised figure.

Source: EIM/GEM.

Nascent and young firm entrepreneurial activity

Focusing on nascent entrepreneurship i.e., the first component of early-stage entrepreneurship, an up and down movement is evident over time. With a low of 1.7% in 2003 and a peak of 3.6% in 2006, the nascent entrepreneurship rate reached a value of 2.1% in 2008, slightly lower than 2007.

Table 7 Development of nascent and young firm entrepreneurial activity in the Netherlands, 2001-2008, percentage of the adult population (18-64 years of age)

<i>Year</i>	<i>Nascent Entrepreneurial Activity</i>	<i>Young Firm Entrepreneurial Activity</i>
2001	2.3*	2.8*
2002	2.6	2.1
2003	1.7	1.9
2004	3.0	2.2
2005	2.5	1.9
2006	3.6	1.9
2007	2.7	2.6
2008	2.1	3.2

* Revised figure.

Source: EIM/GEM.

Table 7 also summarizes the young firm entrepreneurial activity rate for the Netherlands in the period 2001-2008. It follows that relatively more people are involved in operating a young business in 2008 compared to 2007. In summary, the nascent rate decreased slightly in 2008, while the young business ownership rate increased slightly during the same period, leaving the Total early-stage Entrepreneurial Activity (TEA) rate almost unchanged.

Once the business of an owner-manager has been in existence for more than 3.5 years, the corresponding entrepreneur moves to the next phase of the entrepreneurial process and becomes the owner-manager of an established business. As

indicated previously, we shall not present survey data about this particular phase.

2.4 Entrepreneurial exits

Once an individual has become an owner-manager of a new business, two different further steps in the entrepreneurial process can follow: survival and reassessment. In this section we focus on the final step of the entrepreneurial engagement ladder (the reassessment), which may take place either before or after a new/young firm has become an established business. After an indefinite period of time, any owner-manager will exit his/her business. When exiting a business, a distinction can be made between exiting while the business continues (business transfer) and exiting without business continuance (business discontinuation).

To be able to make this division, GEM asked all respondents of the adult population survey whether they had (i) in the past 12 months, exited a business they owned and managed?, (ii) in the past 12 months, exited a business they owned and managed while the business continued its activities? The corresponding results are shown in table 8. The entrepreneurial exit rate (with business discontinuation) shows some, but not much, variation over time, oscillating between roughly 1% and 2%. In 2008, 1.0% of the adult population exited and discontinued a business in the past twelve months. The observation period for the percentage of exits with business continuation is much shorter. Currently, 0.6% exited a business, but the business continued.

Table 8 Entrepreneurial exits in the Netherlands, 2002-2008, percentage of the adult population (18-64 years of age)*

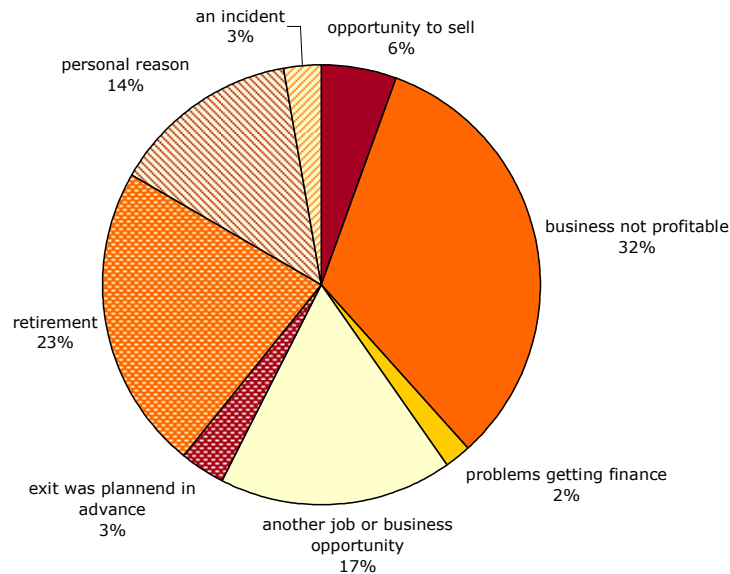
Item	2002	2003	2004	2005	2006	2007	2008
Exited a business in the past year, business did not continue	1.7	1.6	1.2	1.5	0.8	0.5	1.0
Exited a business in the past year, business continued	0.3	0.6

* Prior to 2007, no data were available concerning exiting entrepreneurs of businesses that continued their activities, since the corresponding question was not asked in the GEM Adult Population Survey then.

Source: EIM/GEM.

The respondents who indicated that they exited and discontinued a business in the past year (i.e. 1.0% of the adult population in 2008) were asked for their main reason to exit. These figures are shown in figure 3. Almost one third of the respondents concerned indicated that the main reason to exit was that the business was not profitable. About 23% exited a business because of retirement. Other frequently mentioned reasons to exit were finding another job or business opportunity (17%) or a reason of personal nature (14%). The least mentioned reasons for exiting included an opportunity to sell the business (6%), exit was planned in advance (3%), the consequence of a single incident (3%) and problems in obtaining finance (2%).

Figure 3 Main reasons for exiting a business, the Netherlands, 2008, percentage of the adult population (18-64 years of age) that exited and discontinued a business in the past year

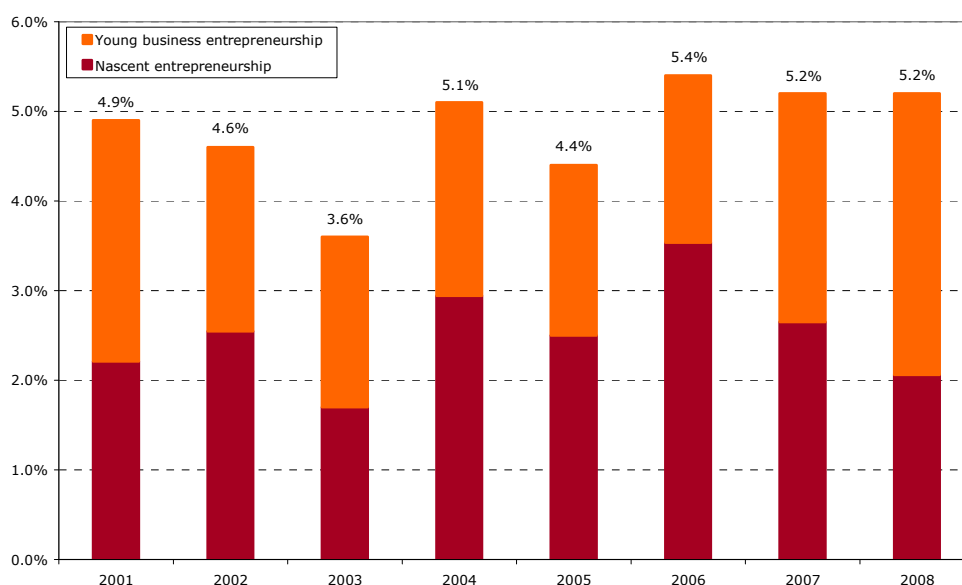


Source: EIM/GEM.

2.5 Summary

In this chapter we discussed the development of each phase of the entrepreneurial life cycle for the Netherlands over time. This process starts with a personal assessment related to an individual's potential to be an entrepreneur. The attitude of the Dutch population towards entrepreneurship in the Netherlands - that appeared to be very positive - either improved in the period 2003-2008 or remained stable. Perceptions of the Dutch population regarding their capability to start new a business and their perceptions of entrepreneurial opportunities also remained very positive and stable over time (2001-2008). After an occupational assessment, a potential entrepreneur may develop into a prospective/pre-nascent entrepreneur and climb to the next rung of the entrepreneurial engagement ladder. In 2008, one out of twenty persons in the Dutch adult population (18-64 years of age) expected to start-up a new business in the near future. When entrepreneurial intentions are followed by concrete actions to set up a new business, a prospective entrepreneur becomes a nascent entrepreneur. In 2008, just over 2% of the Dutch adult population was engaged in nascent entrepreneurship. After the firm birth, the entrepreneur again moves up the entrepreneurial ladder and becomes an owner-manager of a new/young firm up to 3.5 years old. In 2008, over 3% of the Dutch adult population was involved in operating a young business. The aggregate of nascent entrepreneurship and young business entrepreneurship is referred to as Total early-stage Entrepreneurial Activity (TEA). The development in TEA for the Netherlands over time (2001-2008), as well as the development in its components, is summarized in figure 4. This demonstrates that TEA oscillates between roughly 4% and 5%. Although TEA in the Netherlands thus appears to be quite stable over time it is possible to observe changes in its composition (i.e. nascent and young business entrepreneurship).

Figure 4 Development in the shares of nascent and young firm entrepreneurial activity in Total early-stage Entrepreneurial Activity (TEA), the Netherlands, 2001-2008, percentage of the adult population (18-64 years of age)



Source: EIM/GEM.

Once an individual has become an owner-manager of a new business, two different steps on the entrepreneurial engagement ladder can follow: survival or reassessment. If a new/young business survives the so called 'valley of death' of the difficult initial years (FORA, 2006) and the business survives for more than 3.5 years the corresponding entrepreneur moves to the next phase of the entrepreneurial process and becomes the owner-manager of an established business (EB). If, however, a reassessment takes place - either before or after a new/young firm becomes an established business - the owner-manager may decide to exit the market. In this final phase an owner-manager will either exit with business discontinuation, or will transfer the business to another owner. In 2008, 1.0% of the Dutch adult population exited and discontinued a business, while 0.6% exited a business that continued. Main motivations for exiting a business were unprofitability, retirement, another job or business opportunity or personal reasons.

In the next chapter, data for 2008 for the Netherlands are compared with data for other countries participating in GEM.

3 Entrepreneurship from an international perspective

In this chapter, the Netherlands is compared to other countries in terms of entrepreneurial attitudes, perceptions and intentions (section 3.1), entrepreneurial activity (section 3.2), and entrepreneurial aspirations (section 3.3). In addition, attention will be paid to entrepreneurial motivations and to demographic characteristics of (prospective) entrepreneurs in the Netherlands and to what extent these coincide with or differ from other countries. The international comparison is based mainly on a classification in factor-driven, efficiency-driven and innovation-driven economies, as discussed in the introduction (chapter 1). Also, the figures presented in this chapter will provide insight into the position of the Netherlands relative to other EU and OECD countries.

3.1 Entrepreneurial attitudes, perceptions and intentions

The development of attitudes and perceptions of the Dutch population regarding business start-ups and entrepreneurship in general has already been discussed in chapter 2. When comparing these attitudes and perceptions internationally, we specifically address to what extent entrepreneurship is considered as a desirable career choice, the level of status and respect of successful entrepreneurs, media attention for entrepreneurship, the fear of failure rate, perceived capabilities, perceived opportunities and entrepreneurial intentions.

Table 9 lists these GEM indicators for the Netherlands and for factor-driven, efficiency-driven and innovation-driven economies. Some indicators depend more on the country's stage of economic development than others. Perceived capabilities, perceived opportunities and entrepreneurial intentions, for instance, seem to decrease with the stage of economic development, while the national attitudes towards entrepreneurship in general are relatively stable across the different groups of countries. Of all innovation-driven countries, the Netherlands shows the highest ranking when it comes to entrepreneurship as a desirable career choice, yet only 5% of the Dutch adult population expects to start a business within the next three years. Hence, there is a relatively large gap between attitudes and intentions, which was noted previously (Bosma and Wennekers, 2004). This may be due to the high opportunity costs involved with entrepreneurship in the Netherlands, preventing people with tenured jobs from choosing to become self-employed. On the other hand, it may also indicate that Dutch people say yes to this question only when they are really serious about it.

As described in chapter 2, 26% of the Dutch adult population states that fear of failure would prevent them from starting a business. When comparing this percentage with aggregate percentages of countries at different stages of economic development, it appears that the Dutch adult population experiences relatively little fear of failure. Given the low entrepreneurial exit rate in the Netherlands, a possible explanation for the low fear of failure is that entrepreneurs in the Netherlands start only when they have considered carefully and are well prepared that is, they think twice before they actually set up a new business. Another potential reason could be that Dutch citizens are more self-confident in general due

to an encouraging economic/entrepreneurial climate. This also finds its expression in the relatively large percentage that considers entrepreneurship as a desirable career choice (85%).

Table 9 Entrepreneurial attitudes, perceptions and intentions, by stage of economic development, 2008, percentage of adult population (18-64 years of age) that agree to the statement

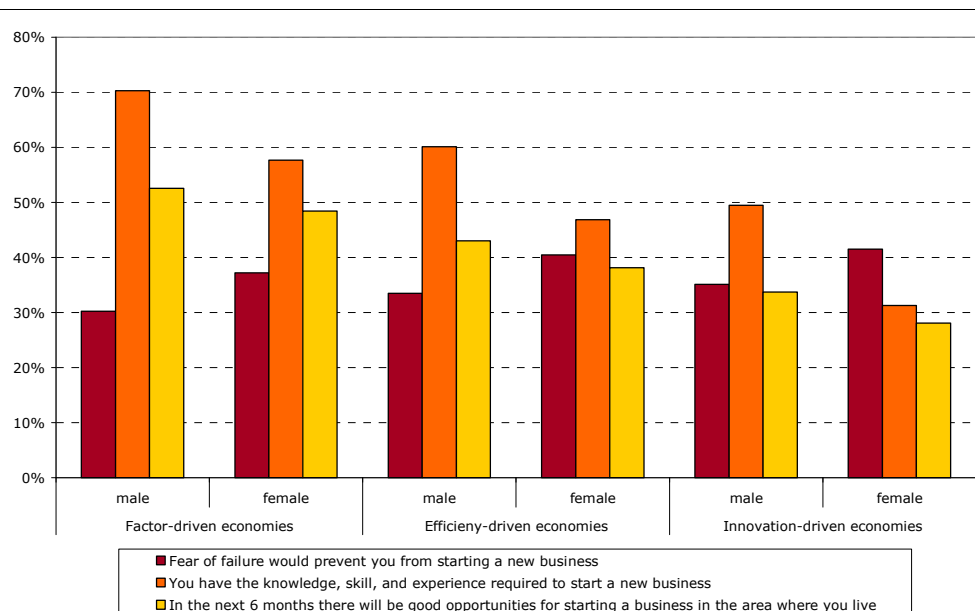
		Factor-driven economies	Efficiency-driven economies	Innovation-driven economies	NETHERLANDS
		<i>Item</i>			
National attitudes	Most people consider starting a new business a desirable career choice	72	72	59	85
	Those successful in starting a new business have a high level of status and respect	73	70	71	69
	You will often see stories in the public media about successful businesses	62	62	57	61
Perceptions	Fear of failure would prevent you from starting a new business	34	37	38	26
	You have the knowledge, skill and experience required to start a new business	64	54	40	38
	In the next 6 months there will be good opportunities for starting a business in the area where you live	50	41	31	39
Intentions	You are, alone or with others, expecting to start a new business, including any type of self-employment, within the next three years	41	24	11	5

Source: EIM/GEM.

As described in section 2.1, perceptions affect the probability of becoming involved in entrepreneurial activity. Several scholars explored the role of gender in entrepreneurship and investigated the factors determining the entrepreneurial propensity of females (e.g. Verheul, Van Stel and Thurik, 2006; Langowitz and Minniti, 2007; Minniti and Nardone, 2007). These studies find differences in male and female entrepreneurship and this suggests that there are also dissimilarities in the way males and females perceive their entrepreneurial capabilities and opportunities. This section therefore also looks at perceptions regarding starting a new business by gender. Figure 5 implies that on average, women have a higher fear of failure rate than men and that their perceived capabilities and opportuni-

ties are lower than those of men. This finding is independent of a country's stage of economic development. In the Netherlands, the difference between perceptions of fear of failure for males and females is not statistically significant (males 25%, females 27%). The differences concerning perceived capabilities and opportunities, however, are significant: 49% of the Dutch males think that they have the required knowledge and skills to start a business as opposed to 27% of the Dutch females. For the perceived opportunities these percentages are 43% versus 36% respectively. In other words, Dutch males and females have different perceptions when it comes to the assessment of their knowledge and skills required to start a new business and of their appraisal of good business opportunities in the area where they live. Furthermore, men and women also differ significantly with respect to intentions to set up a new business: 8.1% of Dutch males and 2.6% of Dutch females expects to set up a new firm in the next three years.

Figure 5 Perceptions regarding starting a new business by gender, by stage of economic development, 2008, percentage of the adult population (18-64 years of age) that agree to the statement



Source: EIM/GEM.

3.2 Entrepreneurial activity

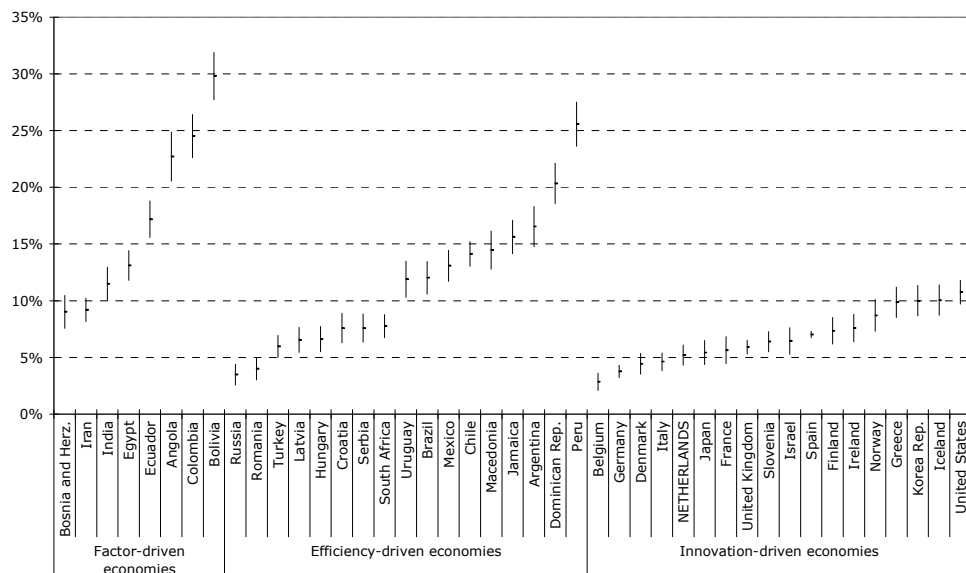
3.2.1 Involvement in early-stage entrepreneurial activity

Figure 6 presents Total early-stage Entrepreneurial Activity (TEA) rates for each country that participated in GEM in 2008. The countries are grouped by stage of economic development and ranked within groups in ascending order of the national point estimate for TEA. The 95% confidence intervals are also depicted in the figure; note that if the vertical bars on either side of the point estimates for TEA for any two countries do not overlap, this means that they have statistically different TEA rates. This figure serves as a benchmark for countries to see how they compare to other countries with similar stages of economic development. It is certainly not the case that higher TEA rates are always to be preferred. In fac-

tor-driven economies, for example, a reduction in the TEA rate may sometimes be seen as a sign of further economic development and industrialisation. It may also be a sign that the general economic climate is favourable and that job opportunities are increasing. Such a reduction in TEA would then typically be due to a decline in the rate of necessity entrepreneurship.

