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*Opportunities and threats to nascent  
entrepreneurship*

# Colophon

This publication forms part of a series relating to entrepreneurship and small businesses. Two earlier publication in the series are *'Entrepreneurship in the Netherlands. New Firms: The Key to Competitiveness and Growth?'* and *Entrepreneurship in the Netherlands. Ambitions entrepreneurs: the driving force for the next millennium*

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# 1 Introduction

In recent years academics, policy makers and politicians have been devoting a great deal of attention to entrepreneurship. This is mainly due to the poor performance of many Western economies. Since the mid-1980s the policy of nearly all of the member states of the OECD, has to a large extent been aimed at reducing the high level of unemployment. Part of this policy involves improving the entrepreneurial climate. This is because new firms are an important contributor to job creation and also help create a more innovative economy that can adapt better to changing circumstances. In the Netherlands entrepreneurship is also considered to be of vital importance for the positive development of economic growth and employment.

This booklet is the third edition of 'Entrepreneurship in the Netherlands'; a series of booklets that address the state of entrepreneurship in the Netherlands and the associated policy issues. The theme of the first edition was 'New firms: the key to competitiveness and growth'. It gave an overview of recent developments in the area of entrepreneurship in the Netherlands, set in an international perspective and recent policy discussions in that field. The second edition dealt with the theme 'Ambitious entrepreneurs: the driving force for the next millennium'. Through different approaches an attempt was made to give an insight into the importance of ambitious entrepreneurs for the Dutch economy's output capacity. This third edition focuses on the phase before the start-up of a new enterprise, the so-called nascent entrepreneurship. Until recently little was known about these start-up efforts, but due to the initiative of the Entrepreneurial Research Consortium (ERC) more information is now becoming available about the mechanisms that lead to the creation of new enterprises.

This edition consists of three contributions prepared by EIM Small Business Research and Consultancy, The Dutch Ministry of Economic Affairs and Professor Paul Reynolds of Babson College, Wellesley, MA (USA) the co-ordinator of the Entrepreneurial Research Consortium.

Teun Wolters of EIM Small Business Research and Consultancy introduces the subject and highlights the significance of entrepreneurship for today's economies. Moreover, he describes the role of nascent entrepreneurship in the Netherlands. How many nascent entrepreneurs are there, what are their features and what problems do they meet?

Petra Zevenbergen of the Ministry of Economic Affairs focuses on the policy for the coming years aimed at stimulating entrepreneurship in the Netherlands and in particular to the policy aimed at nascent entrepreneurship. She pays special attention to the policy aimed at promoting entrepreneurship through the educational system to create an entrepreneurial frame of mind.

Professor Paul Reynolds starts with a comparison of the development of nascent entrepreneurship in the USA and northern European countries, including the Netherlands. The differences between the Netherlands and the USA appeared to be quite large. Professor Reynolds explains these differences in the context of the different types of national, cultural, political and economic systems in the two countries.

The editors, Petra Zevenbergen of the Ministry of Economic Affairs and Jacqueline Snijders of EIM, thank Sander Baljé, Sander Wennekers and Heleen Stigter for their invaluable comments on the report and all authors for their co-operation in this project.

## *2 Nascent entrepreneurship in the Netherlands: a glimpse behind the scenes of business start-ups*

*by Teun Wolters of EIM Small Business Research and Consultancy*

### **2.1 The significance of entrepreneurship**

#### ***The critical role of new firms***

The creation of new firms has become a topic of great interest since it was discovered that such firms have a critical role to play in the adaptation and revitalisation of economic systems. The significance of entrepreneurship hinges on various economic and social aspects which are recognised at both national and international level. In the Netherlands, the policy relevance of entrepreneurship in general has been fully recognised. In 1999 the Dutch Ministry of Economic Affairs issued a policy paper about the 'entrepreneurial society' which underlines the Dutch government's concern with the entrepreneurial qualities of the Dutch economy and this initiated a new wave of entrepreneurial research<sup>i</sup>.

#### ***International recognition***

Recognition of the importance of entrepreneurship in the international arena has been reflected by various initiatives and related publications. For instance, a recent OECD study<sup>ii</sup> stated that entrepreneurship is central to the functioning of market economies. People who start businesses and make them grow are seen as essential agents of change who accelerate the generation, application and spread of innovative ideas. Along with the generation of new and improved products and services, a significant level of entrepreneurship can be accompanied by a number of social benefits, such as possibilities for self-fulfilment and social renewal. The EU's 1997 Employment Summit reconfirmed the crucial role of entrepreneurship in facing today's economic and social challenges and in creating employment. In the European Union there are 18 million SMEs (involving an employment share of 66.2 per cent) whose overall potential contribution to employment creation must be enormous. A strong entrepreneurial culture was considered essential for the future competitiveness of the European economy and generating growth. Although in Europe there is a substantial level of entrepreneurial dynamism it is not so high compared with the EU's main competitors, particularly the USA. All the more reason why one should work on a strong and vibrant business community and develop a spirit of enterprise and risk-taking<sup>iii</sup>.

### **2.2 The knowledge-based economy**

#### ***Loss of comparative advantage***

Entrepreneurship (leading to the establishment of new firms) is being regarded as a major way of dealing with the economic problems confronting the Western European countries now and in the future. These problems relate to the loss of traditional comparative advantage in Europe as a result of the communications revolution. The "death of distance" has led to globalised economies and a shift of economic activity out of the high-cost locations in Western Europe to low-cost locations in Central Europe and Asia. As a result, millions of both blue-collar and white-collar jobs in the OECD countries have already disappeared.

Part of this process is reflected in lower real wages, a reduced level of social security and persistent unemployment. A comparative analysis of different OECD countries suggests that the Dutch policy of more flexible and sober terms of employment has counterbalanced the process of corporate downsizing by creating many new jobs. In the Netherlands 768,000 jobs were lost in the Netherlands between 1990 and 1994. Unemployment did not increase because job losses could be more than offset by the creation of 973,000 new jobs<sup>iv</sup>.

However, worries about a wage gap and reduced growth in per capita income invite a search for alternative solutions. One of these problems is the lack of incentive to innovate which prevalent low cost strategies (low wages being a prominent part of them) may imply. It is suggested that a basic alternative may lie in a *knowledge-based economy*, that is to say, an economy that thrives on new ideas and new knowledge. The global demand for products in emerging knowledge-based industries is high and growing rapidly; yet the number of workers who can contribute to producing and commercialising new knowledge is very limited. It is here where innovative entrepreneurship comes into play. New ideas concerning processes and products are inherently uncertain. What one worker thinks is a good idea may be disputed by colleagues and superiors. Therefore, for the knowledge-based economy it is essential that people whose new ideas are frustrated by their own organisation, create new situations where their ideas are further developed and tried out. In other words, the knowledge-based economy requires entrepreneurs, i.e. people who start new firms in which new ideas are pursued and marketed.

In general, it is believed that in the long term high growth rates can be achieved only with high rates of innovation. However, firms that manage to achieve this type of growth are small in number and cannot be predicted. Data allowing a balanced analysis of how the different types of new firms develop over time is very limited. A prominent research project in the USA, isolating the dynamics of new firms, refers to a cohort of firms formed during 1977 and 1978 which was followed for the next six years<sup>v</sup>. This research led to the conclusion that the failure risk when starting a high-innovation firm is no greater than when starting a low-innovation firm. However, the chances of achieving high growth are almost twice as great for high-innovation firms as for low-innovation firms.

## **2.3 Entrepreneurial research**

### ***Other research interests***

The previous discussion explained why new firms are considered to play a crucial role in today's changing economies. There are other aspects in the rise of new firms which may attract the interest of policy makers and researchers. In terms of international competition, there is strong interest as to how Western Europe is developing in comparison with other continents, in particular the USA. This leads to a quest for comparative figures on the number of start-ups and related issues in order to find out whether Western European countries are lagging behind. Further comparisons may focus on items such as technologies involved, services versus manufacturing and the quality of the jobs created by new firms. Both social and economic aspects are involved in the interest taken in the participation of women in the creation of new firms. Moreover, entrepreneurial activities undertaken by people from different ethnic backgrounds are related to the issues of social renewal and integration.



### ***EIM's entrepreneurial research***

The various interests which policy makers have in new firms are, to a considerable extent, reflected in EIM's research in the start-up of new firms. In particular, this research began to take shape with the monitoring of a panel of entrepreneurs who started their business in the first quarter of 1994. By carrying out subsequent annual surveys among the entrepreneurs on the panel and still in business, it was possible to distinguish different categories of young firms. For instance, one could distinguish between entrepreneurs (and their firms) from their 1994 characteristics such as education, gender, and whether the entrepreneur also had a salaried job. As soon as follow-up data became available, it was also possible to define firm categories based on hindsight. For instance, differences between rapidly growing and slowly growing firms can be distinguished. The 1994-1998 figures of firms that started in 1994 show that the rapid growth of new firms is supported by full-time management and relatively high investment as well as involvement in export and new technology.

The information required to predict the chances of success for new firms will originate from linking company features to later performance. For instance, EIM has started to investigate differences between firms in the 1994 panel, in particular between those who are still in business after five years and those who have given up. Of course, this research still needs time to mature. For instance, defining appropriate cause-effect relationships (if at all possible) seems to be far from easy. Parallel with monitoring the firms who started in 1994, EIM initiated a new panel research based on the firms who started in 1998. By applying the factors of success derived from the previous panel to the firms who started in 1998, predictions can be made as to the chances of survival. It will be a few more years before relevant conclusions in this area can be drawn.