A comparison of TEA rates across all nations shows that innovation-driven countries have on average lower TEA rates than factor-driven and efficiency-driven countries. Of all innovation-driven countries, the United States have the highest TEA rate while Belgium has the lowest. The Netherlands has one of the lowest TEA rates of all participating countries; it is one of the five countries with the lowest TEA rate. Compared with the EU and the OECD, the Netherlands also has a below average TEA. The average TEA rate equals 5.9% in the EU and 7.1% in the OECD countries, while the Netherlands has a TEA rate of 5.2%.

Figure 6 Total early-stage entrepreneurial activity (TEA) rates for all GEM countries, 2008, percentage of the adult population (18-64 years of age)



Source: EIM/GEM (Adult Population Survey (APS); GEM 2008 Executive Report).

3.2.2 Prior start-up experience

Chapter 2 discussed the main motivations for exiting a business, including business not profitable, retirement, another job or business opportunity or personal reasons. The fact that some entrepreneurs exited their business because another business opportunity had been found, suggest that entrepreneurs with prior start-up experience may start new businesses. This is confirmed by Hessels, Grilo, Thurik and Van der Zwan (2009), who found that recent exit experience increases an individual's probability of undertaking a new entrepreneurial activity, in particular the probabilities of being a potential or prospective entrepreneur. Previous entrepreneurs may also re-enter entrepreneurship after first returning to a job. In the GEM survey, each respondent who indicated being entrepreneurially active was asked whether they had started and managed a different business before the current entrepreneurial activity or not. The results for the

years 2007 and 2008 are presented in table 10¹. In the Netherlands, over 22% of individuals involved in TEA in 2008 had prior start-up experience, as opposed to almost 15% of the owner-managers of an established business. Nearly 20% of the nascent entrepreneurs started and managed a different business before the current entrepreneurial activity, while this is just over 24% for owner-managers of a new/young business. For both TEA and established business entrepreneurship, this percentage is higher as compared to 2007. When comparing Dutch prior start-up experience with EU- and OECD-averages, it follows that entrepreneurs in the Netherlands - both nascent entrepreneurs and owner-managers of young or established businesses - are less experienced. In particular the share of owner-managers of established business with prior start-up experience is relatively far below the EU- and OECD-averages.

Table 10 Prior start-up experience, by stage of economic development, 2007-2008, percentage of the adult population (18-64 years of age) involved in entrepreneurial activity (both TEA and EB)

<i>Prior start-up experience: Started and managed a different business before the current entrepreneurial activity</i>	2007			2008		
	<i>EU</i>	<i>OECD</i>	<i>NL</i>	<i>EU</i>	<i>OECD</i>	<i>NL</i>
Total early-stage entrepreneurs	26.9	28.6	21.3	24.2	26.7	22.3
of which:						
Nascent entrepreneurs	28.3	32.0	19.5	25.2	28.0	19.9
Young business entrepreneurs	24.3	22.9	22.8	23.4	25.3	24.3
Established business entrepreneurs	18.1	19.6	10.5	17.2	21.9	14.9

Source: EIM/GEM.

3.2.3 Entrepreneurial motivations

What drives a person into undertaking entrepreneurial activity? Do individuals identify a business opportunity which makes it attractive to start one's own business (i.e. opportunity-based motives)? Or do they become involved in entrepreneurial activity because they have no better alternatives for work - entrepreneurship as their last resort - (i.e. necessity-based motives)? Depending on the main motive for setting up a new business, GEM categorizes entrepreneurs into opportunity and necessity entrepreneurs. Table 11 presents Total early-stage Entrepreneurial Activity for opportunity and necessity entrepreneurs separately. It shows that the classification of TEA into opportunity and necessity early-stage entrepreneurship remains quite stable over time. The decision to be entrepreneurially active is determined, to a large extent by opportunity-based motives. This holds in all EU countries, where in 2008 4.5% of the adult population was involved in opportunity entrepreneurship, whereas 1.1% was involved in necessity entrepreneurship. These OECD-averages are 5.4% and 1.3% respectively.

¹ Prior to 2007, questions concerning prior start-up experience have not been asked in the GEM Adult Population Survey.

Table 11 Major motives for the decision to be entrepreneurially active (TEA), the Netherlands, 2002-2008, percentage of the adult population (18-64 years of age)

<i>Item</i>	2002	2003	2004	2005	2006	2007	2008
Opportunity-driven motivation	4.0	3.0	4.3	3.9	4.9	3.9	4.3
Necessity-driven motivation	0.5	0.4	0.7	0.3	0.3	0.6	0.5
Other motivation	0.1	0.2	0.1	0.1	0.2	0.7	0.4

Source: EIM/GEM.

The differences concerning opportunity- and necessity-based entrepreneurship become larger when countries in different stages of economic development are compared. In factor-driven economies, 10.9% (5.4%) of the adult population is involved in opportunity (necessity) early-stage entrepreneurial activity. These averages are 7.4% (3.5%) in efficiency-driven countries. Finally, 5.3% (1.1%) of the adult population in innovation-driven economies is involved in opportunity (necessity) TEA.

The major motives for the decision to be entrepreneurially active can be defined by using the following classification:

- 1 Percentage of all TEA that is primarily motivated by *increasing income*;
- 2 Percentage of all TEA that is primarily motivated by *being independent*;
- 3 Percentage of all TEA that is primarily motivated by *maintaining income*.
- 4 Percentage of all TEA that is primarily motivated by *necessity*;
- 5 Percentage of all TEA having *mixed motivations* (partly opportunity-based, partly necessity-based and partly other motives);
- 6 Other motive (neither opportunity nor necessity).

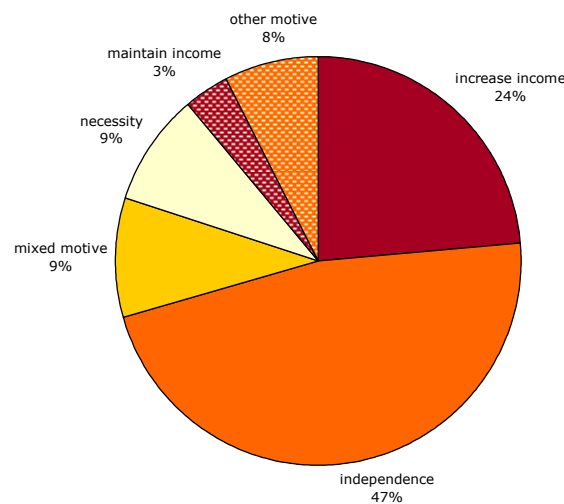
This classification provides more insight into the major motives for starting a new business. The motives classified in category 1 and 2 are referred to as the pure opportunity entrepreneurship motives (also called improvement-driven opportunity). The third category, consisting of entrepreneurs primarily motivated by maintaining income, together with the fifth category, consisting of entrepreneurs primarily driven by mixed motives, may be seen as other opportunity motivations. Although this classification is somewhat of an anomaly¹ (are they opportunity-driven entrepreneurs or necessity-driven entrepreneurs?), for practical reasons it has been decided to add them to the pure opportunity-based motivations in table 11. The fourth category in the list above refers to the pure non-opportunity entrepreneurship motives i.e. necessity entrepreneurship.²

¹ GEM identifies the different motivations for early-stage entrepreneurship in two steps. First, respondents involved in early-stage entrepreneurial activity are asked whether they are involved because they recognized an opportunity, or because they had no better options for work. Recognizing that this question is polyvalent and that people operating somewhere in between these extremes tend to answer the first option, those who chose recognition of an opportunity were asked whether the main driver behind pursuing this opportunity was (i) to increase their own income, (ii) to be independent or (iii) to maintain their income. Mainly, the latter category is not considered as a genuine opportunity.

² In table 11 and figure 8, the category necessity refers to those individuals who are pushed into self-employment because they have no other means of making a subsistence living, i.e. the pure necessity entrepreneurs (category 4 only). In table 11, opportunity-driven motivations include improvement-driven motivations (i.e. increase income and independence) as well as maintain income motivations and mixed motivations (thus the aggregate of category 1, 2, 3 and 5).

Figure 7 presents the distribution of opportunity and necessity entrepreneurs for the Netherlands in 2008. This reveals that almost half of all Dutch early-stage entrepreneurs decided to start a new business with the desire to be independent. Moreover, 24% of all early-stage entrepreneurs were driven by income increasing motives. Almost a fifth of all young/new business entities were set up on the basis of non- (pure) opportunity motives. 9% of the Dutch early-stage entrepreneurs had a mix of opportunity, necessity and/or other motives, and 9% stated that they were driven by a pure non-opportunity motive. Moreover, 3% of the adult population involved in TEA indicated being primarily motivated by maintaining income. Finally, 8% of the Dutch entrepreneurs were neither driven by opportunity nor by necessity; they had another motive (e.g. they started a business for fun). In short, the large majority (83%) of early-stage entrepreneurs were at least partly driven by opportunity-based motives. Finally, 70.6% of all TEA is motivated specifically by improvement-driven opportunity.

Figure 7 Motives for starting a new business, the Netherlands, 2008, percentage of the adult population (18-64 years of age) involved in TEA.



Source: EIM/GEM.

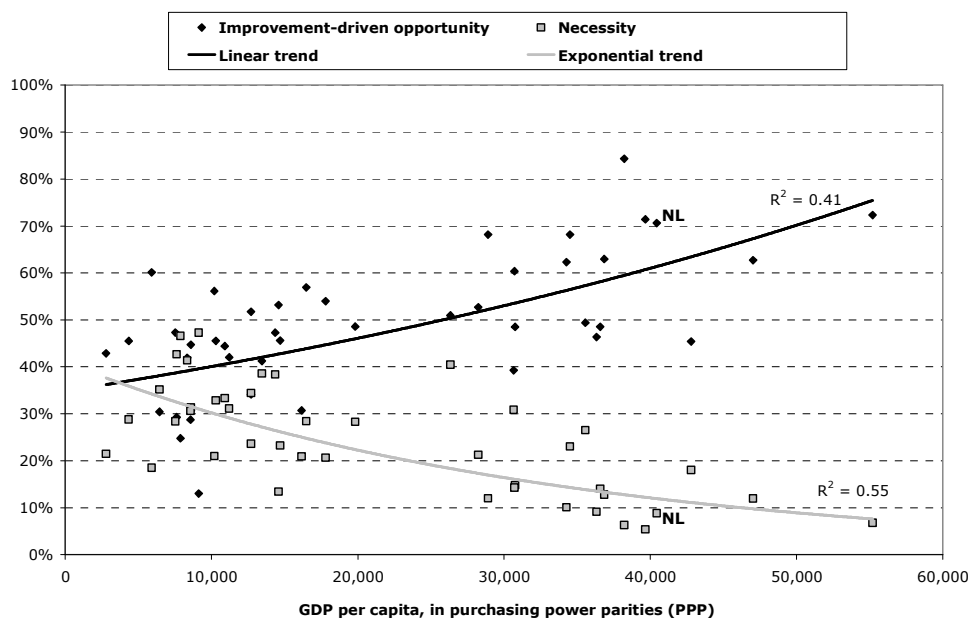
In summary, most individuals in The Netherlands are drawn into entrepreneurial activity by opportunity recognition, others are pushed into entrepreneurship because they have no other means of making a living or because they fear becoming unemployed in the near future. Two major drivers of opportunity entrepreneurship can be identified for those who are pulled into entrepreneurship: because they desire independence or because they want to increase their income compared to, for instance, that of being an employee. The remaining share includes people who mentioned that they had no other way of earning a living (necessity-motivated entrepreneurs), people who became involved in entrepreneurial activity primarily to maintain their income, and people whose major motive is a mix of opportunity and necessity motives. For both improvement-driven opportunity-based entrepreneurship¹ and necessity-based entrepreneurship, the

¹ That is, the percentage of the entrepreneurially active population who claim to be driven by opportunity-based motives and indicate that the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income.

prevalence rates of all GEM countries are plotted in figure 8¹. Countries with a relatively high prevalence of improvement-driven opportunity entrepreneurship are primarily innovation-driven countries. In these countries, entrepreneurial opportunities are more abundant and individuals also have more job opportunities. Therefore, the trend of the degree of opportunity TEA in relation to GDP per capita gradually slopes upward in figure 8. The grey line represents the pattern for the extent of necessity entrepreneurship and slopes downward. Thus the rate of necessity entrepreneurship decreases with a country's economic development.

The Netherlands behaviour is close to what can be expected on the basis of the estimated curves representing the relationship between GDP per capita on the one hand and improvement-driven opportunity entrepreneurship and necessity entrepreneurship on the other hand (figure 8). More than 70% of Dutch early-stage entrepreneurs started a business driven by opportunity recognition in terms of independence or increasing income. Almost 10% is involved in entrepreneurial activity because of necessity.

Figure 8 Necessity- and improvement-driven opportunity motivations for all GEM countries, 2008, measured as percentage of TEA, in relationship with GDP per capita



Source: EIM/GEM (Adult Population Survey (APS); GEM 2008 Executive Report) and IMF: World Economic Outlook Database (October 2008 Edition).

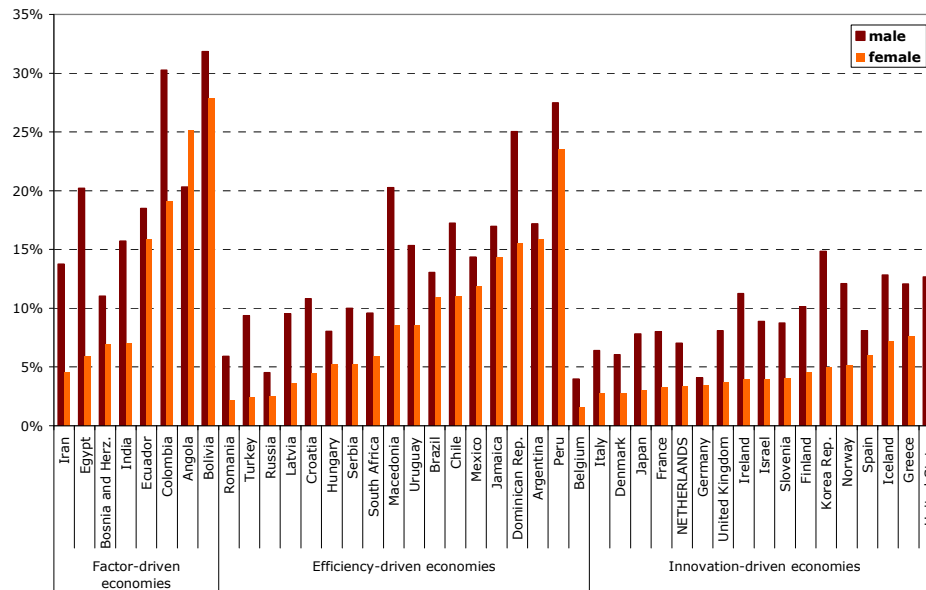
¹ No statistical effect of GDP per capita on TEA could be discerned for the remaining group, i.e. the individuals involved in TEA who were not classified in either of the categories "improvement-driven opportunity" or "necessity". These curves are therefore not depicted in figure 8.

3.2.4 Demographics

Gender

As far as entrepreneurial activity is concerned, there are considerable differences regarding male and female participation. In general female participation in entrepreneurship is significantly lower than male participation. However, as can be seen in figure 9, the proportion of female to male participation varies significantly across countries, reflecting different culture and customs regarding female participation in economic activity. In some factor-driven economies, for example Ecuador and Bolivia, female TEA rates are only just below male TEA rates. In Angola women are actually more likely to be involved in early-stage entrepreneurial activity than men, whereas the situation is very different in Egypt and Iran. The gender gap in TEA rates for efficiency-driven economies is quite low in many Latin American countries and Jamaica. In many, but not all, eastern European countries male TEA rates are substantially higher than female TEA rates. Finally, in innovation-driven countries, on average men are twice as likely to be involved in early-stage entrepreneurial activity as women. In the Netherlands, 7.1% of males are involved in nascent or young firm entrepreneurship as opposed to 3.3% of females. This fits the pattern of innovation-driven countries, but compared to other GEM countries, the female participation rate is relatively low.

Figure 9 Total early-stage Entrepreneurial Activity (TEA) rates by gender for all GEM countries, 2008, percentage of adult (fe)male population (18-64 years of age)



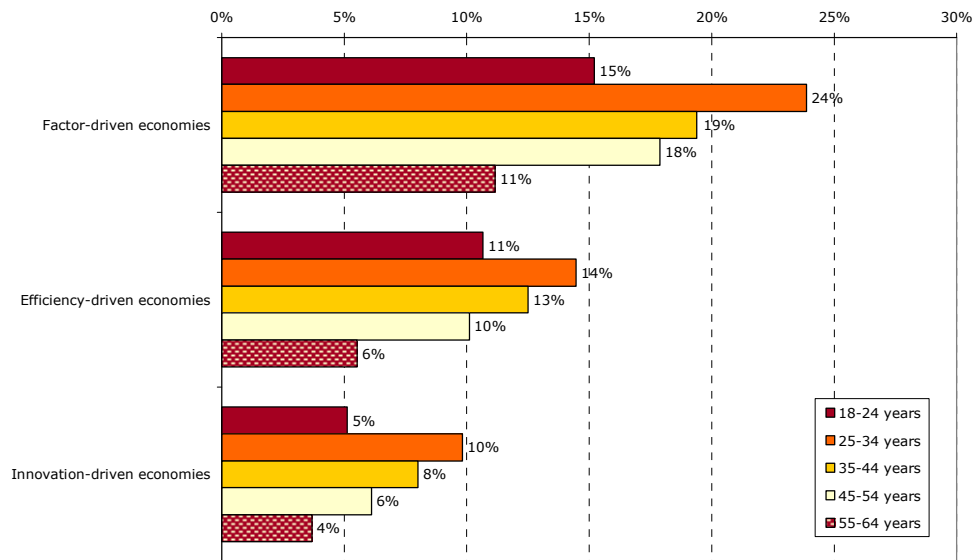
Source: EIM/GEM (Adult Population Survey (APS); GEM 2008 Executive Report).

Age

Figure 10 shows the likelihood of each age category of becoming involved in entrepreneurship. It reveals that the age distributions of TEA are quite similar across the stages of economic development. The 25-34 years age group has the highest prevalence rate for every stage of economic development. Thereafter the prevalence rates decrease as age increases. The low overall TEA rate for the Netherlands is reflected in figure 10, since for all age groups - apart from cate-

gory 18-24 years - the participation rates (5%, 9%, 6%, 5% and 2% respectively) are below the averages presented in the figure. This holds in particular for the age category 55-64 years.

Figure 10 Total early-stage Entrepreneurial Activity (TEA) rates for separate age groups, by stage of economic development, 2008, percentage of the adult population (18-64 years of age)

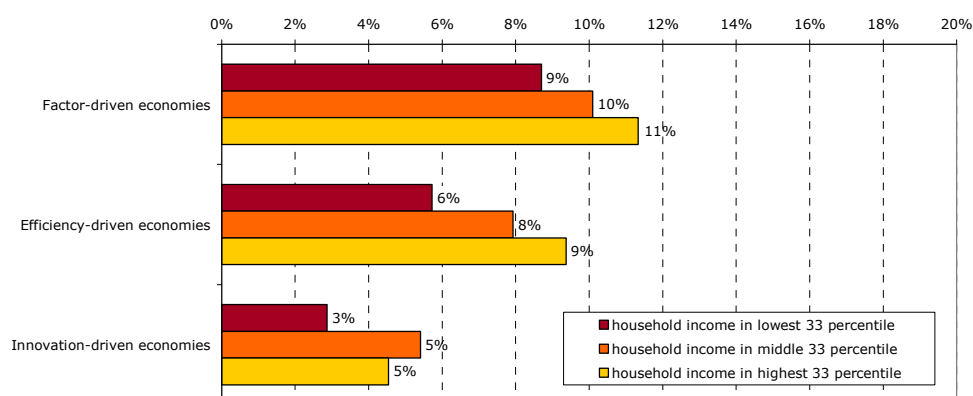


Source: EIM/GEM.

Household income

Figure 11 shows the level of household income of the population and their involvement in TEA. Three levels of household income are distinguished: low, middle and high.

Figure 11 Total early-stage Entrepreneurial Activity (TEA) rates by household income, by stage of economic development, 2008, percentage of the adult population (18-64 years of age)



Source: EIM/GEM.

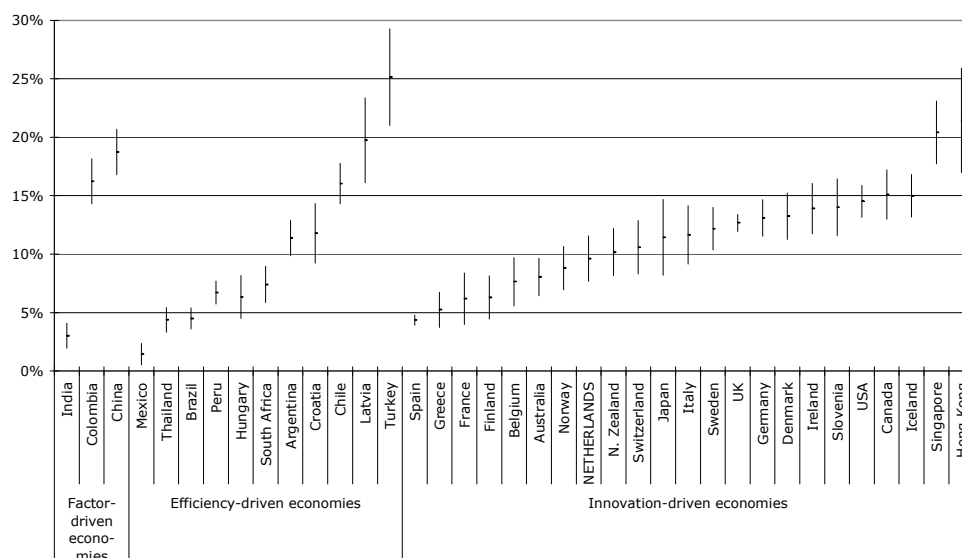
In factor-driven and efficiency-driven economies, involvement in entrepreneurial activity increases with household income. In innovation-driven economies, this pattern holds only partly, as can be seen in the figure. In the Netherlands, 1.9% of the adult population with a household income in the lowest income category is involved in nascent or young business entrepreneurship, whereas the participation rates are 2.4% and 3.0% for the adult population with a middle and high household income respectively.

3.3 Entrepreneurial aspirations

3.3.1 Growth

As described in the introduction, entrepreneurial aspirations refer to the ambition to innovate and internationalize, and to growth ambitions. As for the latter category, in GEM's Adult Population Survey (APS) all early-stage entrepreneurs were asked how many employees they expect to have within five years' time. The prevalence of new and nascent entrepreneurs who expect their business to employ at least 20 people in five years time is known as *High-growth expectation early-stage Entrepreneurial Activity*, abbreviated as HEA.

Figure 12 Anatomy of High-growth expectation early-stage Entrepreneurial Activity (HEA), by stage of economic development, average 2002-2008, percentage of the adult population (18-64 years of age) involved in TEA



Source: EIM/GEM (Adult Population Survey (APS); GEM 2008 Executive Report).

An analysis of the anatomy of high-expectation entrepreneurial activity (defined as the relative prevalence of HEA entrepreneurs among all TEA entrepreneurs) is shown in figure 12, again categorized by stage of economic development and shown with 95% confidence intervals. As explained previously, only if the vertical bars between two countries do not overlap is the difference between those countries statistically significant. According to this figure¹, the countries with the highest rates of growth ambition in this sample of nations are China and Colombia for the factor-driven economies, Turkey and Latvia for the efficiency-driven economies, and Hong Kong and Singapore for the innovation-driven economies. Within the innovation-driven countries, Greece and Spain stand out as countries where very few nascent and new entrepreneurs (around 5%) anticipate creating a business of significant size. France, Finland, Belgium, Australia and Norway also exhibit low levels of entrepreneurial growth ambition, with less than 10% of all start-up attempts expecting high growth. In the Netherlands, 9.6% of the nascent and young business entrepreneurs aspire for rapid growth in the period 2002-2008 (average). Overall, results from GEM's APS reveal that expectations of high-growth are relatively rare among nascent and new entrepreneurs. Seventy percent of all start-up attempts (worldwide) expect at least some job creation and 8% of all start-up attempts expect to create 20 or more jobs.

3.3.2 Innovation and export orientation

Aspirations in terms of innovation and export orientation will now be considered. Table 12 presents the main results for the Netherlands in 2008 as well as the EU- and OECD-averages. In the Netherlands, about half of the entrepreneurially

¹ In this figure, seven years of GEM data (years 2002-2008) are combined to take make a more accurate assessment of differences in growth ambitions among early-stage entrepreneurs.

active population is not at all export oriented since none of their customers are outside the country. Just over one third indicate having 1-25% of their customers outside the country, while the remaining 15% is highly export oriented since they have more than a quarter of the customers outside the country. Based on these figures, the export orientation of new business start-ups in the Netherlands is below EU- or OECD-average.

In order to identify the innovative entrepreneurs, GEM asked all respondents involved in TEA whether their product, business and/or technology is innovative. More than 20% of the Dutch adult population involved in early-stage entrepreneurial activity report (some) new product/market combination. A new product/market combination means that that the product is new to all/most of the customers *and* that there are no/few competitors. A closer look reveals that more than one fifth of all Dutch TEA reports that their product is new to all customers and that 10% operate in a market without competition (i.e. no business offers the same product). At the other end of the spectrum, are the early-stage enterprises offering products which are new to none of the customers (59% of all TEA) and enterprises operating in a highly competitive market (49% of all TEA). With respect to the extent of both product and business innovation - with the ladder defined as the degree of competition - the Netherlands is quite similar to the EU- or OECD-average. Finally, 10% of all Dutch TEA report business activity in a technology sector, which is in the top-10 of all GEM countries. As far as technological innovation is concerned, 15% of all early-stage businesses in the Netherlands use new technology (available only in the last 1-5 years), while the very latest technology (available only since last year) is used by only 2%. The greater majority of early-stage enterprises (83%) report that they use no new technology at all. The Netherlands, in particular, performs below EU- and OECD-average when it comes to the use of the very latest technology: 2% of all TEA in the Netherlands as opposed to about 9% (10%) on average in the EU (OECD).

Table 12 Innovativeness and export orientation of Total early-stage Entrepreneurial Activity (TEA) in the Netherlands, 2008, percentage of the adult population (18-64 years of age) involved in TEA

<i>Percentage of all TEA that have ...</i>			
<u>Export orientation</u>	no customers outside country	1-25% of customers outside country	26-100% of customers outside country
EU	44	34	22
OECD	46	37	17
NETHERLANDS	52	34	15

<i>Percentage of all TEA reporting that their product is ...</i>			
<u>Product innovation</u> (newness of product)	<i>new to all customers</i>	<i>new to some customers</i>	<i>new to none of the customers</i>
EU	16	29	56
OECD	16	31	52
NETHERLANDS	21	20	59

<i>Percentage of all TEA reporting that ...</i>			
<u>Business innovation</u> (degree of competition)	<i>many businesses offer the same product</i>	<i>few businesses offer the same product</i>	<i>no businesses offer the same product</i>
EU	52	38	10
OECD	54	36	10
NETHERLANDS	49	41	10

<i>Percentage of all TEA reporting that they use ...</i>			
<u>Technology innovation</u> (newness of technology)	<i>the very latest technology (available only since last year)</i>	<i>the new technology (available only in the last 1-5 years)</i>	<i>no new technology</i>
EU	9	19	72
OECD	10	18	72
NETHERLANDS	2	15	83

Source: EIM/GEM.

3.4 Summary

This chapter focused on Dutch entrepreneurship from an international perspective. Data for 2008 for the Netherlands were compared with data for other countries participating in GEM. In particular, attention was paid to entrepreneurial attitudes, perceptions and intentions, to entrepreneurial activity, and to entrepreneurial aspirations. When comparing entrepreneurial attitudes, perceptions and intentions of the Dutch adult population with the average of countries with different stages of economic development (i.e. factor-driven, efficiency-driven and innovation-driven countries), it is apparent that there is a relatively wide gap between attitudes and intentions in the Netherlands as compared to other economies. The Netherlands shows the highest rate when it comes to entrepreneurship as a desirable career choice (85%), but only 5% of the Dutch adult population expects to start a business within the next three years. At the same time, the

Dutch adult population has the lowest fear of failure (26%) compared to countries at different stages of economic development. Generally, males and females have different perceptions when it comes to the assessment of their knowledge and skills to start a new business and of their notion of good business opportunities in the area where they live.

As far as (early-stage) entrepreneurial activity is concerned, the Netherlands has one of the lowest TEA rates of all countries participating in GEM 2008 (5.2%). Also from an EU and OECD perspective, the Netherlands has a below average TEA. A cross-national view reveals that innovation-driven economies have on average lower TEA rates than factor-driven and efficiency-driven economies. The rates of opportunity and necessity early-stage entrepreneurship also differ by stage of economic development. The lower the stage of economic development, the higher the share of necessity entrepreneurship (i.e. individuals pushed into entrepreneurship because they have no other way of earning a living) in TEA. Over 22% of all Dutch individuals involved in TEA in 2008 were equipped with prior start-up experience. The main motivations for starting a business in the Netherlands were opportunity-based motivations (i.e. individuals pulled into entrepreneurship because of opportunity recognition). More specifically, over three quarter of all TEA is primarily motivated by improvement-driven opportunity, that is, opportunity entrepreneurship with the aim to increase income or to be independent. Generally, improvement-driven opportunity entrepreneurship appears to increase by stage of economic development. Next to entrepreneurial motivations, this chapter also discussed demographics of early-stage entrepreneurs. The proportion of female to male participation in entrepreneurial activity varies significantly by stage of economic development, reflecting different culture and customs. A finding consistent across all stages of economic development is that early-stage entrepreneurial activity is highest in the 25-34 years age category. Thereafter early-stage entrepreneurial activity decreases with age.

Finally, focusing on the qualitative nature of entrepreneurial activity, this chapter also compared entrepreneurial aspirations internationally. Regarding high-growth expectation early-stage entrepreneurial activity (i.e. new businesses that have an ambition to employ at least 20 people in five years time), on average 9.6% of all nascent and young business entrepreneurs in the Netherlands aspired for rapid growth in the period 2002-2008. This is slightly above the GEM average as on average 8% of all start-up attempts worldwide expected to create 20 or more jobs in this period, but below the average for innovation-driven countries. Next, early-stage entrepreneurs in the Netherlands are, on average, somewhat less export oriented compared to entrepreneurs in EU or OECD countries. With respect to both product and business innovation, entrepreneurs in the Netherlands are quite similar to average entrepreneurs in the EU or OECD. The Netherlands performs below EU- and OECD-average when it comes to technology innovation (i.e. the newness of technology).

4 Entrepreneurship in the Netherlands and Germany: a comparison

This chapter was written together with Udo Brixy, Christian Hundt and Rolf Sternberg of GEM Germany.

This chapter provides a comparison of entrepreneurship in the Netherlands and Germany. First the country-specific frameworks are described for both countries, and specific attention is paid to economic development and the policy context. Subsequently a comparison is made of entrepreneurship-specific attitudes and perceptions between the Dutch and the German adult population. The chapter ends by comparing both countries on various aspects of entrepreneurial activity.

4.1 Country-specific frameworks

4.1.1 *Economic development since the 1980s*

From the beginning of the 1980s both the Netherlands and Germany had to deal with a faltering economic growth and rising unemployment figures. In *the Netherlands*, in particular the rate of unemployment climbed rapidly and reached almost ten percent in 1983, although it had been about two percent only ten years previously. The intensity of the crises simultaneously strengthened the need for reforms and formed the basis for the Wassenaar Agreement, guiding wage restraint and a general reduction of working hours. This agreement was reached by the employers' association and the unions in order to find a solution for the economic and social challenges, while the government enhanced the flexibility of the labour market, introduced tax reforms and focused on improving the functioning of markets (Bosma, Stigter and Wennekers, 2002). During the following years the measures had reached fruition. It was possible to continuously reduce the rate of unemployment until it reached an average of six percent during the 1990s (OECD, 2008). Since 2000 it has remained constant, at a level below four percent.

Economic conditions in *Germany* were not so severe during the 1980s. Therefore the government and the social partners did not need to take such far reaching measures as did the Netherlands. Nevertheless, the structural deficits in the German labour market had already become clearly visible. The unemployment rates settled higher than six percent and therefore much higher than the rates during the 1970s. After 1990, the year of German reunification, unemployment rates increased once more and remained constant at more than 9 percent in the course of that decade.

As late as in 2003-2005 Chancellor Schroeder's government implemented a more essential labour market reform. It included a reorientation of employment programme, in particular a new conception of encouragement (better job service or intermediation of labour supply) and challenge (stricter requirements) for people capable of work (this included for example monetary restrictions on public support in case a person rejects to take a reasonable job that was offered). The stricter requirements were accompanied by an integration of the, by then separated, systems of social welfare and unemployment assistance to form a scheme

for consistent basic social care. At the same time the length of time during which unemployment benefits were paid was shortened and institutional restrictions for temporary employment were lightened.

In 2007 the economic recovery finally reached the job market. However, even in the summer of 2008, at the end of a boom period that lasted almost three years, unemployment did not drop below seven percent. At the same time unemployment in the Netherlands dropped to a level of less than three percent (Eurostat, 2008). This remarkable improvement is also said to be the result of various levels of part-time employment. While 47 percent of the Dutch employees worked part-time in 2007, only 26 percent of the Germans did (Eurostat, 2009).

In the beginning of the 1990s the Netherlands outperformed Germany not only with respect to labour market participation, but also in terms of annual economic growth and development of gross domestic income per capita. Two reasons may be mentioned: Firstly Dutch industry was able to regain some lost shares in the world market due to wage moderation; secondly the Dutch economy is traditionally a more service orientated economy than the German economy. In the beginning of the 1980s approximately 40 percent of all German employees worked in manufacturing whereas the Dutch share of blue-collar workers averaged only about 30 percent. Therefore the Dutch economy (as well as the job market) was much better able to profit from the immanent dynamics of the fast growing service industry, while the German economy suffered from the industrial decline in the Eastern part of the country (along with its process of rationalisation that hit the German labour market) - especially during the 1990s.

While the increasing tertiarisation during the 1990s favoured the economic performance in the Netherlands, the German economy retained a strong focus on large-scale (industrial) production (Verheul, Leonardo, Schüller and Van Spronsen, 2002). Also Germany faced a permanent weakness in economic growth imposed by the financial burden of reunification, new competition from Eastern Europe and a chronic deficit in domestic demand. The German economy recovered from these difficult circumstances only recently - just before being hit by the current financial crisis. Germany still remains one of the highly developed economies that maintain a substandard level of tertiarisation. In 2007 about 65 percent of all employees worked in the German service sector whereas the Netherlands seized a share of more than 75 percent (OECD, 2008).

Both the rate of unemployment and the size of the service industry can affect both the extent and the quality of new enterprises at the country level. For example, in the case of industrialised economies some assume a positive correlation between the level of tertiarisation and the rate of entrepreneurship¹ because the service sector faces lower market entry costs than the more capital intensive businesses. The level of unemployment can, on the other hand, affect the motivation of the entrepreneur. Therefore, a rise in unemployment could increase the number of those people who decide on self-employment only in the absence of an adequate alternative occupation and not as a result of intrinsic motives.