The next sections are devoted to recent research on nascent entrepreneurship in the Netherlands; it explains the structure of the research and presents the main findings.

## **2.4 Research on nascent entrepreneurs**

### ***Pre-conditions for the start-up***

One major policy concern involves the preconditions required for a considerable number of new start-ups. These include the prevalence of a sufficiently large number of people interested in developing their own firm and the availability of optimal support networks. The panel-based research on new firms described earlier cannot be expected to address this item in sufficient depth. The research itself is based on the registration of new businesses with the Chambers of Commerce, the statutory bodies in the Netherlands. Such registration is mandatory. However, before an entrepreneur actually registers, he or she may already have gone a long way on the road of planning and networking. This process may be as crucial for the emergence of new firms as the actual start-ups themselves. Moreover, this is likely to be a risky business with a considerable number of failures. Insight into these abortive efforts to establish a firm may be extremely relevant for policy makers. However, it is obvious that the previously discussed panels of start-ups involve only the experience of those who had a successful start-up. Moreover, an additional limitation lies in the fact that, at the moment they were interviewed quite some time may have elapsed since most of the preparatory steps had been taken. As a result, many starters cannot be expected to remember the preceding trial and error processes.

### ***The Entrepreneurial Research Consortium***

The considerations stated above inspired a new line of research into the features and adventures of nascent entrepreneurs. In order to evaluate whether entrepreneurship involves a sufficiently large section of the population, international comparisons are of utmost importance. Comparisons with the USA and Sweden are now possible and for that reason EIM joined the Entrepreneurial Research Consortium (ERC) of which Professor Paul D. Reynolds of Babson College, Wellesley (MA), USA is the Director. This consortium was formed to conduct large-scale, international research on nascent entrepreneurs. The basic methodology is to interview a random group of citizens by telephone. The first question asked is: are you, either alone or together with others, in the process of starting up a new firm? Those who answer this question in the affirmative qualify for nascent entrepreneurship. However, it may be hard to recognise the exact borderline between, on the one hand, nascent entrepreneurs and potential entrepreneurs who in fact have not yet taken definite action and, on the other, between nascent entrepreneurs and those who have actually started a business. For this reason, the poll makers included certain checks to make sure that those respondents who are categorised as nascent entrepreneurs are actually preparing themselves for a start-up. International comparison may be hampered by definitions and procedures that differ to some extent. This is obviously one of the teething troubles that the newly started line of research will have to overcome in the coming years.

### ***Dutch research on nascent entrepreneurship***

The Dutch research on nascent entrepreneurs was carried out by EIM in September and October 1998. Nearly 50,000 Dutch telephone subscribers were approached; 37 percent of the calls did not result in contacts; 75 percent was due to refusals to co-operate. In the end it was possible to conduct more than 31,000 screening interviews, over 21,000 of which involved people between 18 and 65 years of age (the workforce), i.e. the target group. It could be estimated that approximately 3.8 percent of the Dutch workforce (amounting to about 252,000 people) is composed of nascent entrepreneurs.

**Table 1. Estimated prevalence of nascent entrepreneurship in the Netherlands as percentage of total population and total workforce**

Age group	Male		Female		Total	
	% Population	% Workforce	% Population	% Workforce	% Population	% Workforce
18-24 years	5.4	8,7	1.4	2.4	3.3	5.7
25-34 years	5.8	5,8	2.4	3.1	3.9	4.7
35-44 years	3.6	3,6	1.9	3.0	2.5	3.4
45-54 years	3.0	3,2	1.1	2.1	1.8	2.8
55-64 years	1.0	2,3	0.3	1.8	0.6	2.1
Total	3.5	4,6	1.5	2.7	2.5	3.8

Source: EIM Small Business Research and Consultancy, Ontluikend Ondernemerschap, Zoetermeer, 1999

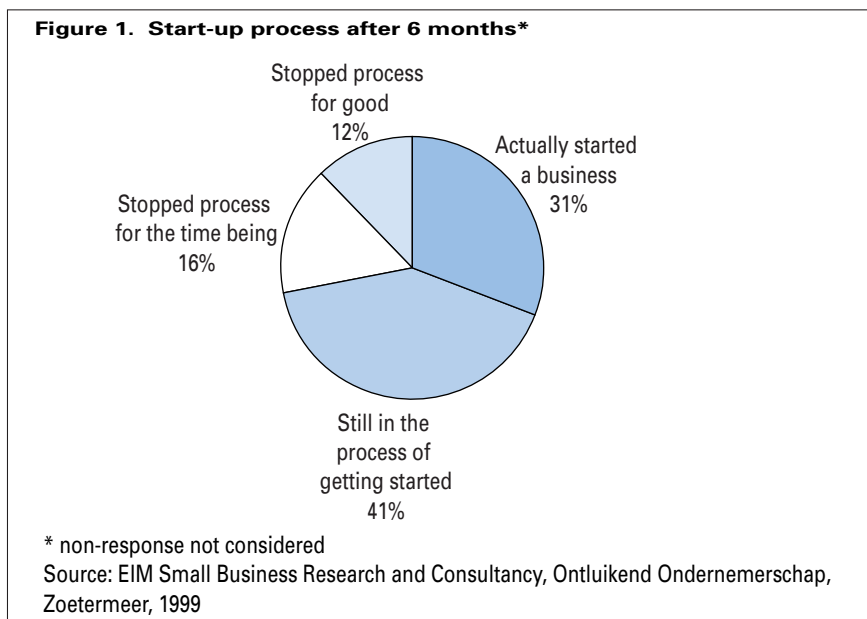
**Most nascent entrepreneurs are relatively young**

The prevalence of nascent entrepreneurs in the Netherlands according to gender and age groups, calculated both as a percentage of the total population and the total workforce, is shown in Table 1. It shows that the nascent entrepreneurs belong mainly to the younger section of the workforce.

Comparison with the USA and Sweden indicates that in the Netherlands entrepreneurial ambition among the total population between 55 and 64 years of age is conspicuously low. This may be (partly) explained by the large number of people in that age group who live on disability benefits or early retirement provisions. Moreover, the older generation was raised in a world in which life-time employment was common.

**Initial follow-up**

In February 1999 an initial follow-up took place to see how quickly the nascent entrepreneurs on the panel were moving towards actually running a business. This survey enabled the researchers to find out how the nascent entrepreneurs of September and October 1998 had developed. Figure 1 gives the frequencies. It appears that a considerable part of the nascents had, in the meantime, actually started a business (31 percent).



**Big cities as breeding grounds for entrepreneurship**

Regional figures lead one to conclude that nascent entrepreneurs are comparatively strongly represented among males between 18 and 34 years old living in the big cities of the Netherlands. Approximately 10 percent of the males in this category are about to start their own business.

**Many nascents are highly educated**

Other variables which reinforce the prevalence of nascent entrepreneurship are a relatively high level of education (and high income, 52 percent of the nascent

entrepreneurs are highly educated compared to 38 percent of a control group (representative of the Dutch population).

**Other features of nascent entrepreneurs**

Some other features of the nascent entrepreneurs in the 1998 survey are listed in Table 2. To highlight various aspects, Table 2 gives some majority groups as well as some minority groups. In general, the majority groups do not exceed 70 percent of the responding nascent entrepreneurs. This indicates the fact that, generally speaking, no group is extremely dominant. Nascent entrepreneurship is not restricted to a very specific category but instead is present among a wide range of people.

Categories	Percentage of total respondents
<b>Majorities</b>	
- Intending to start as part-time entrepreneur (< 30 hours a week)	53
- Preparation time is no longer than 12 months	63
- Present status is employee	69
- Intended sector of operation is services (business, financial and personal)	50
<b>Minorities</b>	
- Present status is student	6
- Intended sector of operation is manufacturing and construction	15
- Age between 18 and 25	8

Source: EIM Small Business Research and Consultancy, Ontluikend Ondernemerschap, Zoetermeer 1999

Table 2 gives rise to a number of observations:

- *Part-timers.* Starting as a part-time entrepreneur is popular. A majority of the nascents also has a part-time salaried job or runs a home. However, the research shows that 80 percent of the nascents aspire to become a full-time entrepreneur in the long run.
- *Preparation time.* The survey can report only what the nascents think their total preparation time will be. Some wishful thinking is likely to be involved. When interviewed during the first survey, 51 percent of the nascents said their remaining preparation time was no longer than 3 months, but the follow-up interviews showed that after five months no more than 32 percent had actually started up their business. This, however, does not detract from the latter result as such.
- *Present status is employee.* Given that 69 percent of the nascents is employee and 53 percent will combine their own enterprise with a part-time job (which can also mean running their home), less than 17 percent of the them will give up salaried employment altogether when starting-up, (assuming that the number of nascents who were

unemployed when interviewed but wish to combine their own new firm with part-time employment is very small).

- *Sector of operation is services.* Almost one third of the total group of nascent entrepreneurs (30%) intend to start a business in business and financial services and 20 percent intend to start in the personal services. Almost one of seven nascents have plans to start in manufacturing and construction.
- *Students:* Only a very small percentage of nascents are students.
- *Age:* The majority of nascent are older than 25.

**Techno-nascents**

Given the significance of technology in developing a knowledge-based economy, a special group of ‘techno-nascents’ was distinguished. To be regarded as techno-nascent, a respondent had to say yes to at least one of the following three questions:

- Do you expect to undertake technological R&D as part of your business?
- Do you expect to apply for patents for new products, processes or services?
- Do you consider your new firm as high-tech?