¹ For empirical evidence see Wennekers (2006), chapters 4 and 7.

4.1.2 *Social and economic policy*

Both the Netherlands and Germany benefited greatly from export-induced economic recovery of the post-war era. It created decreasing unemployment and led to a growth in public revenue. Corporatism in parallel created the frame of this "economy of dialogues", whereas the state tried to involve employees and unions in any vital economic and social policy issues.

During the 1970s both countries' economies faced immense pressure caused by the first wave of globalisation. This period was also characterized by a climax of social-governmental expansion which set the welfare state and its adaptability a practical test. At this point Germany and the Netherlands opted for different solutions. While the government and social partners in Germany disagreed on basic reform questions leaving the German labour market unreformed until the end of the 1990s, the Dutch took advantage of their corporatist tradition and substantially reformed their social and economic policy.

The previous paragraph mentioned the main labour-market-policy measures. Nonetheless these were flanked by gradual abatements of government aids as well as the growing privatisation of social security. The measures taken aimed at involving as many people as possible in the labour market, rather than keeping them away from the market due to governmental financial aid. After all, even the Keynesian embossed fiscal policy of the 1970s was replaced by a more supply-side oriented policy. This included, for example, the reduction of national short-falls as well as cutting taxes and payroll deductions in order to improve the ability of enterprises to compete. At the same time the structural change of the Dutch economy was taking place at an accelerated rate. This change focussed on strengthening education and research, supporting the development of new technologies and creating regional innovation-centres.

In the middle of the 1990s Germany found itself with a market crisis similar to that in the Netherlands in the early 1980s. Finally it was the Schroeder-administration (1998-2005) that began to restore the German welfare system, state, step by step. This included a pension reform to strengthen the personal provision (2001), lowering the corporate income tax (2000-2001) as well as the urgently required transition to a more flexible labour market (2003-2005). However, unlike in the Netherlands, these reforms evoked a serious amount of criticism and anger amongst the unions and those groups hit hardest by these measures.

And also there might be a difference in attitudes between the German and the Dutch towards the extent of government duties. Yet comparing the social proportion, which measures the share of social security expenditures as part of economic performance, there is a visible difference, since the social proportion in Germany is about five percent points higher than in the Netherlands. This distinction results, in the first place, from differences in unemployment rates and reflects differences in how reforms were started in both countries. Whereas the Dutch population has learned to cope with increased flexibility and a higher individual responsibility for almost 25 years, the Germans have not yet tuned themselves to meet the emerging need of one's-own-initiative due to changing frameworks in the world economy and still assign the government a (more) prominent role in social welfare. Accordingly, for a long time Germany restricted its labour market policy to monetary supply, instead of - as shown by the Neth-

erlands - providing quick and active support towards reintegrating the jobless in the labour market.

When trying to identify further possible differences in mentality at the country level, a suitable approach might be to look at the "dimensions of culture" (Hofstede, 2001). Based on these dimensions Germany is characterised by a higher score on uncertainty avoidance and a lower score on individualism. The former might underline a relatively wide-spread risk aversion; the latter might represent a cognitive distance towards self-responsibility and self-sufficiency. Both results would correspond with the relatively severe problems involved in the adjustment of the German welfare state to changing frame conditions and might complicate the implementation of a more entrepreneurial climate in Germany.

4.1.3 *Entrepreneurship policy*

Not only had the Dutch initiated a more flexible labour market policy earlier than Germany, Dutch administration also reacted faster and more determinedly to the opinion that entrepreneurship can play an important role in economic growth and structural change. This was necessary and desirable, because up to the beginning of the 1980s the share of entrepreneurs had decreased continuously and remained at a low level during the subsequent years. The absence of an explicit entrepreneurship policy (e-policy) could have played a role here. Instead, the government focused on preventing business failure through imposing strict regulation. The intention was to preserve the established industry structures but, admittedly, this could not stop the decline and even complicated market access for new enterprises (Verheul, Bosma, Van Ginkel, Longerbone and Prins, 2002).

The economic crisis of the early 1980s also caused a U-turn in e-policy. A strategy paper "Creating room for Entrepreneurship", published in 1987, symbolized a change in attitudes towards entrepreneurship in politics and society. Entrepreneurial activity became not only appreciated, but also supported by government measures, since economic policy increasingly started to incorporate certain elements of a specific entrepreneurship policy. These included the improvement of supply-side growth conditions, the strengthening of entrepreneurial skills through the education system and the creation of a climate friendly to entrepreneurs within society. This adjustment in e-policy was further confirmed and intensified during the 1990s. Representative strategy papers were "Jobs through Entrepreneurship" (1995) and "The entrepreneurial society" (1999).

These were the very beginning. Today the Netherlands is considered to be a textbook example of a "holistic entrepreneurship policy" (Lundström and Stevenson, 2005), i.e. the approach taken in the Netherlands does not focus on single instruments independent of each other (administrative facilities, start-up-financing, support programmes and the like), but pursues the integrated application of all modules, including entrepreneurship-related education, the strengthening of entrepreneurial culture as well as the development of economic capacities for new enterprises. An attendant necessary condition is the conceptual cooperation of all affected ministries as well as the coordinated conversion of the guidelines by the relevant authorities.

In *Germany*, however, entrepreneurship policy proved to be the sum of single measures. Up to now no multi-focus draft under inclusion of all federal levels exists. Instead, a remarkable increase in the number of entrepreneurship-related

support programmes has been observed since the middle of the 1990s, launched not only by the Federal Government and the Federal States, but also by single local district authorities. There is no coordination among the authorities involved, so that different programmes can sometimes compete for the same target group. For example, the Federal Government's "Exist" programme as well as numerous initiatives of single Federal States ("Young innovators" in Baden-Württemberg, "PFAU" in North Rhine-Westphalia or "FLÜGGE" in Bavaria) aim to gain the support of spin-off foundations from universities. However, not only high-growth-oriented start-ups ("gazelles") are promoted. Other recipients of public support are women, older people and the unemployed. The unemployed are expected to enter the regular labour market by becoming self-employed and therefore receive a bridging allowance instead of unemployment benefits.

On the whole it becomes reasonably obvious that entrepreneurship policy in Germany is primarily geared towards certain target groups, that usually take advantage of financial aid. Success and failure of individual support programmes are difficult to quantify and will not be discussed here. Nevertheless, such policy is not beyond ordo-liberal concern, since arbitrage effects are almost unavoidable. Inefficiencies arise from addressing identical target groups through similar programmes initiated by various ministries or authorities. The sustained yield of many projects also remains extremely doubtful. This is especially true when subsidizing entrepreneurship for socio-political reasons. Moreover, state-run commitment as a financier *may* lead to the crowding-out of private institutions, that could result in constraining the formation of an efficient capital market for business start-ups - particularly in the long run.

From an ordo-liberal point of view the supply-side e-policy of the Netherlands is both better grounded and more sustainable. In this respect the low market entry barriers should be mentioned first, because they provide a beneficial degree of competition on the product markets. Many German markets, on the contrary, are affected by informal or even formal competitive restraints. A good example of this is the master craftsman's diploma that is a prerequisite for the foundation of an enterprise in various craft occupations. Informal restrictions are likely to be found in the energy, communication or transport market, where former public monopolists still possess strong market power and therefore can discriminate against new competitors, i.e. new enterprises. Additionally, administrative obstacles (such as the number and duration of authorisation procedures) seem to be more prevalent in Germany than in the Netherlands. Roughly the same applies with respect to taxation. This can be explained by the complexity of the German taxation law, which results in high investments in time and costs and is believed to affect entrepreneurial activities in a negative way (World Bank, 2008). A specific feature of the German tax system is the "tax splitting" arrangement for married couples, this reduces incentives for pursuing a double income and thus indirectly obstructs the formation of start-up activities, particularly among women.

Another attribute of the Dutch e-policy can be seen in the emerging role of entrepreneurship-related education (Lundström and Stevenson, 2005). In contrast to Germany, where this topic is of little importance, not only at schools but also at most universities, the Netherlands regards entrepreneurship as an important component throughout all phases of education. The advantages are obvious: it can contribute to strengthening the entrepreneurial skills of the population and

to overcoming possible psychological barriers against self-employment. Moreover, the basis is set for effective knowledge and technology transfer between academic research and economic application. This is also one of the goals of the "Action Plan for Entrepreneurship", that was initiated in 2004 and highlights the promotion of high-growth entrepreneurship. The "New Action Plan for Entrepreneurship" initiated in 2005 also demonstrates that Dutch policy in no way aims only to increase the number of start-ups. The quality of start-ups is an important target in itself.

Given that social coverage of entrepreneurs has an influence on the opportunity costs of a business start-up, social prevention is also a component of e-policy. In the Netherlands the self-employed have the possibility to insure themselves, on the private insurance market, against some of their social risks in line with the Dutch policy focus on the supply-side. Under certain conditions the premiums are tax deductible (Arts, 2005). There are arrangements for maternity provisions for the self-employed but there are no provisions for illness. The self-employed are covered for retirement under the Dutch national Old Age Pensions Act (AOW). In Germany, the self-employed are *not* integrated in the public pension scheme. Additional systems exist for certain occupational groups only. However, compulsory membership of the legal health insurance scheme for entrepreneurs was implemented in 2009. In addition the self-employed have been able to take out voluntary unemployment insurance themselves since 2006 (Schulze-Buschoff, 2007).

4.2 Empirical evidence

4.2.1 *Attitudes of the population towards entrepreneurs*

Remarkable, in comparison to other countries, is the high share of Dutch (85%) that indicate that founding a new business is perceived to be a good career choice in the Netherlands. Germany's share is much lower (56%) but not significantly different from most of the other innovation-driven countries. However, when considering the status attached to those that are successful in starting a new business the story is rather different. While in the Netherlands 69% of the adult population is of the opinion that in their country those successful in starting a new business have a high level of status and respect, in Germany this is true for a higher share of the adult population (80%). Thus, while entrepreneurship in general seems to be valued much more positively as a career choice in the Netherlands, in Germany people seem to attach somewhat greater value to those being successful in their start-up attempts. Despite this fact, media attention for successful young businesses seems to be slightly more pronounced in the Netherlands than in Germany. More specifically, in the Netherlands 61% of the Dutch adult population indicates that in their country you will often see stories in the public media about successful new businesses, but this appears to be 50% of the adult population in Germany.

4.2.2 *Perceptions of entrepreneurship*

It has been argued that entrepreneurship is, in essence, about opportunity recognition and exploitation. Here, the Dutch have a clear lead. In 2008 they much more often perceived good opportunities to start a business in the next 6 months in the area in which they live than in Germany (39% as compared to 24%). When interpreting these results it should be kept in mind that the GEM survey

was held in the period April-June 2008 and that at that time economic conditions in the Netherlands were more favourable than in Germany. Although unemployment fell and the economy grew in Germany too, in the Netherlands unemployment was only half as high as in Germany (see section 4.1.1).

The decision to start their own business may also depend on people's perception of their own entrepreneurial skills and abilities. Hence, when countries have a greater pool of people who perceive themselves as having favourable skills this may mean that there is a larger group of potential entrepreneurs within that country. In the Netherlands 38% of the adult population is of the opinion that they have the knowledge, skills and experience required to start a new business, as compared to 35% in Germany. Thus, on the whole the perception of entrepreneurial skills and abilities seems to be rather similar in both the Netherlands and Germany. However, when comparing men and women some interesting differences appear. In both countries men are more likely to evaluate their entrepreneurship-related knowledge and skills more positively than women although the gap is larger within the Netherlands. Even so, men in the Netherlands more often perceive themselves as having entrepreneurial skills than do men in Germany, while German women are more confident about their skills than their Dutch counterparts.

Consistent for Germany is the low disposition of Germans towards risk-taking but the Dutch seem to have a rather different attitude to risk. This result, like all results concerning the attitudes of the whole population of both countries, has been constant over many years. Only one out of every four Dutchmen admits that fear of failure would prevent him/her from starting a business, this is significantly lower than all the innovation-driven countries. In Germany every second individual says that fear of failure would prevent him/her from starting a business. Interestingly, in the Netherlands there are hardly any differences between men and women with respect to fear of failure while in Germany women are, on average, more often fearful of failure than men.

Social capital is "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social unit" (Nahapiet and Ghoshal, 1998, p. 243). Entrepreneurial social capital captures an individual's network with other entrepreneurs and the resources which can be drawn from these relationships. An entrepreneur's relationship with other entrepreneurs in its network can play a role in the decision to start a firm. For example, an entrepreneur's social network can increase alertness to business opportunities (Ardichvili, Cardozo and Ray, 2003). Also, other entrepreneurs can function as role models who can contribute to making entrepreneurship a more attractive career option for others. In the Netherlands 35% of the adult population indicate knowing someone personally who started a business in the past 2 years, whereas this applies to 31% of the German adult population. In the Netherlands men (44%) much more often than women (26%) indicate knowing an entrepreneur, while gender differences are less pronounced in Germany (34% of men and 28% of women indicate personally knowing an entrepreneur).

4.2.3 Entrepreneurial activities in both countries

All in all the differences described show that the entrepreneurial climate is more favourable in the Netherlands. Therefore it is not surprising that more Dutch

people are planning to start a business or have recently done so. Accordingly the rate of Total early-stage Entrepreneurial Activity (TEA) is 5.2% of the Dutch adult population compared to 3.8% of the German adult population. Remarkable is that in the Netherlands the differences between men and women involved in TEA are much greater than in Germany. In fact, the rate of women active in TEA is found to be at a similar level in Germany (3.4%) and the Netherlands (3.3%). Thus the reluctance of the German males seems to be a major reason for the overall low rate of the TEA.

Another remarkable difference between the two countries is the motives that underlie the decision to become self-employed. The entrepreneurs "out of need" (necessity entrepreneurs) that are so common in Germany are quite rare in the Netherlands. More than nine entrepreneurs with the "classic" motives such as income-maximisation or self-realisation come on one entrepreneur "of need" (in Germany 2.7:1). Perhaps this is not surprising since the unemployment rate in the Netherlands is much lower than in Germany. But here too, the variation between the sexes in the Netherlands is considerably larger than in Germany. Only 3.6% of men are unemployed but 5.8% of the women are. This is reflected in a substantially higher ratio of female-entrepreneurs "out of need" (5.3:1) than men (13.3:1). Dutch women more than twice as often start a business than Dutchmen do because they cannot find a job in paid employment. Even though the unemployment problem as such is much bigger in Germany, the ratio between men and women is less pronounced and moreover men (2.3:1) are more likely to start a firm because of the lack of alternative employment than women (3.4:1).

As women in both countries still carry the main burden of childcare, the underlying reasons might differ further between the sexes. A number of studies show that men in principle are looking for adequate wages and responsibilities etc. when asked about their motives for becoming self-employed, while women might more often think about flexible working hours that would allow them time to care for their family. The differences in unemployment rates between Dutch and German men might explain the huge differences in the ratios of opportunity and necessity entrepreneurship; while the similarities of family-role-models might explain the considerably closer and overall much higher ratios of the entrepreneurial types of women.

The industry-structure of new firms differs considerably. It is noticeable that the share of the construction industry is high in the Netherlands. Also the share of business services - although nearly a quarter of the German businesses belong to this industry - is even higher in the Netherlands. In Germany retail trade and restaurants, health and personal services are more important. Overall, the Dutch mixture is more promising in regard to the economic expectations of the new firms.

But there is little difference between both countries regarding the novelty of the products produced or services offered. In Germany as well in the Netherlands around 50% of new businesses state that they expect only few or no competitors at all. The same applies for customers. 40% of the firms in both countries assume that the products they are offering are new to at least some customers. In the Netherlands every fifth firm states that its products are even new to all customers, whereas the share in Germany is fewer than one in ten. This is reflected

by the novelty of the technologies used. 17% of the Dutch early-stage entrepreneurs use technologies newer than five years; in Germany only 12% use such new equipment. But, in general, the variations in the novelty of products and services between both countries are not very pronounced. Therefore it is quite surprising that the share of early-stage entrepreneurs that expect to create more than 19 new jobs within the next five years (as indicated at the time of survey in 2008) is higher in Germany (7.4%) than in the Netherlands (4.1%). The European Union is promoting entrepreneurship because new firms are seen as important for innovation and economic renewal. In addition in Germany new businesses are seen as an instrument to overcome the high and persisting unemployment. As described in section 4.1 there are many programmes designed to support entrepreneurs in Germany and in the Netherlands. But because of the higher level of unemployment, programmes designed specifically for the unemployed, are more important in Germany. Combined with the higher share of necessity entrepreneurs this might explain that a follow up survey that was held among nascent entrepreneurs in Germany and the Netherlands revealed that German nascent much more often indicate using some form of financial assistance from public sources than nascent from the Netherlands.

4.3 Summary

This chapter provided a comparison between Germany and the Netherlands on several aspects of entrepreneurial activity and the conditions to which it is subject. Some interesting findings emerged. It appears that early-stage entrepreneurial activity is higher in the Netherlands (5.2%) than in Germany (3.8%). It would be too ambitious to provide a full explanation for this difference here, but the information presented in this chapter helps to provide some guidelines as to the nature of this difference. Overall attitudes towards entrepreneurship are very favourable in the Netherlands, although people in Germany seem to attach greater value to successful entrepreneurs. Despite the fact that successful entrepreneurs enjoy a very high prestige in Germany, people are much more reluctant to call entrepreneurship a good career choice. Germans also less often perceive good opportunities to start a business.

Dutch policymakers embraced the structural change from mass-production to a flexible service orientated economy at an earlier stage than Germany. Today, the Dutch economy is much more oriented towards services than the German economy. Businesses active in services are, on average, smaller in size than businesses in manufacturing and the tertiarisation of the economy has led to many new business opportunities in services in the past decade. Policy in the Netherlands in general seems to have a stronger focus on activation. In addition, entrepreneurship policy seems to be more encompassing and integrated than in Germany. Specific economic conditions should not be forgotten. Not only was the TEA rate higher in the Netherlands, but individuals in the Netherlands were also more likely to perceive entrepreneurial opportunities than Germans. Thus, a higher TEA rate and higher opportunity perception might reflect country-specific economic conditions. Finally, the Netherlands stands out for having a low fear of failure. But it is important to keep in mind that the Netherlands is no frontrunner: the TEA rate is relatively close to the EU-average (5.9%) and below OECD-average (7.1%). Despite the differences in TEA, the perception of entrepreneurial abilities and skills among the population is fairly similar in both countries. In both countries men more often evaluate their entrepreneurship-related knowl-

edge and skills more positively than do women and this gender gap is much larger in the Netherlands.

Entrepreneurship is not only about quantity, but also about quality. Policy in the Netherlands explicitly focuses on stimulating both more and better entrepreneurs. And as the industry-structure of the newly founded businesses underlines, many of the new Dutch firms are founded in particularly promising industries, such as business services. In Germany the fight against unemployment seems to be much more a motivation for supporting entrepreneurship for stimulating competition and structural change. As regards the quality of new entrepreneurs, Germany and the Netherlands differ little when it comes to the innovativeness of new entrepreneurs. However, new German entrepreneurs are more ambitious in their job growth objectives. This might be related to entrepreneurial motivation: overall the Dutch are more likely to start a firm with the main reason to be independent and less likely to aim to increase income than Germans. However, necessity entrepreneurship is also more pronounced in Germany than in the Netherlands, which can partly be explained by higher unemployment rates in Germany.

5 Intrapreneurship

In the past decades both the entrepreneurship and the management literature have paid increasing attention to entrepreneurship within existing organisations. This phenomenon is usually called 'corporate entrepreneurship' or 'intrapreneurship'. Entrepreneurship in existing organisations can be studied at various levels of inquiry, with the organisational level and the individual level as the most important. At the organisational level, research has investigated the formation of new corporate ventures (emphasizing the differentiation of types of new ventures and their fit with the corporation) and on the entrepreneurial organisation (mainly emphasizing the characteristics of such organisations). At the individual level, the focus has been on the individual characteristics of the entrepreneurial employee or intrapreneur (Pinchot, 1985). So far most attempts to study entrepreneurial efforts within organisations have focused on the organisational level. The antecedents and role of individuals' entrepreneurial behaviour within organisations have received little attention.

In the present chapter, we first briefly summarize the main findings of a conceptual paper on entrepreneurial employee behaviour (De Jong and Wennekers, 2008). By combining insights from two sources of literature on employee behaviour inside existing organisations, i.e. proactiveness and innovative work behaviour, with insights from the literature on early-stage entrepreneurial activity this paper derived a detailed list of relevant activities and behavioural aspects of intrapreneurship. This list provided a basis for designing a questionnaire for a first empirical investigation into intrapreneurship, in which ten GEM-countries participated. Next, after discussing the questionnaire and the sample, the present chapter will present the empirical results of this first GEM study into intrapreneurship, while focussing on the results for the Netherlands¹.

5.1 Intrapreneurship: a special type of entrepreneurship²

Intrapreneurship refers to initiatives by employees in organisations to undertake something new for the business. Although intrapreneurship is related to corporate entrepreneurship, these concepts differ in the following sense. Corporate entrepreneurship is usually defined at the level of organisations and refers to a top-down process, i.e. a strategy that management can utilize to foster more initiatives and/or efforts to achieve improvement from their workforce and organisation. Intrapreneurship relates to the individual level and is about bottom-up, proactive work-related initiatives of individual employees.

Intrapreneurship is a special type of entrepreneurship and thus shares many key behavioural characteristics with this comprehensive concept, such as taking initiative, pursuit of opportunity, and some element of 'newness'. At the same time, intrapreneurship also belongs to the domain of employee behaviour and thus faces specific limitations that a business hierarchy and an internal business envi-

¹ For a more extensive discussion of the empirical results see Bosma, Stam and Wennekers (2009).

² This section is based on De Jong and Wennekers (2008).

ronment may impose on individual initiative, as well as specific possibilities for support that an existing business may offer to a nascent intrapreneur. Major activities related to intrapreneurship include opportunity perception, idea generation, designing a new product or another recombination of resources, internal coalition building, persuading management, resource acquisition, planning and organizing. Key behavioural aspects of intrapreneurship are personal initiative, active information search, out of the box thinking, voicing, championing, taking charge, finding a way, and some degree of risk taking.

5.1.1 Two phases of intrapreneurship

Pinchot (1987) refers to intrapreneurs as 'dreamers that do'. Accordingly, it is possible to distinguish between two phases of intrapreneurship, that may be called 'Vision and imagination' and 'Preparation and emerging exploitation'. Analytically, this distinction formalizes the basically sequential nature of the various intrapreneurial activities. Empirically, it helps in assembling relevant items for measuring intrapreneurship. In practice, these stages may overlap and occur in cycles, as the perception of an opportunity sometimes follows various preparatory activities such as product design or networking (see Gartner and Carter, 2003). The two core elements of intrapreneurship are also strongly linked as imagination includes exploring possible barriers and problems facing the project and figuring out various solutions.

5.1.2 The scope of intrapreneurship

As there is a large conceptual diversity in the literature with respect to the relevant scope of entrepreneurial behaviour, this also reflects on any intrapreneurship concept. There are at least three alternative conceptual approaches. The first is 'pursuit of entrepreneurial opportunity' (Shane, 2003). This includes developing a new product or service, a new geographical market or a new production process in the widest sense. This view probably represents the most encompassing view of entrepreneurship, as it acknowledges both the Kirznerian and the Schumpeterian perspective of entrepreneurial opportunities (Shane, 2003, p. 35). The second view may be labelled 'new entry' (Lumpkin and Dess, 1996). New entry includes entering new markets with new products, entering established markets with new products, or entering new markets with established goods or services. In the latter case, the venture may be characterized as replicative rather than innovative. This concept is particularly relevant for intrapreneurship. Finally, 'new organisation creation' (Gartner, 1989) offers a behavioural view of entrepreneurship as the process by which new organisations are created. Following this specific view, intrapreneurship could be either innovative or replicative but should always be concerned with some sort of 'internal start-up' (such as establishing a joint venture, a new subsidiary, a new outlet or a new business unit).

Without taking a final stance on the optimal intrapreneurship construct, we have made practical choices for our first empirical investigation that will be discussed in the next section.

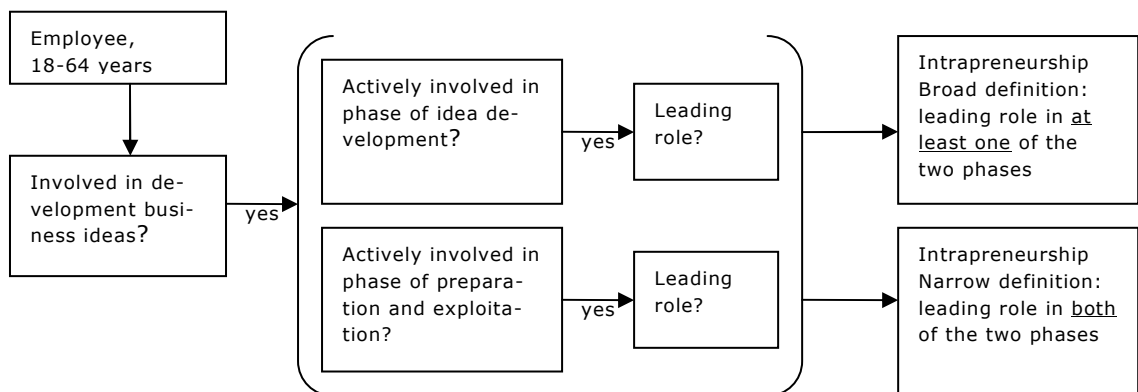
5.2 Empirical investigation of intrapreneurship in ten countries

5.2.1 The questionnaire

The major goal of the first GEM investigation of intrapreneurship was to obtain more empirical information about entrepreneurial employee activities across a number of countries. Based on the literature as discussed in the previous section, three elements were important for designing the questionnaire. These are the scope of intrapreneurship, the phases of the intrapreneurial process, and the role of intrapreneurial employees in each of these phases. As for the scope, we have chosen to operationalize intrapreneurship as employees developing new business activities for their employer, including establishing a new outlet or subsidiary and launching new products or product-market combinations. This approach is probably closest to the 'new entry view' discussed previously. It is definitely wider than new organisation creation. On the other hand, it excludes employee initiatives that aim mainly at optimizing internal work processes. These latter activities belong to the domain of 'innovative work behaviour' (De Jong, 2007)¹. Next, we distinguish between two phases in the intrapreneurial process, i.e., idea development for new business activities, and preparation and (emerging) exploration of these new activities. As for the role of intrapreneurs in each of these phases we distinguish between leading and supporting roles.

Based on these elements we conceive a broad and a narrow definition of intrapreneurship. According to our broad definition intrapreneurs are employees who, in the past two years, have been actively involved in and have had a leading role in at least one of these phases. According to our narrow definition intrapreneurs have a leading role in both phases of the intrapreneurial process. See the scheme in figure 13 for a clarification.

Figure 13 Scheme with broad and narrow definitions of intrapreneurship used in this study



Source: Bosma, Stam and Wennekers (2009).

Subsequently, all intrapreneurs that fitted our *narrow definition* were asked some further questions about their 'most significant new business activity' in the

¹ Intrapreneurship and innovative work behaviour overlap, but they are not identical.

past two years. Firstly, some questions were asked concerning various aspects of the intrapreneurial process, including whether the new business activity was the intrapreneur's own initiative, whether he/she had to overcome internal resistance and whether he/she personally had to take risks to become involved in the new activity. Secondly, it was also asked whether the new business activity involves a new product or service. Finally, as the intrapreneurship questionnaire was part of GEM's Adult Population Survey (APS) as a whole, all these results could be linked to other relevant characteristics of the intrapreneurial employees, including their perceptions and attitudes as well as their intentions to start a business of their own within the next three years.

5.2.2 The sample

Table 13 presents some characteristics of the ten countries that participated in the GEM survey on intrapreneurship. These include GDP per capita and population size. Four of the participating countries belong to the innovation-driven economies, while six countries are factor- or efficiency-driven economies. Three countries have a population size larger than 40 million inhabitants, while four countries are medium-sized and three have a population of less than 5 million.

Table 13 Characteristics GEM countries participating in intrapreneurship investigation

<i>Countries</i>	<i>GDP per capita</i>	<i>Population size (X 1,000)</i>	<i>Sample size adult population 18-64 years</i>	<i>Number of em- ployees in sample</i>
<i>Factor- & efficiency- driven economies</i>				
Brazil	10,300	191,900	2,000	1,162
Chile	14,700	16,400	4,068	2,454
Ecuador	7,500	13,900	2,142	557
Latvia	17,800	2,400	2,011	1,477
Peru	8,600	29,000	1,990	1,189
Uruguay	12,700	3,500	1,645	1,104
<i>Innovation-driven economies</i>				
Korea Republic	26,300	48,400	2,000	1,102
NETHERLANDS	40,400	16,600	2,534	2,024
Norway	55,200	4,600	1,614	1,241
Spain*	30,800	40,500	2,597*	2,000

* Spain selected a random sample of employees within a much larger sample of adults. The corresponding number of the adult population 18-64 years is an estimate based on an employment rate of 77% (obtained from IMD (2008) *The World Competitiveness Yearbook and US Bureau of the Census, International Database (IDB)*).

Source: Bosma, Stam and Wennekers (2009).

In these ten countries the survey on intrapreneurship involved all respondents to the Adult Population Survey who had indicated that they were currently employed but did not work as the owner-manager of a business. As can be seen from the last two columns in table 13, it will thus be possible to express the prevalence of intrapreneurship as either a percentage of the number of employ-

ees or, alternatively, as a percentage of the adult population between 18 and 64 years of age.

5.3 The prevalence of intrapreneurship in the Netherlands in international perspective

Table 14 presents the main results regarding the prevalence of intrapreneurship according to our narrow and broad definition, both as percentage of the number of employees and as percentage of the adult population between 18 and 64 years of age. A first observation is that intrapreneurship, as defined in this report, is not a very wide-spread phenomenon. On average, fewer than 5% of employees are intrapreneurs, even according to our broad definition. In addition, its incidence in the adult population is on average significantly lower than that of early-stage entrepreneurial activity. A second observation is that intrapreneurs seem to be roughly twice as scarce in factor- and efficiency-driven economies as in innovation-driven economies. This pattern is the reverse of that for early-stage entrepreneurial activity, which is more abundant in factor- and efficiency-driven economies. Accordingly, the rate of intrapreneurship in the Netherlands is among the highest in the sample, while its TEA rate is relatively low. We return to this remarkable finding below.

Table 14 Prevalence of intrapreneurship in ten countries, 2008

	<i>Intrapreneurship narrow definition in</i>		<i>Intrapreneurship broad definition in</i>	
	<i>% employees</i>	<i>% adult population</i>	<i>% employees</i>	<i>% adult population</i>
Factor- & efficiency-driven economies	1.4	0.8	2.6	1.6
Innovation-driven economies	2.7	2.0	5.0	3.7
NETHERLANDS	3.5	2.7	7.2	5.5
All countries	1.9	1.4	3.5	2.5

Source: Bosma, Stam and Wennekers (2009).

Respondents were also asked whether the organisation¹ they were working for employed fewer than 10, between 10 and 250, or more than 250 employees. Table 15 presents the size class distribution of intrapreneurship according to our narrow definition. Apparently intrapreneurs are present in organisations within all size classes. More precisely, for innovation-driven economies it appears that the distribution of intrapreneurs across size classes is roughly similar to that of all employees in our sample. However, in factor- and efficiency-driven economies intrapreneurship seems to be underrepresented in medium-sized businesses and relatively prominent in large organisations. Intrapreneurship in the Netherlands seems to be relatively widespread in large organisations. However, this is due to an overrepresentation of employees in large organisations in comparison to the other countries included in this study. In fact, the Netherlands stands out from

¹ These organisations include private businesses as well as organisations in the (semi-)public sector.

the other countries in that the intrapreneurs are found relatively more often in small organisations.

Table 15 Distribution of intrapreneurship (narrow definition) across size classes

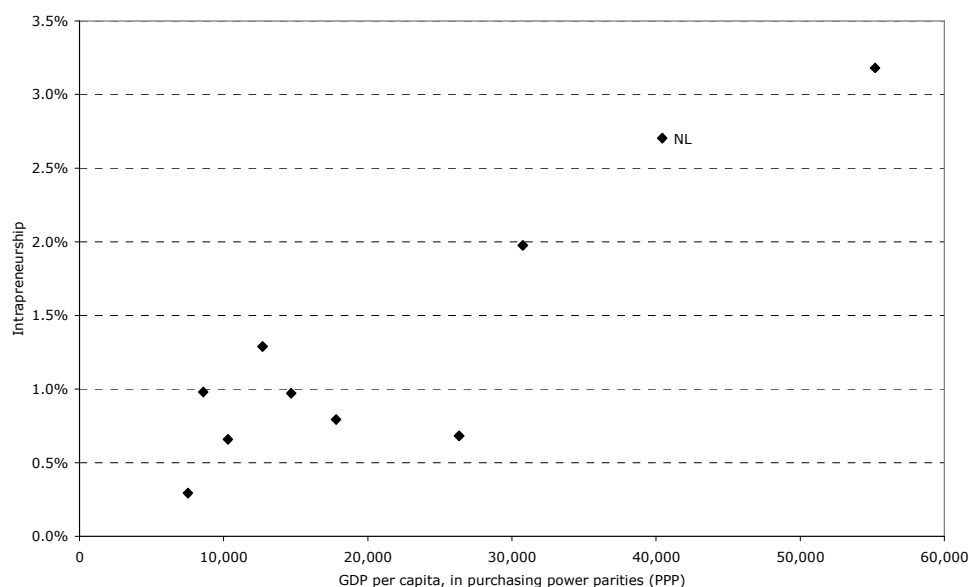
	< 10 employees	10-249 employees	> 250 employees	Don't know/ refused
Factor- & efficiency-driven economies	33	36	30	1
Innovation-driven economies	23	47	30	0
NETHERLANDS	27	35	38	0
All countries	27	43	30	0

Source: Bosma, Stam and Wennekers (2009).

5.3.1 Relationship with the level of economic development

Figure 14 explores the possible relationship between the incidence of intrapreneurship according to our narrow definition, and the level of economic development as measured by GDP per capita. The scatter plot suggests a strongly positive relationship. Possibly, businesses in higher income countries offer relatively more opportunities for intrapreneurial initiatives. This may be related to a higher share of the services sector in these countries or to a higher incidence of participatory management styles. Higher educational levels in innovation-driven economies may also imply a higher supply of intrapreneurs.

Figure 14 Intrapreneurship in ten countries, 2008, percentage of the adult population (18-64 years of age), in relationship with GDP per capita



Source: EIM/GEM and IMF: World Economic Outlook Database (October 2008 Edition).

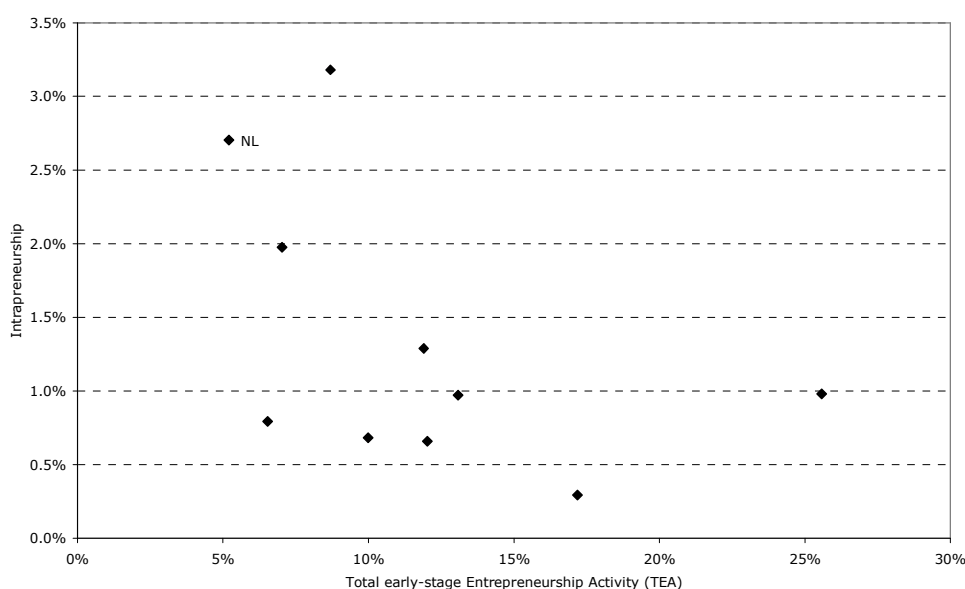
Obviously a far larger sample including higher income countries with varying institutional coordination mechanisms of their economy will be needed for a more conclusive analysis. For a more extensive discussion of the relationship between

intrapreneurship and per capita income, see Bosma, Stam and Wennekers (2009).