42 percent of the respondents could be categorised as techno-nascent.

Table 3 shows the distribution of the techno-nascents over the different age categories.

Age categories	Techno-nascents	Other nascents	Total
18 - 24 years	12	6	8
25 - 34 years	47	39	42
35 - 44 years	26	33	30
45 - 54 years	10	19	16
55 - 64 years	6	3	4
Total	100	100	100

Source: EIM Small Business Research and Consultancy, Ontluikend Ondernemerschap, Zoetermeer 1999

Being a techno-nascent often involves a process which is more difficult than that of other nascent entrepreneurs. In terms of firm size, personnel and a desire to become rich, techno-nascents tend to be more ambitious than other nascents. Moreover, they need a relatively large amount of initial capital and financing by third parties. They also have more problems to solve than other nascents.

Although the above results seem to be plausible, the follow-up interviews show that they cannot be taken at face value. 51 percent of those who qualified as techno-nascent entrepreneur in September 1998, changed his or her mind in February 1999. On the other hand, 11 percent of the respondents decided as late as February 1999 to be a techno-nascent. It is rather disconcerting to discover that many technological aspirations perish along the way.

### ***Comparative difference between nascent and actual entrepreneurship***

It is striking that, although the prevalence of nascent entrepreneurship in the US is much higher than in the Netherlands, the actual number of new firms in relation to size of population hardly differs. As the research on nascents is still very young, it is not yet possible to provide a full explanation for this finding. One possible factor accounting for the difference between the two countries is that in the USA start-ups are more frequently undertaken by a team of entrepreneurs. In chapter 3 of this report Professor Paul Reynolds further explains the differences between the USA and the Netherlands.

## **2.5 Selected topics on nascent entrepreneurs**

This section presents and discusses a number of results of the Dutch research on nascent entrepreneurship. It focuses on five topics: the problems that nascent entrepreneurs encounter, financing as an important aspect of developing a new firm, the ambition of nascent entrepreneurs, the use of information and advice and the role of education. Where deemed useful, information derived from the 1998 survey among a group of entrepreneurs who actually started up a firm has been added.

### ***Problems confronting the nascents***

According to the findings, one third of the nascents are being confronted by problems in the process of starting up their business. The survey offered an opportunity to investigate what kind of problems nascent entrepreneurs are facing.

In general, it appears that nascents are confronted with a range of problems that have to be dealt with. How serious these problems are obviously depends on the moment at which they have to be addressed. One instance is the fact that 39 percent of those who said they had problems in September 1998, stated that they had no problems in February 1999.

Regulations (legal obligations and public policy rules) are reported most frequently as a source of problems by the respondents: by 28% in September 1998 and 34% in February 1999. There also seems to be a positive relationship between the length of the expected preparatory period and the number of cases in which regulations create problems. It is quite conceivable that matters such as licences, bye-laws and restrictions on settlement can, in certain cases, lead to a substantial increase in preparation time.

Financing is the second largest source of problems nascent entrepreneurs have to address: 16 percent in September 1998 and 18 percent in February 1999. Nascents are often kept occupied with this problem until the very moment of actually starting-up their firm. Financing is also a major reason for nascents to break off all efforts to develop a business: 21 percent of those who broke off indicated that financing was the key problem.

The survey among those who actually started in 1998 indicates that these problems do not disappear after the start-up but become less intense. They are succeeded by problems associated with competition (17 %) and the need to develop a market (14%).

### ***Ambition***

Entrepreneurship without ambition is unthinkable. However, the level and nature of entrepreneurial ambition may vary considerably. The research paid particular attention to the ambition to build a company that will achieve the largest possible scale.

The difficulties that nascent entrepreneurs face may relate to insufficient or inefficient facilities provided by society when building up a business. On the other hand, the greater the ambition nascents have, the greater the resistance they are likely to encounter. For instance, 19 percent of the nascents aspire to create the biggest possible company. As the research shows, this ambition influences the magnitude and nature of the start-up problems. From the outset it tends to imply greater needs in terms of initial capital, financing by third parties, personnel and knowledge. Therefore, better facilities for nascents could result not only in fewer problems but also in increasing ambition.

The research brings to light certain factors which relate positively to a focus on developing a big company, in particular:

- age between 25 and 35;
- restarting a business;
- full-time entrepreneur;
- techno-starter.

These factors may be seen as increasing the competencies needed to build up a large-sized company. They relate to vitality, experience, available time and knowledge. However, in reality, there are many other sources of entrepreneurial competence and ambition. Nascent entrepreneurs may also have motives which do not necessarily call for a large-sized company. Many of those who started a business in 1998 indicated that for them to be their own boss or to create an opportunity to do the work they wish to do are strong motives for starting-up<sup>vi</sup>. Also a possibility to combine work and taking care of one's family may motivate people (women, in particular) to have one's own firm. Such motives can even lead to the ambition not to grow, but to stay small and refrain from employing personnel. In fact, according to the findings, 29 percent of the nascents do not aspire to employ people during the next five years.

### ***Financing***

The nascents' need for capital varies strongly. On the one hand 28 percent of the respondents require less than NLG 10,000, whereas there is also a group (31 percent) who wish to have more than NLG 100,000. A majority (60 percent) intends to work with own money only. The research shows that the higher the initial capital needed, the more problems one is likely to face and the longer the preparation time tends to be.

In general, the size of the initial capital required is independent of age, income or education. However, it is the group of ambitious men that displays an above-average need for initial capital. Forty percent of the nascents say they are seeking third party financing and four out of ten of those calling on a bank encounter problems with their bank. Again, personal characteristics (gender, age, income) cannot explain why. This may indicate that banks treat their clients objectively but may also suggest a prior tacit selection process which determines who will be knocking on the banker's door.

The acquired funds will be invested in the development of new activities immediately after the start up. Additional funds may be obtained as soon as the firm starts operating. What kind of investments do starters make?

Almost 70 percent of the newly started firms in 1998 made (additional) investments in equipment, 47 percent in inventories and 32 percent in vehicles. Marketing and

advertisement were also subject to (further) investment (see Table 4). However, the amounts involved were still rather limited. For a majority of the starters (56 percent) the early investments did not exceed NLG 10,000. This indicates a need for initial capital which seems to be smaller than the nascents think it will be<sup>vii</sup>. Only 15 percent of the starters had investments of NLG 25,000 and higher<sup>viii</sup>.

**Table 4. Types of Investments made by enterprises that started in 1998**

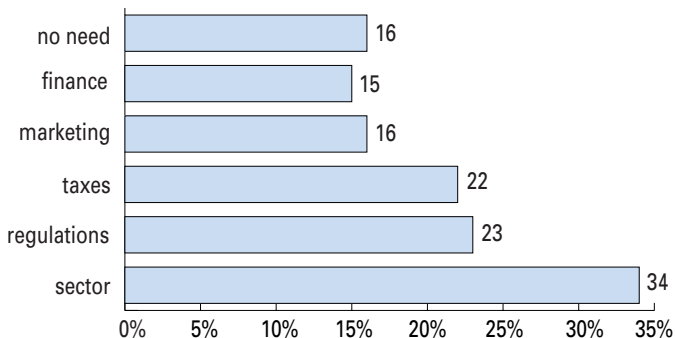
Type of investment	(%)
Equipment	68
Inventories	47
Market development/advertisements	38
Means of transport	32
Other assets	26
Accommodation	19
Training/courses	18
Product development	17

Source: EIM Small Business Research and Consultancy, Startende ondernemers in 1998, Zoetermeer, 1998

**The use of information and advice**

For almost all nascent entrepreneurs starting their own business means not only acquiring capital, but also gathering information, for instance about regulations, finance and taxes. There is also a distinct need for information about the sector in which nascents want to operate; more than one third of them tries to find this kind of information (see Figure 2). Nonetheless, 16% of the nascent entrepreneurs do not feel the need to acquire any kind of information.

**Figure 2. The need for information among nascent entrepreneurs in 1998**



Source: EIM Small Business Research and Consultancy, Ontluikend Ondernemerschap, Zoetermeer 1999.



Several organisations, public and private, provide information and advice to enterprises are concerned with consulting entrepreneurs. The Chambers of Commerce offer a great variety of basic information. As entrepreneurs are obliged to register their business at the Chambers of Commerce, it is not surprising that almost 50 percent of the nascent entrepreneurs make use of this source of information. Accountants, the tax department and banks are more or less specialised on certain subjects and provide nascent entrepreneurs with detailed information. A quarter of the nascents that at the time of the follow-up survey indicated to have stopped the start-up process for good, did not consult any organisation at all.

A majority of the nascent entrepreneurs was satisfied about the information they got from the different organisations. Relatively many nascents that are living on social security and restarters are complaining about the service or the availability of information. This may be caused by a more specific need for information that could not be offered by the regular institutions.

### ***The role of education***

In recent years research has shown that new firms are increasingly started by highly educated entrepreneurs. The nascents in the 1998 survey consisted for 51 percent of people with a higher education. However, there is a conspicuous difference between the 1998 nascents panel and the 1998 starters panel. According to the 1998 starters panel, 36 percent of those who had started a business had had a higher education. An explanation for this difference could be the definition that has been used (level of education that has been followed and level of education that has been finished). Another reason could be that a considerable part of the higher educated nascents is made up of dreamers who take the will for the deed. However, this somewhat curious result needs further investigation.

The traditional distribution of higher educated and lower educated people over sectors is also recognisable among nascent entrepreneurs. The representation of lower educated entrepreneurs in the retail and wholesale trade is above average, whereas the higher educated have a larger stake in professional services.

## **2.6 Conclusion**

Recent research on newly started firms has increased the need for more insight into the process preceding the moment of actually starting-up a firm. EIM's research on nascent entrepreneurs is a notable milestone in acquiring such additional information. By joining the Entrepreneurial Research Consortium, it is possible now to compare Dutch research findings on nascent entrepreneurs with corresponding findings in other countries, in particular the USA and Sweden.

According to the findings, 3.8 percent of the Dutch workforce belongs to the group of nascent entrepreneurs. In general, it appears that the group of nascent entrepreneurs is composed of a great variety of people. Irrespective of the angle from which one looks at them, there are no strongly dominant features which distinguish nascent entrepreneurs from the rest of the workforce. Nevertheless, certain aspects deserve special attention, such as education, sectors (business and financial services are important), age groups (relative absence of people above 50), and technology (many techno-nascents have greater ambition and more problems than other nascents).

From a policy point of view, knowing the kind of problems that nascent entrepreneurs encounter is extremely important. The research produced a list of such problems, regulatory and financing problems being prominent (but not dominant) among them. However, it is not easy to interpret these findings. Initially, most respondents indicated that they had no problems at all, but the follow-up interviews revealed that a considerable number of respondents had changed their mind on this subject between two measurements; they shifted from yes (I have problems) to no (I do not have problems) or vice versa. Various psychological factors may cause people to identify certain problems, develop a headache about them or forget about them. This is not to say that the questions concerning the problems that nascent entrepreneurs have to face are futile, on the contrary. But to identify the problems which relate to insufficient external support facilities, or define the barriers which deter entrepreneurial activity which - from a societal point of view - would be very welcome, is another matter.

As the research shows, there is a positive relationship between problems and ambition. For instance, it transpired that techno-nascent entrepreneurs are comparatively highly ambitious and also have more problems. This relationship evidently is relevant to policy makers. Linear thinking leads one to believe that measures to reduce the problems would lead to a future reduction in the number of nascent entrepreneurs who say they have problems. However, it is also possible that having fewer problems gives rise to greater ambition, as most of the time ambition is not generated without considering the possibilities of achieving objectives. Measuring the effectiveness of problem-reducing policies should take such effects into account.

The research as discussed in this chapter has indeed provided a glimpse behind the scenes of new business start-ups. Analysis of the data, partly in combination with data from separate research on those who have actually started a new firm, has raised a number of interesting issues.

To a large extent nascent entrepreneurship is a state of mind influenced by the chances offered by markets. But of course, there is a prior process of considering oneself as a potential entrepreneur. Although nowadays family background variables still seem to play a role in this area, one can also think of other channels such as the educational system through which people come to realise that entrepreneurship and having one's own firm is a serious option. In chapter 2 of this report special attention is paid to the way the Dutch government tries to stimulate the entrepreneurial spirit through the educational system.

In the near future it will have to be decided in what way research on nascent entrepreneurship should be continued. The major framework could contain repeated surveys so that certain developments could manifest themselves. When working with reliable comparative figures, it would be possible to focus on specific topics in separate projects, such as, restarters and their need for capital, the relationship between intrapreneurship and new business start-ups, techno-nascent entrepreneurs and the supportive networks that nascent and newly started entrepreneurs make use of.

It would be interesting and relevant for policy making if such research could be carried out in an increasing number of European countries. By so doing, it would be possible to evaluate more accurately what is going on in one particular country and to discover what can be considered best-practice.

## *Notes Chapter 2*

- i Ministerie van Economische Zaken, *De ondernemende samenleving*, Den Haag, 1999.
- ii OECD, *Fostering Entrepreneurship*, Paris, 1998 and OECD Policy Brief No. 9 1998.
- iii European Commission, *Fostering entrepreneurship in Europe: priorities for the future* COM (98) 222, 7 April 1998.
- iv EIM, *Het belang van bedrijfstypen voor de werkgelegenheidsontwikkeling*, 1997.
- v B.A. Kirchoff, *Entrepreneurship and Dynamic Capitalism*, Praeger Publishers, Westport, Conn. For relevant data on this issue one has to revert to research done in the seventies and eighties signifies the importance of the recent upsurge in entrepreneurial research.
- vi EIM, *Startende ondernemers in 1998*, Zoetermeer, 1998.
- vii According to the survey among the nascents, only 28 percent of the nascents believe they can manage with a starting capital not exceeding NLG 10,000. This percentage is substantially below the 56 percent of new firms whose early investments were within the range of 0-10,000 NLG. However, comparison is hampered by differences in population and period of time.
- viii EIM, *Startende ondernemers in 1998*, Zoetermeer, 1998.



## 3 “Good preparation is half the work”.

*By Petra Zevenbergen of the Dutch Ministry of Economic Affairs*

### 3.1 Introduction

Just do it, be a winner! This is the slogan with which sporting goods manufacturer Nike has encouraged consumers to buy its products for many years now - to be a winner, you have to wear their shoes! Make your dreams come true, don't be afraid to take risks - is this a typically American philosophy? Perhaps. The USA is known for its culture of entrepreneurship. If someone says that he wants to start his own business, the reply will be “Why not!” Raising the same question in many other countries, will have as response “Why?” There are many high growth businesses in the USA and a large number of students are keen to pursue a career as entrepreneur<sup>ii</sup>. Initiatives in that area abound.

Back to the Dutch situation. Are we keeping up with this “American Dream”? The Dutch Government believes that there is still room for improvement. There are relatively few starters, few innovators and furthermore, few high growth firms in our country. The growth in the number of new businesses is stagnating and only a few students - tomorrow's entrepreneurs - have the ambition to start their own enterprises. Do the Dutch prefer being a respected employee rather than an undistinguished self-employed person? Last September, the Dutch government issued a new policy document<sup>iii</sup> on the value of entrepreneurship for society, in which it argued in favour of an enterprising society. This document explains a number of policy measures through which the government intends to remove obstacles to starting businesses and create better opportunities for (potential) starters. The document is reviewed in 3.2.

This booklet focuses on ‘nascents’, the potential entrepreneurs who are about to spread their wings. In this chapter, we discuss the policy of the Dutch government towards this specific group. Is the policy that government adopted last year relevant to the nascents? Are they assisted by fewer obstacles and more opportunities? Will nascents find their way more easily, become a new player on the market more quickly and will less Nascents quit? In 3.3 we try to answer these questions.

One of the opportunities the Cabinet wishes to offer is greater attention for independent entrepreneurship in the education system. Creating a spirit of independence and entrepreneurship should ideally become a part of increasing students' awareness at the earliest possible stage, when they are starting to consider their future career. A tailor-made programme of measures is required for each stage of education - per course and even per institute. More attention in the educational path followed by students will, hopefully, lead to more and better prepared nascents. In 3.4 we discuss this issue.

We shall end with an overall conclusion.

### **3.2 Policy of the Dutch Government**

#### ***Importance of entrepreneurship for society***

The Cabinet favours a culture of enterprise in our country. The paper "The entrepreneurial society" describes the importance of entrepreneurship for the community. Entrepreneurship ensures flexibility and innovation and creates employment in our economy. A large proportion of the success generated by the Dutch 'jobs engine' can be claimed by the entrepreneurs in new and fast growing firms: they create 75 percent of new jobs. Entrepreneurship is also a means by which people can express their creativity, personal growth and independence. Over 60 percent of starting entrepreneurs claim that they started their own company because they wished to be their own boss and wanted to take on the challenge of being independent.

Entrepreneurship is also important for the economic participation and integration of women and minority groups. Of all starting entrepreneurs who set up their own company, one-third is female. Average performance figures for female entrepreneurs are under pressure because of the many part-timers who run their business as an additional activity. The number of ethnic entrepreneurs has doubled in 15 years: although 3.3 percent of the non-native professional population was entrepreneur in 1986, this has now risen to 7.4 percent. Finally, entrepreneurs can contribute towards solving social problems. An increasing number of initiatives have been taken in which businesses-support projects, which have no commercial objectives but only a societal goal, provide their expertise and organisational talents.

#### ***How enterprising is Dutch society?***

In this section, we show some problems faced by the Netherlands, based on facts and figures from the previous decade. The number of business starts has been levelling off since 1995. It is true that the number of entrepreneurs has increased in recent years, but the figure is somewhat deflated when related to the growth of the labour force. In fact, the number of entrepreneurs as a percentage of the labour force did not return to its 1972 level until 1996. The Netherlands thus lags behind the European Union and United States averages.

The number of new businesses which launch innovative products and services on the market constitutes only a small fraction of the total new businesses. Only 6 per cent of new businesses are in the high-tech sector. The development of new markets is also a form of innovative entrepreneurship. European integration offers Dutch entrepreneurs many opportunities to move into new markets in other countries, but the percentage of new businesses that export is falling. In comparison with other countries the Netherlands has relatively few businesses which achieve strong growth. New businesses are often small and stay that way. Neither does the Netherlands have many fast-growing firms: only 6 per cent of medium-sized businesses are fast growers. In Denmark and the United States this percentage is two to four times higher.