5.3.2 Relationship with TEA

Figure 15 explores the possible relationship between the incidence of intrapreneurship according to our narrow definition, and the prevalence of independent early-stage entrepreneurship as measured by TEA. The figure suggests a negative association, although at first face this relationship seems statistically less convincing than the one in figure 14. Again, future analysis with more data is necessary to be able to draw further conclusions. Nevertheless, the combination of high intrapreneurship and low TEA in the Netherlands is striking. Possibly, a relatively high incidence of safe and well-paid jobs and a relatively participatory and permissive management style in many organisations in the Netherlands induces 'entrepreneurial employees' in this country to exploit their entrepreneurial tendencies within the business for which they work rather than to start up for themselves.

Figure 15 Relationship between intrapreneurship and TEA in ten countries, 2008, percentage of the adult population (18-64 years of age)



Source: EIM/GEM.

5.4 Exploring the nature of intrapreneurship

In this section we explore some key characteristics of intrapreneurship. Table 16 presents the results with respect to the most significant new business activity in which intrapreneurs, as defined according to our narrow definition, have been involved during the past two years. In the first column it is shown that more often than not, these intrapreneurs became involved in developing the new business idea, acting on their own initiative rather than because they were asked to do so by their manager or another colleague. The incidence of own initiative seems to be somewhat higher in innovation-driven economies, including the

Netherlands, than in factor- and efficiency-driven economies. The second column shows that, on average, about 50% of all intrapreneurs have had to overcome some kind of internal resistance in developing the new business activity. This element deserves further scrutiny in a future study. In addition, risk taking is a well-known core characteristic of entrepreneurship. From the third column it appears that, on average across the ten participating countries, about one-third of intrapreneurs report having taken personal risks in becoming involved in the new business activity. However, the incidence of personal risk taking appears to be much lower in innovation-driven economies than in factor- and efficiency-driven economies. For a discussion of the nature of the risks taken by the intrapreneurs, see Bosma, Stam and Wennekers (2009). Finally, it was found that about half of the intrapreneurs developed new business activities involving a product or service that was new to the intrapreneur's organisation.

Table 16 Some characteristics of intrapreneurship (narrow definition) in ten countries, 2008, as percentage of the total number of intrapreneurs

	<i>% own initiative</i>	<i>% overcoming internal resistance</i>	<i>% taking any risks personally</i>	<i>% new product or service</i>
Factor- & efficiency-driven economies	47	43	57	57
Innovation-driven economies	62	47	24	43
NETHERLANDS	60	56	30	58
All countries	57	46	35	48

Source: Bosma, Stam and Wennekers (2009).

Finally, we have investigated how, across these ten countries, intrapreneurship at the individual level may be a predictor of early-stage entrepreneurial activity. While some entrepreneurial employees deliberately opt for intrapreneurship instead of self-employment in order to limit their risks, it also seems likely that intrapreneurship can be a useful stepping stone towards founding one's own business. Indeed, as shown in table 17, the incidence of nascent entrepreneurship as well as of prospective entrepreneurship is higher for intrapreneurs than for other employees. This holds particularly for innovation-driven economies, and most conspicuously for the Netherlands. However, in the Netherlands it still holds that almost 80% of intrapreneurs are neither involved in nascent entrepreneurship nor expecting to start a business of their own within the next three years. For a more extensive analysis of the relationship between intrapreneurship at the individual level and various entrepreneurial perceptions, attitudes and intentions, see Bosma, Stam and Wennekers (2009).

Table 17 Relationship between intrapreneurship and (prospective) start-up behaviour at individual level, 2008

	<i>Nascent entrepreneurship</i>		<i>Prospective entrepreneurship (excl. nascent entrepreneurs)</i>	
	<i>% of intra-preneurs</i>	<i>% of other employees</i>	<i>% of intra-preneurs</i>	<i>% of other employees</i>
Factor- & efficiency-driven economies	15.5	10.0	32.1	24.3
Innovation-driven economies	5.1	2.3	12.9	9.0
NETHERLANDS	10.1	2.3	11.5	4.9
All countries	8.9	6.4	20.1	16.6

Source: Bosma, Stam and Wennekers (2009).

5.5 Summary

This chapter presented some of the major results of an empirical GEM study into entrepreneurial employee behaviour, also known as intrapreneurship, in ten countries, with a special focus on the Netherlands. Intrapreneurship was defined as employees developing new business activities for their employer, including establishing a new outlet or subsidiary and launching new products or product-market combinations. A first conclusion is that intrapreneurship, as defined in this report, is not a very wide-spread phenomenon. On average, fewer than 5% of employees are intrapreneurs. In addition, its incidence in the adult population is significantly lower than that of early-stage entrepreneurial activity. A second conclusion is that there seems to be a strongly positive relationship between the incidence of intrapreneurship and the level of economic development as measured by GDP per capita. Intrapreneurs seem to be roughly twice as scarce in factor- and efficiency-driven economies as they are in innovation-driven economies. This pattern is the reverse of that for early-stage entrepreneurial activity, which is more abundant in factor- and efficiency-driven economies. In particular, the rate of intrapreneurship in the Netherlands is among the highest of the sample, while its TEA rate is relatively low. Possibly, a relatively high incidence of safe and well-paid jobs and a relatively participatory and permissive management style in many organisations in the Netherlands induces 'entrepreneurial employees' in this country to exploit their entrepreneurial tendencies inside the business for which they work rather than to start up for themselves. A third conclusion is that intrapreneurship at the individual level may be a predictor of early-stage entrepreneurial activity, as the incidence of nascent entrepreneurship as well as of prospective entrepreneurship is higher for intrapreneurs than for other employees. This holds particularly for innovation-driven economies, and most conspicuously for the Netherlands. However, still almost 80% of intrapreneurs in the Netherlands are neither involved in nascent entrepreneurship nor expecting to start a business of their own within the next three years.

6 Informal investment activity

According to Eid (2005), there are three fundamental factors stimulating firm expansion and the creation of new businesses that prosper and create jobs, namely (i) financial resources, (ii) innovative know-how and education (i.e. tacit knowledge), and (iii) "requisite regulatory/legal institutions to support the two".¹ In this chapter we focus specifically on the first fundamental factor: finance. Generally, financing sources range from micro-finance to 'high finance', where the former refers to small loans (microloans) designed to spur entrepreneurship (mainly to those in poverty) and the latter includes private equity and venture capital. In this chapter, we particularly focus on the role that informal investors - located somewhere near high finance - play in financing (new) ventures. An informal investor is a non-institutional investor who provides capital for someone else's business start-up. Informal investments differ from venture capital funds, investment banks and corporation/corporate venture capital in terms of invested amount, riskiness, firm size of the investee and location of the firm in the entrepreneurial process (early- versus later-stage) among others. A more comprehensive framework of reference concerning the position of informal investments in the range of financing sources is provided in section 6.1. Then, section 6.2 emphasizes the importance of informal investment activity for entrepreneurial activity. Some figures regarding the prevalence of informal investors are presented in section 6.3 and subsequently in section 6.4, the factors determining the prevalence of informal investment activity are described.

6.1 Framework of reference

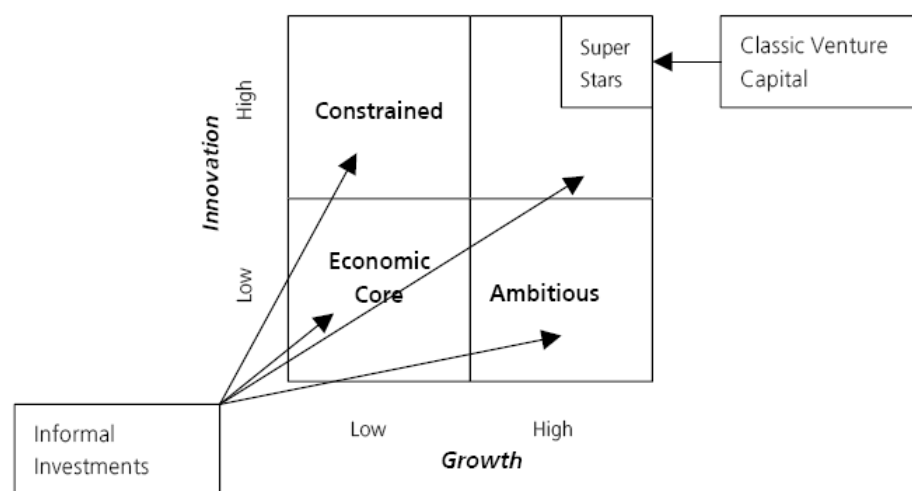
Financial support for new ventures is an important engine for entrepreneurial activity. When starting a new business, entrepreneurs can draw on their own capital or utilize other financing sources, for instance traditional debt and classic venture capital (the formal venture capital market) or informal investments (the informal venture capital market). It depends on the location of the business start-up in the entrepreneurship spectrum² which source of financial support can be exploited by the entrepreneur. According to Kirchoff (1994), the entrepreneurship spectrum, classified by growth and innovativeness, is reflected in figure 16. The micro-businesses of self-employed persons who are pushed into entrepreneurship (necessity entrepreneurship) or are pulled into self-employment by a perspective of being independent (improvement-driven opportunity entrepreneurship), are on the bottom left part of the spectrum. The high-potential opportunity superstars are at the other end of the spectrum - the top right part. The other corners of the spectrum presented in the figure, capture the "start-up ventures founded on opportunities that are more limited than those of the high-

¹ Surely, the growth of ventures is also related to external factors as well e.g. market size and growth.

² The entrepreneurship spectrum captures the different types of entrepreneurs classified according to their innovativeness and growth ambition (Kirchoff, 1994). In addition, low growth and low innovativeness relatively often reflect necessity entrepreneurship, although many self-employed individuals are opportunity-driven in the sense that they aspire independence, while high growth and high innovativeness are the domain of high-potential opportunity entrepreneurs (also called superstars).

potential ones" (Bygrave, Hay, Ng and Reynolds, 2003, p. 105). The micro-entrepreneurs usually draw on their own capital. As can be seen in figure 16, classic venture capital mostly flows to superstars with high-potential opportunities. Informal investments, on the other hand, flow to businesses in all segments (including micro-entrepreneurs and superstars). Hence, "if there were no informal investments, there would be virtually no new ventures¹. Without venture capital there would be a perceptible drop in the rate of growth and/or the prevalence of superstar companies, but no significant drop in the number of new ventures" (Bosma and Wennekers, 2004, pp. 41-42). In light of the crucial role of informal investors in 'seed' and early-stage entrepreneurship, special attention will be given to this group of capital providers in this chapter.

Figure 16 Entrepreneurship spectrum and sources of financial support, classified by growth-expectation and innovativeness



Source: Kirchoff (1994); EIM (Global Entrepreneurship Monitor 2003 The Netherlands).

6.2 Impact of informal investments on entrepreneurial activity

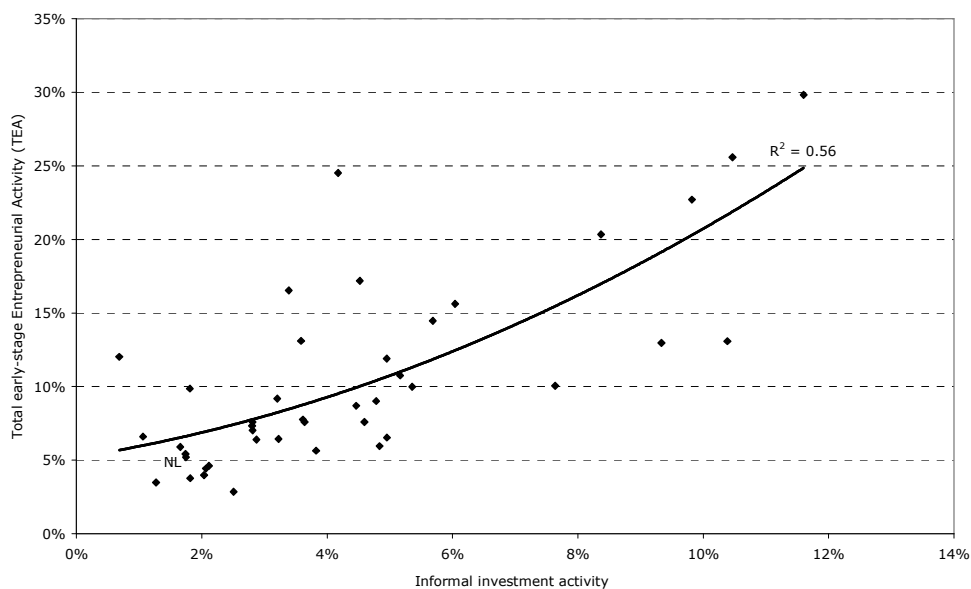
The key role of informal investors in financing new business ventures and growth businesses has not been fully recognized. When setting up a new venture, most founders cannot draw only upon their own sources of capital or bank loans. Venture capitalists seldom invest in early stages of the development process when financing new ventures. They rather invest in the later stages to facilitate ventures to scale up their production. Informal investors, however, distinguish themselves from venture capitalists by focusing more on early-stage investment (Hindle and Rushworth, 2001). Since informal investors invest more often in early stages of the new venture rather than later stages, they play a critical role in filling the market gap for start-up and early-stage equity finance (i.e. the resource gap for entrepreneurs).

The importance of informal investors in financing new ventures is also emphasized in the academic literature. Ho and Wong (2007), for instance, address the

¹ In particular no new ventures founded on opportunity recognition.

issue of capital availability to entrepreneurial propensity, for which they compare the availability of three major forms of financing sources: traditional debt, classic venture capital and informal investments. Although the study's findings emphasize the importance of all three types of financing sources, only informal investments make a significant difference in explaining entrepreneurship at the national level. Informal investment availability contributes in particular to high-growth and opportunity entrepreneurship. Note that these findings do not imply that venture capital investments or financial capital provided by banks and other financial institutions are not important for funding new ventures. This study supports the prime importance of informal investments only as determinant for new venture formation relative to the other two types of financing sources. This suggests the existence of a significantly positive relation between a country's informal investment activity and its Total early-stage Entrepreneurial Activity (TEA).

Figure 17 Relationship between informal investment activity and TEA, all GEM countries*, 2008, percentage of the adult population (18-64 years of age)



* India is excluded from the analysis because it seems to be an outlier. With an informal investment activity of 18.6% and a TEA of 11.5, India differs significantly from the general pattern.

Note: The estimated curve is a second-order polynomial.

Source: EIM/GEM.

In this report, this is empirically illustrated using GEM data of 2008. As can be seen from figure 17, countries with relatively high levels of informal investment also show relatively high rates of nascent and new/young business entrepreneurship, on average. On the other hand, relatively low levels of informal investment activity are usually accompanied by low rates of TEA (as is the case for the Netherlands). In other words, there indeed exists a positive relationship between informal investment activity and TEA, in line with Hessels (2005). In particular opportunity entrepreneurship is positively correlated with informal investment (Bygrave, Hay, Ng and Reynolds, 2003). The direction of causality will be discussed in section 6.4.

The informal venture capital market represents a major source of 'seed' and early-stage capital (Mason and Harrison, 2000; Sohl, 1999, 2003; Bygrave, Hay, Ng and Reynolds, 2003). The informal venture capital market is substantially larger than the formal (institutional) venture capital market, in terms of both the amounts invested in businesses at their start-up and early growth stage, and the number of businesses invested in (Harrison and Mason, 1999). The next section provides an estimate of the size of the informal venture capital market by using GEM data covering the period 2001-2008.

6.3 Prevalence of informal investors

The GEM Adult Population Survey allows us to identify informal investors. All respondents in the adult population are asked whether or not they have made an informal investment in a new business started by someone else. The actual question in this survey reads as follows: "Have you, in the past three years, personally provided funds for a new business started by someone else, excluding any purchases of stocks or mutual funds?". Those who answered this question with 'yes' are marked as an informal investor. Subsequent questions that GEM asks them are related to the amount of money they invested informally and the relationship of the investor with the investee. The former can be used to estimate the total amount of capital circulating in the informal investment market. The latter can be used to distinguish between informal investors investing in ventures owned by acquainted entrepreneurs and those owned by unacquainted entrepreneurs (i.e. strangers) - also known as (pure) business angels (Bygrave, Hay, Ng and Reynolds, 2003; Sohl, 1999, 2003). Combined, these investors are often called the 3Fs investors, i.e. Family, Friends and Fools - the term Fools is added because investment returns on early-stage investment is so often negative. Hence, two of the 3Fs are purely acquaintances of the entrepreneur (i.e. friends and family) while the third F (fools) is a mix of acquaintances of the entrepreneur and pure business angels. Financing through friends and family or so-called 'love money' is constrained by (close) ties, while business angels are often high net worth, non-institutional private equity investors who (mainly) have no (close) ties with the investee (FORA, 2006). 'Informal investors' is the generic term for friends, family and fools, and pure business angels.

Table 18 demonstrates the trend in the prevalence rates of informal investors for members of the EU, OECD countries and the Netherlands. This shows that the prevalence rates of informal investors seem relatively stable in the Netherlands over time, oscillating between 1% and just above 2%. In 2008, 1.7% of the Dutch adult population has, in the past three years, personally provided funds for a new business started by someone else. Stability can also be observed when looking at the EU- and OECD-averages over time. During the majority of the observation period, the Netherlands performs significantly below both the EU-average and the OECD-average.