A quarter of a million Dutch people consider starting a company<sup>iv</sup>. However, a large proportion of this group will, in fact, never take this step. They encounter serious impediments (see 2.3). An increasing number of people wish to start their own company in combination with a paid job - this represents one-third of starting businesses<sup>v</sup>. The

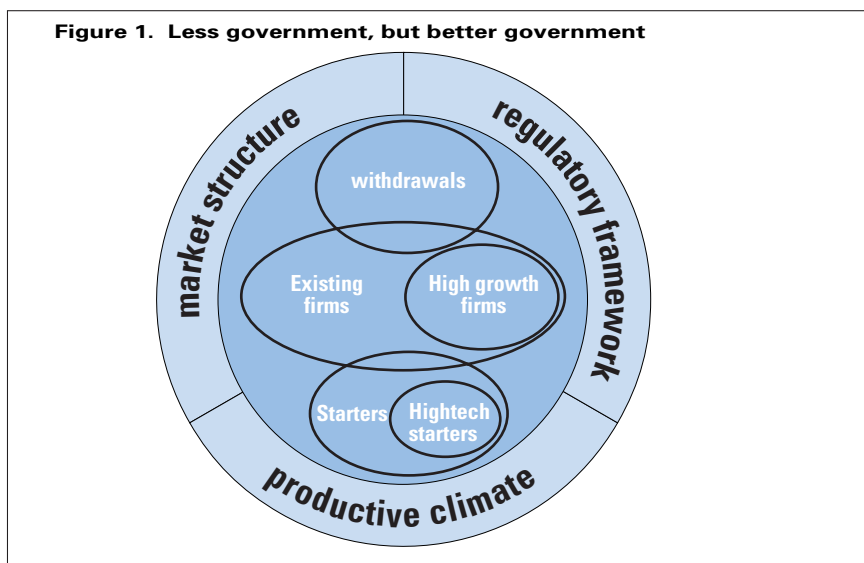
combination of domestic care tasks and independent entrepreneurship is also cited by Nascents, to an increasing extent, as their motivation for taking the step. These two groups will even grow in the coming years.

**Opportunities and impediments**

The paper ‘The entrepreneurial society’ describes the three basic themes that offer both opportunities and impediments for an enterprising society:

- 1 market structure;
- 2 regulations and public business services;
- 3 creating new opportunities by means of a productive economic climate.

By taking these measures, the Dutch government wishes “less government, but better government”, see figure 1



**1. Market structure**

The government has assumed the task of creating a level playing field where starting and growing entrepreneurs have a fair chance of success. On the one hand, this means that obstacles put in the way of new businesses must be removed; on the other, this requires effective legal regulation for competing companies. The government has set out the following two policy actions to meet these conditions: modernisation of the Establishment Act and Review of the Bankruptcy Act.

The Establishment Act aims to promote the quality of entrepreneurship in the Netherlands. The call for a more enterprising society led to an evaluation of this Act in 1998. The evaluation showed that the Act was no longer an efficient, effective and necessary element to promote the quality of entrepreneurship in our country. The modernisation of the Act means that the need to obtain a certificate to become an entrepreneur will no longer apply by January 2001. However, safety, environmental aspects and working conditions related to entrepreneurship, are included in the Establishment Act, and will receive extra attention. The best way to do this, is under examination. The remaining

requirements in the Establishment Act will no longer be of force and the law itself will be repealed by January 2006 at the latest.

The existing Bankruptcy Act does not seem to be functioning well. Although granting the suspension of payment was originally intended as a reorganisation instrument for viable firms, today around 73 per cent of all such arrangements end in bankruptcy. The possibility to strengthen the reorganising capacity of the Bankruptcy Act will be investigated this year.

## ***2. Regulations and public business services***

The major impediments facing entrepreneurship probably lie in the morass of regulations and administrative burdens. The administrative load acts as a barrier to a firm's further growth. Thus administrative obligations may discourage a business from taking on staff or more staff. In addition, the various government services and the inaccessible and at times complex organisation of subsidy schemes is a thorn in the side of entrepreneurs. As a result, entrepreneurs are distracted from what they do best: run a business. The government has set out the following policy actions: introduce fewer but more effective regulations, reduce the administrative burdens, set up a helpdesk for businesses and make the schemes designed to stimulate enterprise simpler and more accessible.

## ***3. Creating new opportunities by encouraging a productive economic climate.***

In addition to removing impediments, the government wishes to create opportunities by encouraging a productive climate. There are numerous areas in which there are to stimulate entrepreneurship: fiscal measures and financing, education, export, regional and local policy. The government has set out the following policy actions: a package of fiscal measures as part of National Tax Plan 21st Century, more opportunities for attracting venture capital, learning how to be enterprising as part of the educational programme and student career orientation, more attention for local entrepreneurship, assistance in capturing overseas markets and tackling barriers to growth.

The government has much in store: a broad package of measures has been compiled. The implementation of these actions will take place in this and the coming years. The government promotes "less government, but better government." This in no way implies that the government can realise its objectives easily. The government is aware that creating a spirit of enterprise is a long-term measure and can be realised only through long term co-operation with all relevant parties.

In the next section, we shall match these policy actions with the problems that nascents face, as described in chapter 2 of this booklet by EIM.

### **3.3 A successful breakthrough by nascents?**

#### ***The creation of a new enterprise***

Before a new firm is created there is still a long road for nascents to travel. Chapter two of this document elaborated on the issue of nascents. It has already been mentioned that the EIM survey on nascents held in 1998 showed a quarter of a million people aged between 18 and 65 (the workforce) claiming to be involved in setting up a small business. However,



only slightly more than 46,000 starting firms are actually registered each year (official start-ups per year<sup>vi</sup>).

Should it be concluded that just 1 out of 5 nascents actually starts its own business? No, various explanations can be found to explain the gap between the group of nascents (252,000) and the actual starters (46,000):

- a new firms could be established by more than one person (a nascent); In 1998 the number of people employed when starting a firm was 1.3 which could include more than one owner of the company.
- b new businesses might be run for less than 15 hours a week (by nascents). Such new businesses are not recognised as official start-ups.
- c the take-over of existing (registered) firms by nascents will not be recorded as new (registered) start-up.
- d nascents might already own their own business. Persons who own their own business and start a new one, are not counted as official start-ups either.
- e nascents might think of starting a new business in a 'non-regulated' profession or as a farmer. Such activities are not taken into account as an official start-up.
- f nascents could start, without officially registering.
- g many nascents will never start their own business at all.

It is not possible to give an indication of quantitative data for all the explanations mentioned, but these explanations do give some insight into the dynamics of potential and actual start-ups. To narrow the gap between the group of potential starters and actual starters for political purposes, it is wise to focus on the last of the explanations given; many nascents never start their own business at all.

From a follow-up of the EIM survey in the Spring of 1999 it emerged that 30 per cent of the nascents had actually started their business. Another 30 per cent had abandoned their plans, while 40 per cent were still in the process of starting up. What impediments do nascents meet, that prevent them from putting their intentions of running their own business into practice?

#### ***Impediments for nascents***

A nascent is about to start a new life as an entrepreneur, and would like to be a successful one! During the preparatory phase, it is crucial for the (potential) nascent to become acquainted with this profession while still at the educational stage, to have sufficient sources of information and money, and to learn to build up a network. In all these aspects there are impediments to be overcome. Some of the major obstacles to entrepreneurship are:

- a regulations: time and money-consuming
- b financing: difficulties in raising money
- c accommodation: expensive and not tailor-made
- d knowledge/information: who to consult?

As explained in chapter two, these impediments result in loss of time, capital destruction, drop in enthusiasm and energy and hence in postponement and cancellation. The document on "The entrepreneurial society" was dealt with in section 3.2. Would an impulse of policy actions help to eliminate these impediments, so that nascents find their way more easily, become a new player on the market more quickly and that less nascents will quit at all?

## ***Relevant Dutch policy for nascents***

### ***a. Regulations:***

The up-dating of the Establishment Act will probably have the greatest impact on the process of starting a business by nascents. nascents will no longer require a certificate for entrepreneurship by January 2001. This development will certainly remove one significant hurdle. The evaluation showed that the Establishment Act works as an entry barrier for potential new businesses. This can be derived, for instance, from the fact that in those industry sectors where the statutory regulations were significantly simplified in 1996, the business start ratio increased by around 30 per cent as a consequence. And, in sectors where the regulations were tightened, the business start ratio decreased by 50 per cent as a consequence. Generally speaking the simplification of the Act led to a 10 per cent increase in the business start ratio in the relevant sectors. Incidentally, the simplification of the Act had only a limited effect on the number of business closures and virtually no effect on the number of bankruptcies. Another indicator of the Establishment Act's threshold effect is the fact that a third of the candidates fails the general business skills examination. And a third of those who fail the examination do not sit it again. The Establishment Act presents a considerable obstacle for prospective ethnic minority entrepreneurs in particular; around 80-90 per cent of them fail the examination.

It is possible that an exit barrier might also become an entry barrier to the market. nascents could well take probable bankruptcy into account when they start their business. The amount of money they will use to start off will be linked to the risks they consider they will have to face. The implementation of the New Competition Act in the Netherlands in 1998 and the lowering of entry barriers, will probably lead to more competition and therefore more bankruptcies in our country. This development has led to the examination of the functioning of the current Bankruptcy Act. The Bankruptcy Act occupies a key position in the Netherlands' legal and economic system. It protects the rights of capital providers and suppliers. And it stipulates the scope and conditions for the discontinuation, liquidation and reorganisation of insolvent businesses, and thus has implications for employment in such enterprises.

The core of the Bankruptcy Act dates from 1893. The most sweeping change since then was the introduction of the Natural Persons Debt Restructuring Act (WSNP) on 1 December 1998. This law ends the principle of unlimited personal liability for debts. This is particularly important for single-person businesses and general partnerships. The Act is not relevant for other types of businesses. nascents often start as a single-person business or as a general partnership. This new Act certainly does effect nascents!

The start-up of a firm could result in huge administration burdens. An example is given on the next page.

Reducing the administrative burden is not easy, but it will be an effective measure to smooth the way for Nascents. It requires co-operation between government and industry. To stimulate this co-operation, in November 1998 the cabinet set up the Administrative Burdens Commission (named the 'Slechte Commission' after its chairman). In co-operation with the relevant ministries the Slechte Commission defined certain priorities in relation to business starts. The Commission has sponsored a project on the harmonisation of the

Starting a business can involve significant administrative obligations and expenses. In relatively tightly regulated sectors, these burdens could be considerable.

- In highly regulated sectors the burdens are higher. For painters, for instance, starting a business will cost more than NLG 2,000 and take between three to five weeks. The compulsory general business skills diploma and the industrial board charges in particular account for this relatively heavy burden. Electricians have to invest over NLG 6,000 and more than two months when setting up their business.
- This contrasts sharply with a relatively unregulated sector such as computer services. Dealing with the initial administrative burden in this sector will cost a new business between NLG 600-1,200 and take a total of around four to five hours stretched over a period of three to five days.

concept of entrepreneur and of self-employed. It will also conduct a detailed study of the administrative obligations related to hiring the first employee and it is also closely involved in the development of 'one-stop shopping', see below. These developments will help nascent entrepreneurs in their preparation phase. They will orientate themselves easier and this will be less time consuming.

#### ***b. Financing: difficulties in raising money***

The third category of policy actions is intended to create a productive climate for entrepreneurs in the Netherlands. This involves financing, fiscal issues and accommodation matters. Sooner or later an entrepreneur will need capital to start the business. An effective and transparent capital market, where new and expanding firms can borrow money efficiently, is therefore very important. This applies in particular to the lower end of the market for young and fast-growing firms: problems with the evaluation of risks and returns in investment projects, the limited exploitation of the potential of informal investors and a lack of familiarity with the possibilities of the capital market. Such problems may frustrate the flourishing of activities in new and promising sectors by nascent entrepreneurs in particular. It is precisely in these sectors that business success often depends on intangible factors, such as the personal qualities of the entrepreneur. Two-third of starters use their own money for their start-up. The government tries to contribute to reducing these bottlenecks by:

- Improving the understanding of the capital market (including that of informal investors) among entrepreneurs and intermediaries.
- Developing an assessment instrument for high-risk investments.
- Raising the ceiling of the Small and Medium-Sized Enterprises Credit Guarantee Scheme (BBMKB) to NLG 1 billion per annum for the coming three years, and in the evaluation of the BBMKB, devoting special attention to the position of starting firms.
- Investigating the opportunities for, and impediments to, corporate ventures in the Netherlands.

In the Dutch document on the Enterprising Society one section is devoted to fiscal measures. A package for business "Ondernemerspakket" has been compiled. The business package for the 21st century consists of a number of measures aimed at making entrepreneurship in a wide sense stronger and more dynamic. The Government has reserved more than NLG 800 million (see table 1). The measures to be taken are listed in table 1.

**Table 1**

Measure	Cost (NLG millions)
I Reduction of corporate income tax rate on the first NLG 50,000 of profits from 35% to 30%	100*
II Conversion of the replacement reserve into a reinvestment reserve	250
III Reduction of capital duty tax	200
IV Extension of business ownership transfer facility to other entrepreneurs	55
V Scrapping of coalition agreement's cuts in research and development support and investment allowance	125
VI Re-conversion from the limited liability company structure	5
VII Venture capital facility	50
VIII Restructuring of agriculture and horticulture	50
IX Merger and division: changes arising from "Leur-Bloem" judgement	10
<i>Total</i>	<i>845</i>

\* Reduction of the corporate tax rate on the first NLG 50,000 of profits from 35% to 30% will cost, at current estimates, around NLG 220 million. Part of the reduction will have to be financed from other sources; the working group has suggested from revenue raised by environmental taxes.

Looking at these measures it would be wise to divide the list into two categories. The first category of measures effects all kind of firms. The second group effects only companies organised as an BV ( limited liability company) or a NV (limited company), so these measures exclude general partnerships or single-person businesses. As new firms are more than often organised as general partnerships or single-person businesses, we shall focus on the first group of measures: II, IV, V and VII.

The second proposal (II) converts the existing limited replacement reserve into a more generous reinvestment reserve. It gives entrepreneurs more flexibility. This will effect nascents as soon as they consider making an investment.

The introduction of a generic business ownership transfer facility (IV) is the fourth measure mentioned. Under the current facility, ownership of an enterprise can be transferred without tax consequences for the owner to family members only. Under the new proposal the transfer scheme will also apply to other entrepreneurs, which will considerably extend the circle of prospective new owners. This significantly improves the chances of successful take-overs and eliminates the continuity problem if the succession cannot be secured within the family. This may effect nascent entrepreneurs as they are potential buyers of existing firms.

To stimulate innovative entrepreneurship it is proposed to scrap the plans (V), announced in the coalition agreement, to cut the support under the Act to Promote Research and

Development (WBSO) (NLG 50 million) and the investment allowance (NLG 50 million). Moreover, given the importance of the investment allowance in stimulating growth and dynamism, an increase in the allocation by NLG 25 million will be targeted at small and medium-sized businesses in particular. This fifth listed measure might effect innovative nascents, so-called technostarters, as they will be given support for research and development activities. In addition, the seventh measure tends to improve the position of young, high-risk enterprises. A facility will be developed to help the financing of innovative activities (VII). One possibility is a subordinated loan in the order of around NLG 50,000. A similar facility will also be considered to stimulate research and development work done by starting entrepreneurs. Allowing a proportion of the allocated funds to be set against tax is one possibility under consideration.

### ***c. Accommodation***

At regional and local level there is still much to be gained from further deregulation and a more business-friendly approach to policies. By creating new jobs, entrepreneurship can offer a solution to many problems at local and regional level, but this is still fraught with difficulties. The supply of business locations does not always match the demand. There is still a shortage of premises for new businesses. More than a third of businesses say their current premises are inadequate in some way. The Dutch government has formulated a policy plan to combat so called Big City problems. Within this plan there will be an operational plan specifically intended to tackle the local and regional problems described. There will also be benchmarking which will analyse the local entrepreneurial climate of the 25 biggest cities. This will, hopefully, motivate local governments to be the best and attract potential starters!

### ***d. One-stop shopping***

The government backs the improvement of the quality of governmental services for entrepreneurs. It is therefore working on a project in which one information source 'business counters' will be set up. These business counters could be considered as 'one-stop shops'. This facility should help Nascents to obtain information about new firm creation: market-analyses, possibilities of sales, start-up registration or fiscal information. Hopefully this will result in nascents saving a great deal of time.

### ***Mid-term evaluation***

In short, the four impediments that nascents face are to some extent dealt with by the new policy actions. The highest hurdle, the Establishment Act, will soon be removed. The current financing problems will hopefully be easier to solve and the regulations entrepreneurs face will be reduced to more reasonable proportions of their time and money. One information desk, an one stop-shop, will contribute towards making obtaining information about starting-up easier. Local governments will endeavour to find more suitable accommodation for starters. The Dutch government shows a need for a change to an enterprise-culture in the Netherlands so that nascents will emerge and accomplish their mission: a new firm. All policy actions could contribute to change, some directly (Establishment Act) and others indirectly (e.g. Bankruptcy Act). In 2001, there will be an evaluation of the policy actions undertaken, and then more can be said about their impact. The Government has set a quantitative goal of a rise of 25% in start-ups to 50,000 per year in 2002. Hopefully the policy actions will contribute to a higher number of start-ups in the Netherlands.

### ***Good preparation is half the work***

One policy action focuses on promoting an independent attitude and entrepreneurial skills has not yet been mentioned and will now be spotlighted: attention for entrepreneurship in education. As the Dutch saying goes, “good preparation is half the work”. More attention to entrepreneurship during the student’s education could help those who seriously consider becoming their own boss. Various countries are paying more and more attention to this issue. Their plans will be considered in the next section. The European Union has now completed its own Action Plan for an entrepreneurial society<sup>viii</sup>. One of the five actions in this Action Plan is “Education for an entrepreneurial society”. The Commission agrees that if we are going to establish a more entrepreneurial culture and spirit throughout the European Union this has to begin with our primary educational systems and be carried through into our higher educational and training provisions. The Dutch government subscribes to this need. The strength of a cultural revolution- a culture of enterprise- depends on how deeply it is rooted: as early as possible in the career choice and personal development of the student.

## **3.4 Education**

### ***A general introduction***

The job market is demanding an increasing number of enterprising, independent and responsible employees. This requires other qualities from people than was the case in the past. Emphasis is increasingly being placed on stimulating independence, creativity, self-confidence, tenacity and perseverance and the development of inherent talents. People should therefore be made ‘employable’. This objective to change the attitude of potential employees fits in perfectly with the stimulation of an enterprising society.

Thorough preparation for independence and entrepreneurship is therefore essential in the light of these developments, and education can contribute to this. Students will have to be brought into contact with independent entrepreneurship. They should be given an understanding of, and knowledge about, what it means to manage and run their own business. Today’s entrepreneurs indicate that, in general, they were poorly prepared for business practices<sup>ix</sup>.