Focusing on all GEM countries, 4.7% of the adult population indicated being an informal investor in 2008. Compared to this overall average, the majority of OECD countries (involved in GEM 2008) show a below-average prevalence rate of informal investors, see figure 18. In the OECD area, Mexico and Iceland have the highest informal investor prevalence rate (10.4% and 7.6% respectively). In the remaining OECD countries participating in GEM 2008, this rate ranges from 1.1% in Hungary to 5.4% in the Korean Republic.

Table 18 Informal investment activity in the Netherlands, EU and OECD, 2001-2008, percentage of the adult population (18-64 years of age)

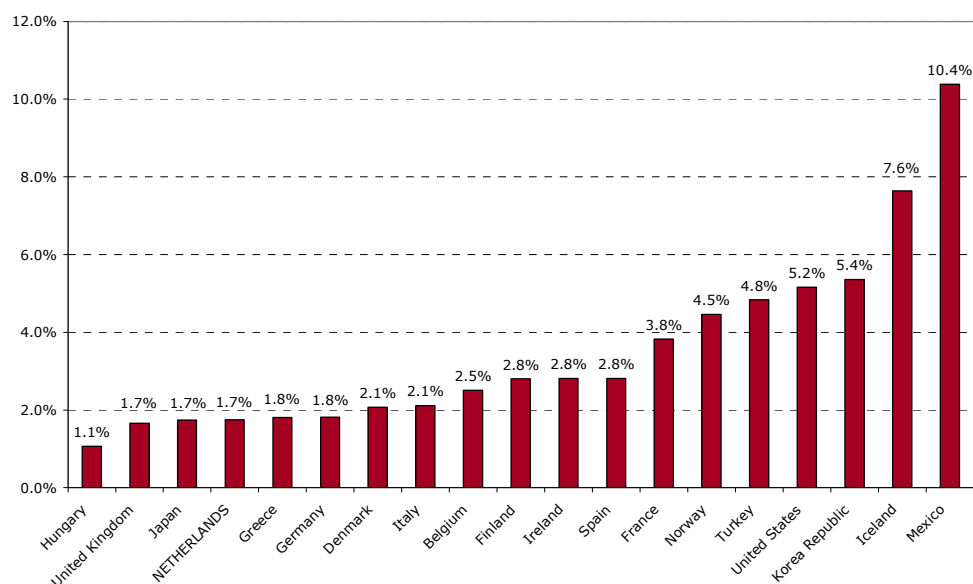
	2001	2002	2003	2004	2005	2006	2007	2008
EU ¹	2.8	2.4	2.2	2.4	2.4	2.6	2.9	2.5
OECD	3.3	3.1	3.1	3.0	3.1	2.8	3.4	3.5
NETHERLANDS	1.3*	1.8*	1.3*	1.3*	2.0*	1.1*	2.3	1.7 ⁺

⁺ Statistically different from OECD figure only (at a 5% level).

* Statistically different from both EU and OECD figure (at a 5% level).

Source: EIM/GEM.

Figure 18 Informal investor prevalence rates in all OECD countries participating in GEM 2008, percentage of the adult population (18-64 years of age)



Source: EIM/GEM.

With a rate of 1.7%, the Netherlands has one of the lowest prevalence rates among all OECD countries, which has also been noted in earlier GEM reports for the Netherlands (e.g. Bosma and Wennekers, 2004). This relatively low prevalence rate may be influenced by the relatively low TEA rate in the Netherlands and the historically low business ownership rate prior to 1990. Since a virtuous circle exists between entrepreneurial activity and informal investment activity

¹ Until 2004, the EU members are Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden and United Kingdom (EU-15). In 2004, EU extended with ten countries, namely Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, forming the EU-25. With the accession of Bulgaria and Romania in 2007, the EU has 27 Member States. The figures in the table represent the average of all EU members of the corresponding year that participated in GEM.

(see section 6.4), it seems plausible that, given the relatively low TEA in the Netherlands, informal investment activity is also relatively low and vice versa.

6.4 Factors determining the prevalence of informal investors

Since informal investment activity plays such a valuable role in new business start-ups and firm growth, it is also important to understand the propensity of individuals to make informal investments. Identifying and understanding the factors determining the prevalence of informal investors may provide policy guidelines that can be used to encourage informal investment activity (Freear, Sohl and Wetzel, 2002). This may then be used to unlock many latent informal investors' capital and expertise.

Hindle and Rushworth (2001) provide an overview of the attitudes, behaviour and characteristics (ABCs) of informal venture capitalists using a compilation and comparison of findings of several international studies in this field. As far as the characteristics are concerned, informal investors are predominantly middle-aged, wealthy males, well educated and usually equipped with management experience (independent of their prior education). In addition, informal investors are more likely to have prior entrepreneurial experience than the average adult population. The main attitudes/preferences of informal investors are that they primarily invest in early phases of the business, while venture capitalists focus more on later-stage investments. The majority of informal investors also tend to invest locally. In terms of investment behaviour, informal investors distinguish themselves from venture capitalists in the sense that they generally invest smaller sums of money, they focus more often on smaller businesses than venture capitalists, and they are usually willing to invest in riskier start-ups and early-stage firms than other capital providers (HBSP, 2005).

With studies of Maula, Autio and Arenius (2005), Szerb, Terjesen and Rappai (2007) and Burke, Hartog, Van Stel and Suddle (2008) among others, knowledge on the demography and drivers of informal investors has been further extended and refined. Maula, Autio and Arenius (2005) were among the first to focus on the determinants driving individuals into informal investment activity, as well as on the differences in drivers between investments made in businesses owned by close family members (so-called 'love' money - Bygrave, Hay, Ng and Reynolds, 2003; Mason, 2006) and investments made in firms owned by more distant owners¹. In order to understand these (different) drivers, the authors draw on two theoretical frameworks: the social psychological theory of planned action and the economic theory on household portfolios. The social psychological theory of planned behaviour (Ajzen, 1991) explains individual's intentions in terms of perceived self-efficacy (i.e. one's own attitudes towards behaviour, subjective norms and perceived behavioural control). The economic theory on household portfolios examines determinants affecting investments by households into risky assets (Guiso, Haliassos and Jappelli, 2002). The main findings from the study of Maula, Autio and Arenius (2005) are that entrepreneurial attitudes, experience and skills

¹ Wong, Ho and Autio (2005) also investigated the determinants affecting the prevalence of informal investors where distinction is made between investments in ventures owned by strangers and ventures owned by friends and acquaintances. However, since this study covers much of the same ground as that of Maula et al. (2003), the discussion of the results of Wong, Ho and Autio (2005) are beyond the scope of this chapter.

play a more important role than demographics in explaining the decision of individuals to invest funds in new businesses started by others. When comparing the drivers for investments made in business owned by close family members and those for investments made in ventures of more distant owners, the authors find that the analyzed determinants are stronger predictors for non-family investments than for family investments. A possible reason given for this is that philanthropic motivations and a necessity to support are more important when the informal investor is personally familiar with the entrepreneur, while non-family investments are driven more frequently by rational behaviour.

Szerb, Terjesen and Rappai (2007) extend the study of Maula, Autio and Arenius (2005) in two respects. First, they explore not only individual- but also country-level determinants of informal investment. Second, they distinguish four types of informal investors based on business ownership experience (or no such experience) and close family relationship with the investee (or no such relationship). The precise typology of informal investors based on this classification is represented in figure 19. Classic love money informal investments are made by those with no business ownership experience who finance businesses owned by close family members. Classic business angels have business ownership experience and finance businesses of non-family members. Informal investors with no business ownership experience financing businesses of non-family members are referred to by Szerb, Terjesen and Rappai (2007) as outsiders. Finally, informal investors with business ownership experience and close family ties to the investee are referred to as kin owners. When exploring the factors determining the probability of an individual to make an informal investment, the authors obtain results that either confirm earlier findings or extend the existing knowledge in this field. Both individual- and country-specific determinants are found to be "quite diverse across the four distinct groups [of informal investors] in terms of both direction and magnitude" (Szerb, Terjesen and Rappai, 2007, p. 278). In general, individuals' demographic and personal context features emerge as being much more important for the decision to invest informally than environmental factors of economic, political and cultural nature.

Figure 19 Typology of informal investors

Relationship to investee	Close family	<i>Kin owner:</i> close family member, owner investors	<i>Classic love money:</i> close family investors with no ownership experience
	Non-family	<i>Classic business angel:</i> non-family, owner investors	<i>Outsider:</i> investors with no business experience and no family ties to investees
		Past experience	No experience
Business ownership experience			

Source: Szerb, Terjesen and Rappai (2007).

Burke, Hartog, van Stel and Suddle (2008) build on the work of a.o. Maula, Autio and Arenius (2005) and Szerb, Terjesen and Rappai (2007) by investigating multi-level (i.e. both micro- and macro-level) determinants influencing the pro-

pensity of individuals to make informal investments in businesses owned by others. Hereby, they distinguish between determinants for investments made by family, friends and foolhardy investors - 3Fs investors - and those made by strangers - pure business angels. In addition, they specifically investigate the relationship between entrepreneurial activity and the supply of informal investors. For this purpose, Burke, Hartog, van Stel and Suddle (2008) draw on four theoretical frameworks with the potential to have an impact on this relationship:

- 1 Limited resource allocation theory of classical economics (Smith, 1776; Marshall, 1890): in this context, this implies that endowments (e.g. time and wealth) allocated to entrepreneurial activity leave less of these resources for other activities, such as informal investment activity.
- 2 Keynesian logic that demand generates its own supply (Keynes, 1936): in this context this implies that new created ventures increase the demand for informal investments. At the same time, these new ventures create new investment opportunities attracting informal investments and hence, increase the supply of informal investors.
- 3 Human resource management theory (e.g. Blanchflower and Oswald, 1998; Kelly, 2007; Riding, Madill and Haines, 2007): in this context, this seeks for (dis)similarities in profile characteristics (in terms of ability and motivation) of individuals that are entrepreneurially active and individuals that provide funds for a business started by someone else.
- 4 Entrepreneurial capital accumulation theory (a.o. Birley, 1985; Minniti and Bygrave, 2001): in this context, this explains how being entrepreneurially active leads to social and human capital accumulation as well as financial capital accumulation. Entrepreneurial experience helps individuals to accumulate skills, expertise and knowledge which may also be relevant for successful informal investment activity. Furthermore, entrepreneurial activity may result in financial capital accumulation if the enterprise is successful.

Overall, Burke, Hartog, van Stel and Suddle (2008) argue that a 'virtuous entrepreneur-informal investor circle' effect exists. They find that, regardless of time and wealth constraints, involvement in entrepreneurial activity (whether ongoing or having resulted in exit) positively affects an individual's probability of making an informal investment. This holds for both 3Fs investments and pure business angel investments. Nevertheless, entrepreneurs who are currently owner-manager of a business are more likely to be a pure business angel as opposed to a 3Fs investor. At the macro-level, higher levels of entrepreneurial activity stimulate individuals to become informal investors, which is in line with Keynesian logic. Hence, as a result of micro- and macro-level determinants, the demand for informal investments seems to generate its own supply. The presence of such a virtuous circle between entrepreneurial activity and informal investment activity is confirmed by Cowling, Murray and Harding (2003). They explain how "successful entrepreneurs metamorphose into informal investors and become an important source of both finance and relevant experience" (p. 1), and as such, informal investors are of great value for potential/prospective entrepreneurs. Hence, entrepreneurs are likely to be involved in informal investment activity (Mason, 2006) while informal investors are also frequently active as entrepreneur (Landström, 1998) - that is, a virtuous cycle.

Another important finding at the macro-level concerns the complementarities between informal investments and venture capital funds (Harrison and Mason, 2000). As explained before, informal investors primarily invest in early-stage

businesses, while venture capitalists focus more on later-stage investments. This suggests a complementary association between both types of fund raising. In countries with relatively low levels of entrepreneurial activity, however, it is possible that there are insufficient investment opportunities for later-stage venture capital investments. As a consequence, informal investors and classic venture capitalists operate more frequently as substitutes (rather than complements) in countries with a less entrepreneurially active economy. As the level of entrepreneurial activity in a country increases, the degree to which venture capital and informal investment activities are complements also increases.

Both Szerb, Terjesen and Rappai (2007) and Burke, Hartog, van Stel and Suddle (2008) find that individuals with career capital from entrepreneurial experience (in terms of skills, expertise, knowledge and relationship networks acquired from business ownership experience) are significantly more likely to make an informal investment in ventures of others. In fact, because of their entrepreneurial background (resulting in entrepreneurial capital accumulation), informal investors can contribute more to a business than just money (Harrison and Mason, 1999; Sohl, 1999). By providing valuable advice on management, finance, etc., and sharing other accumulated human capital, informal investors can become closely involved in investee companies (Harrison and Mason, 1999). Thus, next to the financial support to new and early-stage ventures, informal investors may also provide additional value to the entrepreneur.

6.5 Summary

Informal investors are significant players in the provision of finance to nascent and growing businesses. *First*, in terms of size of investment: business angels invest in the so-called 'equity gap' by providing amounts of finance that are beyond the ability of founders and 3Fs investors and below the minimum investment threshold of venture capital funds (which, because of their high transaction costs generally do not make relatively small investments). *Second*, in terms of phase of the business: investments by informal investors are skewed towards the nascent and growing businesses, whereas venture capitalists focus on later stage deals. Hence, informal investors (the aggregate of 3Fs investors and business angels) provide capital to 'seed' and early-stage entrepreneurship that is not eligible for finance provided by venture capitalists, and therefore play a key role in stimulating entrepreneurship.

In the GEM Adult Population Survey, informal investors are traced by asking each respondent whether or not they have personally provided funds for a new business started by someone else. In 2008, 4.7% of the adult population of all GEM countries made an informal investment. With a rate of 1.7%, the Netherlands has one of the lowest prevalence rates of informal investment activity among all OECD countries. This may be influenced by the relatively low TEA in the Netherlands and the historically low business ownership rate prior to 1990. Since there exists a virtuous circle between entrepreneurial activity and informal investment activity it seems plausible that, given the relatively low TEA in the Netherlands, informal investment activity is also relatively low and vice versa.

Since informal investment activity is crucial for new and growing firms, it is important to obtain insight into the propensity of individuals to make informal investments. Several studies have paid attention to the determinants affecting the

supply of informal investors. Consistent findings from these studies are that demographic characteristics, such as gender, age, education, income, and working status, are key factors influencing an individual's decision to provide funds for businesses owned by others, as well as features of personal context, like entrepreneurial awareness and personal acquaintance with the investee. Furthermore, informal investors are more likely to have (prior or current) entrepreneurial experience than average members of the adult population. "While the decision to invest in another's business is [mainly] an individual behaviour, it is embedded in a larger environmental context" (Szerb, Terjesen and Rappai, 2007, p. 258). Regarding this "larger environmental context" (i.e. the macro-level determinants), economic, political and cultural environments have been found to be important drivers of informal investment.

7 Conclusions and policy implications

The present chapter provides an overview of entrepreneurship in the Netherlands, highlighting the major entrepreneurial strengths and weaknesses of the Dutch economy. This overview is based on a summary of the main conclusions of the previous chapters, while adding additional insights from other sources. This assessment is followed by a discussion of the relevance of entrepreneurship for overcoming the current economic crisis. Based on these considerations, some policy implications are derived in the final section.

7.1 Entrepreneurship in the Netherlands: an overview

7.1.1 Entrepreneurial attitudes, perceptions and intentions

Attitudes and perceptions concerning entrepreneurship denote the social attractiveness of being self-employed and give insight into self-perceived capabilities and opportunities for starting a new business. There appears to be a stable, positive attitude towards entrepreneurship in the Netherlands, also when viewed from an international perspective. Self-perceived capabilities for starting a new business and perceptions of entrepreneurial opportunities also show a relatively stable and positive pattern over time. In 2008, two-fifth of the Dutch adult population indicates to perceive good opportunities for starting a new business, 26% says that fear of failure would prevent them from starting a business, while almost two-fifth regards their own capabilities of setting up a new business as adequate. On average, males are more self-confident in this respect than females.

As far as entrepreneurial intentions are concerned, there is also a relatively stable pattern over time with a small peak in 2004 and 2005. In most years not more than between 5% and 6% of the Dutch adult population expects to start a new business within the next three years. Hence, there appears to be a relatively large gap between entrepreneurial attitudes and perceptions on the one hand and entrepreneurial intentions on the other hand. This in turn finds its expression in a, internationally spoken, relatively low TEA for the Netherlands as will be discussed in the next section.

7.1.2 Early-stage entrepreneurial activity

In order to measure (early-stage) entrepreneurial activity, GEM developed the Total early-stage Entrepreneurial Activity (TEA) rate, which captures both nascent entrepreneurship (people who are currently actively involved in setting up their own business) and new/young business ownership (people who currently manage and own a business that is less than 42 months old). In 2008, 5.2% of the adult population (18-64 years of age) was involved in TEA, while 7.1% of Dutch males were involved and 3.3% of Dutch females. The average value for TEA since 2001 is 4.8%.

The Netherlands has one of the lowest TEA rates of all countries that participated in GEM 2008. Although the share of the adult population that is actively involved in early-stage entrepreneurial activity (5.2%) is relatively close to the EU-

average of 5.9%, it is significantly below the average of all OECD countries participating in GEM (7.1%).

7.1.3 Business ownership rate

Looking at the total business ownership rate in the Netherlands in 2007, as measured in EIM's COMPENDIA data base¹, 13.5% of the labour force owns and manages a business in the private business sector including agriculture, while 12.0% of the labour force is self-employed in the private sector excluding agriculture. According to this latter measure, the level of independent entrepreneurship in the Netherlands is now above average when compared to a group of 23 OECD countries. While the Dutch prevalence rate is below that in the Mediterranean countries, it is easily above the rate in the Scandinavian countries. Most remarkably, business ownership in the Netherlands is on par with a group of six Anglo-Saxon countries and above the level in the United States. This relatively prominent position of the Netherlands is a recent achievement, as only in 1990 a self-employment rate of about 8% ranked the Dutch economy far below the OECD-average. As the comparatively high Dutch business ownership rate in recent years has been achieved in spite of a relatively low TEA rate, it follows that the Netherlands must have a relatively low entrepreneurial exit rate, as will be discussed below.