### ***Can one be taught how to be enterprising?***

The government believes that, in principle, a student does not need to be taught to be an excellent entrepreneur. Rather, it tries to achieve a change in attitude: an atmosphere needs to be created in which greater independence and more willingness to take risks are rewarded and the positive image of paid employment is no longer a matter of course. Students should be able to become acquainted with the profession, so that they can experience what it is like to be an entrepreneur. Once they have become acquainted with entrepreneurship, they will be able to focus on ‘running their own business’ as part of their orientation towards a potential career. In this phase of increasing awareness, it is still too early to learn about the ‘finer points’ of entrepreneurship. However, if students wish to obtain further information about the aspects of entrepreneurship, they must be able to do so on a voluntary basis, regardless of the direction they choose. Above all, you can only become a truly good entrepreneur once you have actually started your own company!

### **Four strategies**

The government believes that 'teaching how to be enterprising' should be seen as providing good preparation at the educational stage by fostering an entrepreneurial attitude. So far the following four strategies have been formulated to achieve this:

- 1 Training students to develop an independent attitude;
- 2 Allowing them to become acquainted with the skills that are relevant to entrepreneurship;
- 3 Familiarising students with entrepreneurship and erasing the relatively poor image of entrepreneurship as a profession in its own right;
- 4 Promoting a culture of enterprise at educational institutions.

In the report 'Entrepreneurial Qualifications'<sup>x</sup>, 'enterprise' is defined as a set of entrepreneurial qualities. The following characteristics, talents or capacities are among those most often mentioned: showing initiative, creativity, perseverance, goal setting, opportunity seeking and risk taking. These aspects closely match the initial strategy, learning to adopt an independent attitude. In primary and secondary education in particular, it is important to develop these characteristics and attitudes. Can these be learnt? Yes, the key objectives for primary and secondary education<sup>xi</sup> certainly offer an interface where capacities associated with entrepreneurship can be promoted. However, there are indications that the key targets are not being interpreted in a manner directed towards entrepreneurship. The Danish government has introduced a new Action Programme for the Danish Civic Independence Culture<sup>xii</sup>. Special attention is paid to educational strategy in the entrepreneurial area. "Attitude formation and development of personal qualifications must take place at all levels of education". The school system therefore should stimulate the potential entrepreneurial attitude of students.

The second strategy, acquaintance with skills, fits within two phases of the educational programme; at an early stage in their education students must have an opportunity to become acquainted with the aspects that are relevant to entrepreneurship. This is equivalent to increasing awareness. In addition, students (at a later stage in their education) who show an interest in this profession must be able to follow further education e.g. good financial administration, the performance of market analyses, product development or its promotion. In this way, the student can learn that all aspects of entrepreneurship are relevant, i.e. not only the area in which they themselves are outstanding.

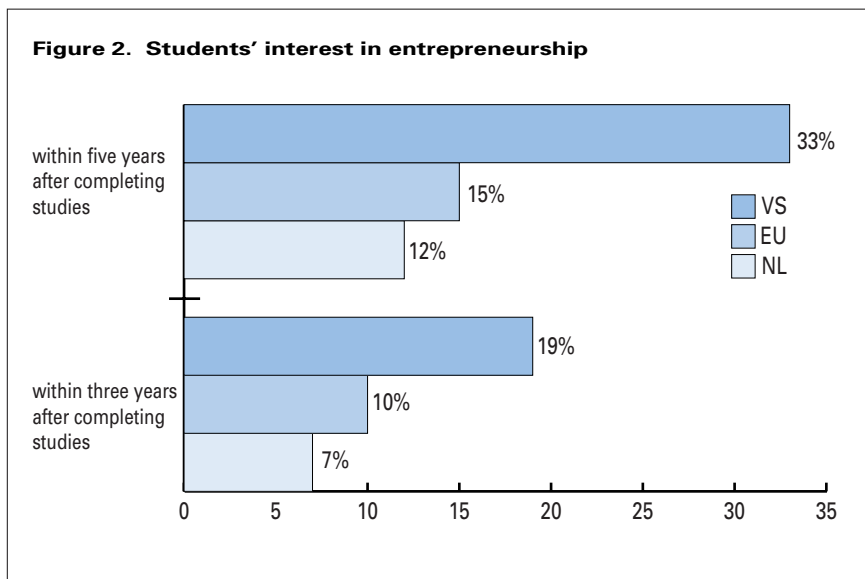
Writing a business plan or even the (fictional) setting up of one's own business can contribute much to both strategies for students. Taking your own decisions, obtaining information on subjects with which you are not familiar, dealing with external factors; your competitor is about to introduce a price cut with a major marketing offensive. What do you do?

There are numerous examples in the sectors of the Dutch educational system that offer these types of activities to students: intermediate vocational education (MBO), higher vocational education, e.g. polytechnics (HBO) and Universities organise these, independently or in co-operation with initiatives such as New Venture, Student Competition by ESEC and the Mini Businesses Foundation. However, a large number of

schools still do not bring these initiatives to the attention of the students, nor offer any guidance.

In 1997 Australia launched a programme in which enterprise education for upper primary and secondary students was provided. "Students learn how businesses operate and succeed. They also learn to develop enterprising and entrepreneurial skills to maximise opportunities in all aspects of life"<sup>xiii</sup>

The third strategy, improving the image of entrepreneurship, relies on the first two, but also has its own approach. In the course of career orientation and guidance, independent entrepreneurship will have to be paid sufficient attention to enable students to make a conscious decision in favour of a contract as an employee or being their own boss. The use of role models, regional or local entrepreneurs, could respond to this. School-business links and partnerships might be part of this strategy. Many students attending Universities and Polytechnics specialising in economic or managerial studies were, to some degree, enterprising during their study period. The majority (93%) ultimately prefers to enter into job contracts with multinationals or rapidly growing firms, rather than take the step towards becoming their 'own boss'<sup>xiv</sup>, see Figure 2.



The number of graduates starting their own business as their first job is 4 % of the total start-ups. The average age of starters is 34. These figures indicate that people consider starting their own business once they are more experienced and have built up their network. New graduates do not have these 'skills', but they could start their own business without financial burdens, the majority has no mortgage. The LiveWIRE project helps young persons in the age group 18 to 28 years old, by guiding them in their choice as whether to start a business or not. This group needs extra attention: it has not only high potential but also a serious impediment: lack of finance. In a recently published research<sup>xv</sup>, 46% of pupils at the age of 12-18 years old, responded positively to the question: "If I



could, I would like to start my own business and so be my own boss.”

This could be seen as a positive development.

The success of the first three strategies is strongly dependent on the willingness and ability of schools and teaching staff to respond to these developments. Teachers have often not had an opportunity to become acquainted with the principle of stimulating entrepreneurship as a realistic option during their training and in practice; hence, they cannot be expected to have much affinity with entrepreneurship. Co-operation with firms in partnerships where, for example, teachers can themselves become acquainted with the management of a company, could help to contribute to this objective.

For example, a secondary school in Rotterdam, the Olympus College, contacted the Kwik-Fit company (dealer in car parts), after which a classroom was set up to resemble a garage. In this way, students can familiarise themselves with business management and complete their study sooner, at the same time the company has a large number of potential employees at its disposal. In the United Kingdom, a national programme called Work Experience<sup>xvi</sup> has been set up, in which links between education and business are supported and encouraged, including business experience for school pupils and teachers.

In addition, contacts between teachers and suppliers of additional educational material have been shown to be productive. Agencies supply made-to-measure material and teachers can benefit from these customised packages and manuals. Examples include the Kenmerk series for primary and early secondary education (easy to use books).

It will be wise to start looking carefully at those educational phases that are closest to the labour market. Universities, for example, should prepare their customers as ‘ready to go participants’ for the labour market. As previously stated, the labour market is demanding an increasing number of enterprising, independent and responsible employees. This requires other qualities from people than in the past.

In the process of orientation, it has gradually become evident that the four strategies should be implemented on a made-to-measure basis for the various sectors and training courses. It would be very worthwhile to find relationships between these strategies. Writing a business plan by students in vocational training courses, for example, could well be supported by professional guidance for those students who have been stimulated to such an extent that they are actually thinking about starting their own businesses.

#### ***Lacunae***

As conclusion it may be said that there is still much room for improvement. However, a number of issues to which we have no answer as yet have been highlighted. The following questions exemplify this:

- Promoting entrepreneurship and enterprise through a ‘chain approach’. To which elements of enterprise and for which sector of education do institutions, teachers and students devote attention in a logical, cohesive and sequential series of activities? For example, consider the concept of ‘entrepreneurial skills’.
- Are there impediments in educational regulations that obstruct the step towards entrepreneurship?
- Benchmarking with respect to career opportunities. What chance does a starting entrepreneur have to survive, grow or even become ‘a man (or woman) of high respect’?

What is the relationship between level of education, starting a business, economic sectors and the probability of success?

- What are considered to be 'Best practices' abroad? How do governments foster a spirit of enterprise in schools?
- Could an inventory be made of the attitudes towards entrepreneurship in various phases/directions of education by interviewing the various parties involved ?
- A large number of students at Universities and Polytechnics studying economic or management subjects may have shown entrepreneurial potential during their study period, but ultimately chose to enter employment with multinationals on a massive scale, with no intentions of becoming their own boss. What actually stops them from taking the step towards independent entrepreneurship?
- Are students adequately prepared to set up a business to enable them to subsequently take the right steps towards starting for themselves? What guidance is needed in the period following qualification, up to the moment a company gets off the ground? 'After all, starting businesspeople are not graduates' is a commonly-held opinion.