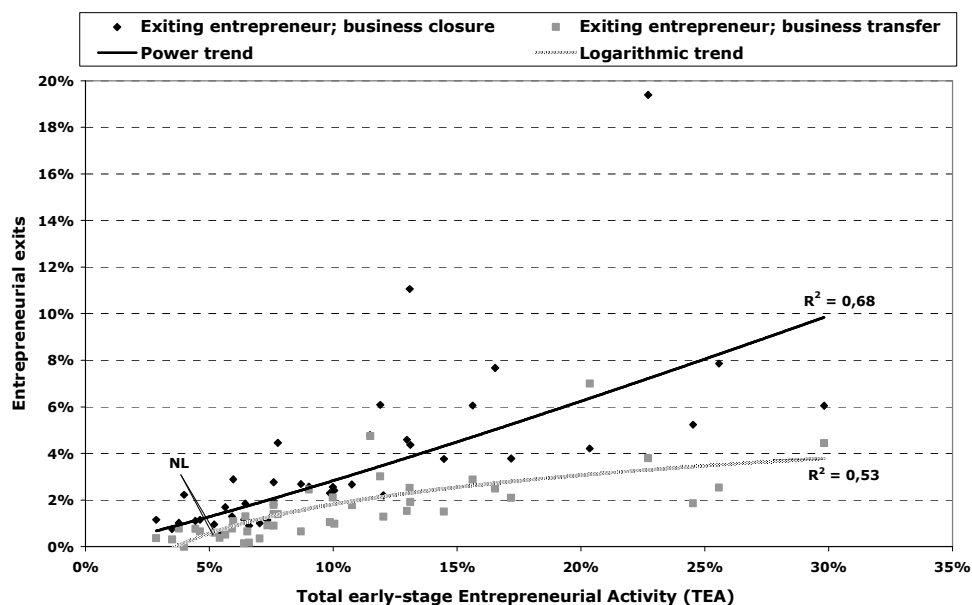
7.1.4 Exits

In 2008, 1.0% of the Dutch adult population has exited and shut down a business in the past year (at the time of survey), while 0.6% exited and transferred their business. These exit rates are slightly below the average for all EU countries, where 1.3% discontinued and 0.6% transferred a business. The OECD-averages are higher, with exit rates of 2.1% and 1.0% respectively.

Low entrepreneurial exit has many faces. *Firstly*, it means a high survival rate of businesses. The bright side of a high survival rate in the Netherlands may be that Dutch adults start up a new business only when they have considered their choice carefully and are relatively well prepared. In addition, a low exit rate may point to adequate management qualities. *Secondly*, low exit rates may also be caused by low levels of entry. As can be seen in figure 20, GEM data suggests a significant positive relationship between a country's TEA and the level of entrepreneurial exits. In this view, higher rates of TEA imply more competition which may in turn lead to higher entrepreneurial exit. Accordingly, the level of competition in the Netherlands might be relatively low. *Thirdly*, low exit rates may also reduce the level of re-engagement in the entrepreneurial process. Hessels, Grilo, Thurik and Van der Zwan (2009) emphasize the importance of exiting entrepreneurs, since recent exit experience increases an individual's probability of undertaking a new entrepreneurial activity.

¹ The figures are taken from EIM's COMPArative ENTrepreneurship Data for International Analysis (COMPENDIA), version 2007. This dataset is available at www.entrepreneurship-sme.eu. Also see Wennekers, Van Stel, Carree and Thurik (2009).

Figure 20 Relationship between TEA and entrepreneurial exits, all GEM countries, 2008, percentage of the adult population (18-64 years of age)



Source: EIM/GEM.

7.1.5 Informal investment activity

One of the main driving forces behind the creation and expansion of businesses is the availability of financial resources. These sources include micro-finance, traditional debt, private equity, classic venture capital and informal investments. The market of informal investments represents a major source of finance, in particular for the provision of finance to nascent and growing businesses. GEM data of 2008 reveals a significantly positive relation between a country's informal investment activity and a country's rate of 'seed' and early-stage entrepreneurial activity. The prevalence rate of informal investors in the Netherlands shows a relatively low but stable pattern over time (2001-2008). In 2008, 1.7% of the adult residents indicated to have personally provided funds for a new business owned by someone else. With this share of informal investors, the Netherlands persistently remains at the bottom of all OECD countries, which have an average prevalence rate of 3.5%. Focusing on the determinants affecting the propensity of individuals to make informal investments, research has shown that in particular demographic characteristics and features of personal context play a key role. In addition, environmental drivers such as economic, political and cultural environments are main factors influencing an individual's decision to become an informal investor. A particularly interesting finding is that, notwithstanding time and wealth constraints, involvement in entrepreneurial activity - whether ongoing or having resulted in exit - positively affects an individual's probability of making an informal investment. At the same time, the higher the rate of entrepreneurial activity at the macro-level, the more likely it is that individuals become an informal investor. As a result of these micro- and macro-level determinants, there exists a positive feedback loop between entrepreneurial activity and informal investment activity: demand generates its own supply.

7.1.6 Entrepreneurial aspirations/ambitions

Entrepreneurial aspirations refer to ambitions for innovation and internationalisation, and to growth ambitions. Starting with the latter, GEM's measure of High-growth expectation early-stage Entrepreneurial Activity (HEA) equals the prevalence of TEA that has an ambition to employ at least 20 people in five years time. In the period 2002-2008, it was found that on average 9.6% of all nascent and young business entrepreneurs in the Netherlands aspire for rapid growth. This is below the average for innovation-driven economies. Wennekers, Van Stel, Carree and Thurik (2009) analyze average High-growth expectation early-stage Entrepreneurial Activity during 2000-2006 across 21 OECD countries. Their analysis reveals that, structurally, only 0.5% of the Dutch adult population (18-64 years of age) is involved in HEA as opposed to about 1.5% of the American population.

Snel, Bakker, In 't Hout, Verhoeven and Timmermans (2009), who constructed an International Benchmark of Entrepreneurship, approach high-growth ambitious entrepreneurship in three ways, namely on the basis of an enterprise's turnover growth, employment growth, and both turnover and employment growth. In case turnover growth (employment growth) is applied, an enterprise is marked as fast growing if it has realized a sales growth (employment growth) of more than 60% over a three-year time period. The third definition used by Snel, Bakker, in't Hout, Verhoeven and Timmermans (2009) requires *both* a turnover growth *and* an employment growth of more than 60% over a three-year time period. In the most recent time period available, 2003-2006, only 3.4% of all business in the Netherlands realized both a turnover growth and an employment growth of more than 60% in the period 2003-2006 (as opposed to 16.4% based on turnover growth only, and 7.2% based on employment growth only).¹ From an international perspective², the share of fast growing businesses in the Netherlands can be marked as relatively low. Concerning high growth on the basis of turnover growth, only Japan (12.1%) and Belgium (15.7%) have a lower share of fast growing enterprises. Based on employment growth, the Netherlands leaves only Japan (2.4%) and France (6.6%) behind.

Focusing on aspirations in terms internationalisation, early-stage entrepreneurs in the Netherlands are on average somewhat less export oriented as compared to other EU or OECD countries. About 50% of the early-stage entrepreneurs in the Netherlands is not at all export oriented, while just over one third indicates to have 1-25% of their customers abroad. The remaining 15% is highly export oriented in the sense that more than a quarter of the customers are from abroad.

With respect to product and business innovation (i.e. newness of product and degree of competition respectively), the Netherlands performs to a large extent in accordance to the EU- or OECD-averages. 20% (21%) of the Dutch early-stage entrepreneurs provide products that are new to some (all) of the customers. Furthermore, about 41% (10%) of the Dutch TEA operate in a market where a few (no) businesses offer the same product. When it comes to technology in-

¹ These figures are taken from EIM's International Benchmark of Entrepreneurship, version 2007. This dataset is available at www.entrepreneurship-sme.eu.

² Compared to the other countries included in the International Benchmark, i.e. Belgium, Denmark, Finland, France, Germany, Ireland, Italy, Japan, United Kingdom, United States.

novation (i.e. the newness of technology), the Netherlands performs below EU- and OECD-averages. Only 2% of the Dutch early-stage businesses report that they use the very latest technology (available only since last year), while EU- or OECD-averages are about 10%.

7.1.7 Intrapreneurship

This report also presented some of the major results of the first empirical GEM study into entrepreneurial employee behaviour, also known as intrapreneurship, in ten countries, with a special focus on the Netherlands. Intrapreneurship was defined as employees developing new business activities for their employer, including establishing a new outlet or subsidiary and launching new products or product-market combinations. A first conclusion is that the rate of intrapreneurship in the Netherlands is among the highest of the sample, while its TEA rate is relatively low. Possibly, a relatively high incidence of safe and well-paid jobs and a relatively participatory and permissive management style in many organisations in the Netherlands induces 'entrepreneurial employees' in this country to exploit their entrepreneurial tendencies inside the business they work for rather than to start up a new business themselves. In this respect intrapreneurship may act as the 'hidden entrepreneurial force' of the Netherlands. A second conclusion is that intrapreneurship at the individual level may be a predictor of early-stage entrepreneurial activity, as the incidence of nascent entrepreneurship as well as of prospective entrepreneurship is higher for intrapreneurs than for other employees. This effect also holds for the Netherlands.

7.1.8 Entrepreneurial strengths and weaknesses

From the preceding overview of entrepreneurship in the Netherlands, the following 'diagnosis' can be derived. In the Netherlands:

- 1 entrepreneurial attitudes and perceptions are quite positive;
- 2 entrepreneurial intentions and TEA are low;
- 3 the business ownership rate is relatively high;
- 4 entrepreneurial exit is low;
- 5 informal investment activity is low;
- 6 entrepreneurial ambitions and aspirations are modest;
- 7 the rate of intrapreneurship is high.

Obviously there are positive and negative aspects in this diagnosis. The relatively high Dutch business ownership rate in recent years is a remarkable feat. However, there are indications that business ownership in the Netherlands is heavily dominated by solo self-employment. This can also indirectly be inferred from the modest level of entrepreneurial ambitions for business growth. This is of course a definite weakness. In fact, it may perhaps be diagnosed as the main problem of entrepreneurship in the Netherlands. Another and possibly related weak point are the ambitions of Dutch entrepreneurs with respect to innovation, that our assessment also shows to be comparatively modest.

On the other hand, positive entrepreneurial attitudes, low entrepreneurial exit and a high prevalence of intrapreneurship within businesses provide the Dutch economy with important 'hidden entrepreneurial forces' that might be exploited more intensively in the future. We will return to this issue in the section on policy implications. Nonetheless, for the time being these hidden treasures also raise questions. Why does the Netherlands perform so modestly with regard to early-stage entrepreneurial activity when the Dutch adult population has such

positive entrepreneurial attitudes and is so prominently involved in intrapreneurship? Is the Netherlands a textbook example of the trade-off between entrepreneurship and security (Hessels, Van Stel, Brouwer and Wennekers, 2007)? Would on the one hand Dutch adults like to be flexible and able to be entrepreneurial, while on the other hand choosing for the relative income security of wage employment? Is it Dutch culture or Dutch institutions that act as the main barrier for independent entrepreneurship?

A further relevant consideration may be that some entrepreneurial aspects are interrelated such that stimulating one of these aspects directly increases another dimension of entrepreneurship. This holds for example for TEA and informal investment activity. As explained in chapter 6, there exists a positive feedback loop between entrepreneurial activity and informal investment activity. Hence, when early-stage entrepreneurial activity picks up, informal investment activity will also increase.

7.2 Entrepreneurship and the current economic crisis

7.2.1 *Effects of the crisis for entrepreneurial activity*

As a result of the recession, opportunities for starting a business as perceived by the adult population may deteriorate because of (i) declining demand for products and services, and thus declining expected returns, and (ii) lower supply of entrepreneurial finance caused by banks being more risk averse. Dutch perceptions of entrepreneurial opportunity have not drastically changed over time (2001-2008), but in 2003, during the recession following the 'dot com bust', a low point in perceived opportunities could be observed (see chapter 2). As a result of the current economic crisis perceived opportunities for starting a business are therefore again expected to decline, whereas fear of failure is expected to increase. Entrepreneurial intentions may thus be affected in a negative way, although rising unemployment may act as a push-factor stimulating self-employment and may lead to an increase of necessity-motivated entrepreneurship. Finally, entrepreneurial exits may be expected to rise.

7.2.2 *Effects of the crisis for entrepreneurial aspirations*

Insofar as early-stage entrepreneurs often lean on their own skills and knowledge when setting up their businesses, the impact of the crisis on growth expectations may be limited. However, some new realism may be found among nascent entrepreneurs. In general, nascent entrepreneurs tend to overestimate their expected growth (Koellinger, 2008), but it has also been observed that ambitions are a strong predictor of outcomes (Cassar, 2007; Wiklund and Shepherd, 2003). The recession may also stimulate innovative entrepreneurship. In economic booms, much money is spent on research and development, but the resulting innovations have often not yet been implemented in new business activities because the 'old' products and processes were still generating good returns. Times of recession can be used to take these ideas from the shelf and actually implement them. In that respect, economic downturns may trigger economic activity that is directed toward the future rather than prolonging established routines.

7.2.3 *Entrepreneurship as a mechanism to fight the economic crisis*

As recently put forward by Koellinger and Thurik (2009a), entrepreneurship may be an important but underestimated instrument to fight recessions. In their

study they show that entrepreneurial activity is a leading indicator of the business cycle (Koellinger and Thurik, 2009a/b). "Rather than passively reacting to productivity shocks or ignoring them, entrepreneurs seem to create positive productivity shocks and innovations that give an impulse to the economy" (Koellinger and Thurik, 2009b, p. 13). At the same time, more entrepreneurship leads, with some delay, to less unemployment. In addition, their study shows that higher levels of entrepreneurship shorten the period of recession which is an important finding from a policy point of view.

Entrepreneurship is of course also important in a more structural way. There are many reasons why entrepreneurship leads to economic growth, at least in developed countries. More entrepreneurship leads to knowledge spillovers, innovation, increased competition and renewal through higher turbulence (entry and exit), more differentiation and an increased share of efficient and hard working entrepreneurs. It has also empirically been shown that entrepreneurship is conducive to economic growth (Erken, Donselaar and Thurik, 2008; Thurik, Carree, Van Stel and Audretsch, 2008). In addition, as investigated by Van Stel, Carree and Thurik (2005) entrepreneurial activity by nascent entrepreneurs and young business owners also affects economic growth in a positive way. Stam, Suddle, Hessels and Van Stel (2007) particularly investigated whether high-growth entrepreneurial activity contributes more strongly to macro-economic growth than entrepreneurial activity in general. Their empirical findings indeed suggest that the presence of ambitious entrepreneurs is a more important determinant of national economic growth than entrepreneurship in general.

Finally, Frijns, Verschoor and Zwinkels (2009) review the current economic crisis from a historical perspective, focusing on economic development since 1850. Within this frame of reference, the current crisis may not be as exceptional as is sometimes suggested. Crises accompany the capitalist economic system, correcting temporary failures of the market. An economic crisis restores unhealthy excesses and creates room for new entrepreneurial activity and innovation. This acknowledgement of Schumpeter's 'creative destruction' at the same time highlights the need for offensive entrepreneurial policies.

7.3 Policy implications

Three transition moments can be distinguished during the lifetime of an enterprise: (1) (pre)-start, (2) (fast) growth, and (3) business exit. As extensively described in Bakkenes, Schouwstra and Snijders (2009), over the past years Dutch entrepreneurship policy has been developed for each of these three transition moments, as well as for entrepreneurial activity in general. A recent overview of entrepreneurship policy in the Netherlands since 1982 (Kuiper en Wenekers, 2009) shows how policy gradually developed from a 'niche policy' into a 'holistic entrepreneurship policy'. It also shows how the promotion of a more enterprising culture was already initiated in 1987 and has been an explicit policy goal since 1999. An assessment of Dutch entrepreneurship policy in the period 2003-2007 (Meijaard, 2008) concludes that this policy as a whole has been effective. However, important cultural and institutional barriers for ambitious business growth remain. It was also concluded, that changing the occupational preferences of the population is a long term process. These latter conclusions are corroborated by the findings in the present report. Finally, Wenekers, Van Stel, Carree and Thurik (2009) advise that policymakers in advanced economies

should be aware of two economic trends in the Western world, i.e. a rise in solo self-employment and an upward trend of innovative and/or ambitious entrepreneurship. Both are important. Growing solo self-employment increases the flexibility and productivity of the economic system, while contributing to a higher degree of job satisfaction. It also increases the pool of successful entrepreneurial role models. A rise in innovative and/or ambitious entrepreneurship is needed for competitiveness, economic growth and job creation.

Also taking these earlier findings and conclusions into consideration, what are the specific implications of the Global Entrepreneurship Monitor for entrepreneurship policy in the Netherlands? *Firstly*, a further extension and intensification of effective entrepreneurship education seems sensible for promoting both solo self-employment and ambitious entrepreneurship (Meijaard, 2008). In this respect growth ambitions may be developed by fostering specific skills, and by facilitating networks and the exchange of knowledge and experience. *Secondly*, it seems worthwhile to consider measures to lower the 'opportunity costs' of self-employment, including the introduction of a more individualized pension system. In particular, a further deregulation of the labour market for managers and professionals may be helpful in removing disincentives discouraging prospective ambitious entrepreneurs "from leaving their tenured jobs and undertaking the risks in creating new enterprises" (Baumol, 2008, p. 13). *Thirdly*, the government might intensify its attempts to specifically stimulate ambitious, innovative start-ups by facilitating the commercial exploitation of recent scientific discoveries. This may include encouraging universities to establish science parks, technology offices, business incubators and venture funds.

Last but not least, as we have seen, entrepreneurship may also be an important weapon to fight the economic crisis and to restore long term economic growth. However, this requires that resources are reallocated in such a way that promising new activities replace obsolete economic activities. This process only works well if institutions, as captured by the Entrepreneurial Framework Conditions (EFCs) in figure 1, are conducive to both entry and exit, and do not artificially keep obsolete types of economic activity alive.

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