The government has called into being a Consultative Committee for Education and Entrepreneurship. The Committee will present its operational plans at a Conference on Education and Entrepreneurship this Spring. At this moment an orientation stage is in progress, during which the issues and the main actors in this field will be analysed. An important step to take is take a good look at existing initiatives in our own country. The Government fails such a overview at this moment.

The process adopted is a bottom-up approach, joining existing initiatives and realising a base of support and finding points of contact with existing initiatives. The commission will be given the following tasks:

- 1 Enlarging the base of support and awareness within education (students, teachers and institutions) and the business community.
- 2 Making proposals for the development and implementation of the most promising and critical activities aimed at promoting enterprise, entrepreneurial skills and awareness, for example by stimulating pilot projects.
- 3 Making proposals for removing bottlenecks that hinder the step towards entrepreneurship (by students and teachers) at the educational phase and for stimulating people to take the step towards starting a business.

The Committee realises that co-operation with relevant parties will contribute towards a broadly supported message, a better focus on the issue and good feedback on policy. The Committee invites all parties to participate in, and contribute to this process!

### **3.5 Conclusion**

A brief look at this chapter learns that the Dutch government has launched a new Document called "The entrepreneurial society". One of the issues in this policy documents is attention for entrepreneurship in education. This deals, among other things, with promoting the option of being your own boss to pupils and students as a possibility for a future careers. The problems nascents face by starting their own business and the relevance of Dutch policy in solving these problems have been discussed. The Dutch government hopes that, by offering an extra impulse through policy, it can help to smooth

the way for the nascent, allowing the promising entrepreneur to take the first step more rapidly and cheaply, to be better prepared (also through education) and not to falter (fewer drop-outs). Perhaps it will even encourage others, who will say to themselves: Just do it!

## Notes Chapter 3

- i I am grateful to Sander Baljé, Paulien Geerdink and Pim Oskam who provided me with useful comments and suggestions.
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- iii Ministry of Economic Affairs, The entrepreneurial society, Den Haag 1999
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- viii European Commission, Action Plan to Promotion of Entrepreneurship and Competitiveness, Brussels, 1999
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## 4 *Netherlands Nascents: Entrepreneurship in Northern Europe*

*by Paul D. Reynolds of Babson College, Wellesley, MA (USA) and London Business School*

### **Abstract**

The Netherlands government is making a sustained effort to increase the level of Dutch entrepreneurial activity. The impact from a wide array of current policies and programs designed to promote firm start-ups seems modest so far. Recent developments in survey research have allowed for precise measures of citizen participation in the creation of new firms; two studies indicate that the Netherlands and the United States are quite different in this regard. These two countries developed in quite different contexts and this resulted in two quite different types of national cultural, political, and economic systems. The Netherlands system, referred to as a "distributive society," emphasizes stability, consultation of stakeholders ("social partners") and political mechanisms for the distribution of economic wealth. There are however some recent efforts to modify this focus. The United States system, referred to as an "enterprise economy," emphasizes flexibility, government supervision of economic adaptation - led by the entrepreneurial sector - and market mechanisms for distribution of economic wealth. Either system may be satisfactory - in the sense that citizens find them acceptable - for uncomplicated economic systems with stable external competition. The enterprise economy, however, appears to be more successful - in terms of producing economic wealth - when economic systems are complex and there is rapid change in global competition. The primary challenge for the Netherlands, as an established participant in the international economy, is to be able to adapt their system before exhausting the resources that will cover the cost of the transition. The current government initiatives should have some impact, but until those entering the labor force are convinced that they should seriously consider entrepreneurial career options, the Netherlands may not have a competitive "enterprise economy." A redefinition of the relationship between the Dutch people and their society, represented by the government, may be required before there is a further increase in entrepreneurial activity. Recent changes in government programs and policies appears to reflect such an adjustment. It may take several family generations before significant changes are observed. Patience, a widely recognized Dutch virtue, may be called for.

### **4.1 Introduction**

Nations with a strong record in the global economy are those with a vigorous entrepreneurial sector. The Netherlands government, keeping abreast of recent developments, has realized that new businesses are a major source of new jobs, economic growth, as well as structural adaptation. These contributions to the Netherlands economy are outlined in Chapter 2. Very recent comparative data suggests that the tendency of ordinary individuals to participate in business start-ups may be, compared to the United States and other "enterprising nations," somewhat lower in the Netherlands. One policy response is to adjust regulations and implement programs to encourage more start-up activity. An overview of such efforts is provided in Chapter 3. A major concern of

government officials has been the relatively modest impact of these programs on the tendency of the Dutch to pursue new firms, new ventures, growth companies, and other features of "enterprising economies." This problem is the focus of this analysis.

The self-conscious and sophisticated emphasis on future planning and the role of entrepreneurial activity in the Netherlands may be unique in the world<sup>i</sup>. There has been analysis of the factors that may cause a person to be entrepreneurial<sup>ii</sup>, as well as the attitudes of Dutch college students toward entrepreneurial careers, which is very cautious<sup>iii</sup>. An inventory of programs, regulations, and assistance schemes has been compiled<sup>iv</sup>. Other analyses have focused on the role of entrepreneurship in the "knowledge society,"<sup>v</sup> efforts to predict the future role of entrepreneurship in the Netherlands<sup>vi</sup>, and the special contributions of growth firms to national economic growth<sup>vii</sup>. Annual reports on the current status of knowledge, government initiatives, and new research advances related to Netherlands entrepreneurship have been prepared<sup>viii</sup>. Relative to the rest of Europe, the Netherlands appears to have an improved economic situation - reduced unemployment, slightly higher GDP growth - considered to reflect the "poldermodel."<sup>ix</sup>

Cross-national research is continuing on the entrepreneurial process. There is no longer any question that substantial national differences are present from the beginning of the start-up process. A review of the differences from two cross-national studies will be presented in Section 2. A general assessment of the factors that would lead to national differences is presented in Section 3; major, dramatic differences are found between countries with high and low to moderate levels of entrepreneurial activity. The Netherlands, which seems to be typical of Northern European countries, and the United States, which is consistently found to have the highest levels of entrepreneurial activity, are compared in Section 4. While there has been much attention to the last several decades, and sometimes to the post World War II era, the entire history of the political development of the two countries is considered in terms of its deep impact on the fundamental social structure. The ancestors of the present day Dutch settled the Netherlands two thousands years, or 100 generations, ago. The ancestors of modern Americans spread across the entire country only 150 years, or 8 generations, ago - creating the political structures as needed. Section 5 provides a preliminary speculation on how the competitive context and internal conflicts may have created quite different social, cultural, political systems. Perhaps most important, an "enterprising economy" has many features that are not always found in a "distribution society."

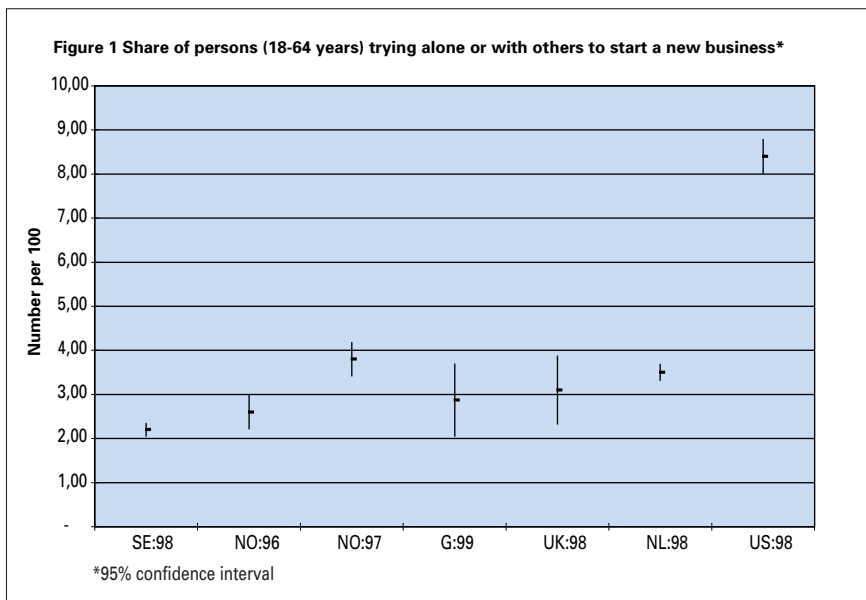
Section 6 considers the problem of shifting the social, cultural, and political systems to increase the level of entrepreneurial activity in a society which, at least until recently, showed many traits of a "distribution society." Many of these changes would have a major impact on ordinary people, who may not accept them unless they see substantial long-term advantages to offset temporary disruption and discomfort. Creating new start-ups - much more than creating new citizens - is most successful when it is a voluntary effort, one where the participants act to exploit opportunities, not because they are desperate from a lack of options. A summary of the major conclusions is provided in Section 7.

## 4.2 National Differences in Participation in Entrepreneurship

Procedures for creating reliable estimates of those involved in new business start-ups were first developed in 1992.<sup>x</sup> The basic strategy is to identify representative samples of adults in a national population and ask them if they are currently involved in a new business start-up. Actual implementation of the procedure, however, is somewhat more complicated. Two current cross-national research programs are using different variations of these procedures. Both projects emphasize precise measures of one aspect of entrepreneurial activity, measures directly relevant to the current discussion.<sup>xi</sup> The focus in these projects is on individual, private efforts to create new business entities.

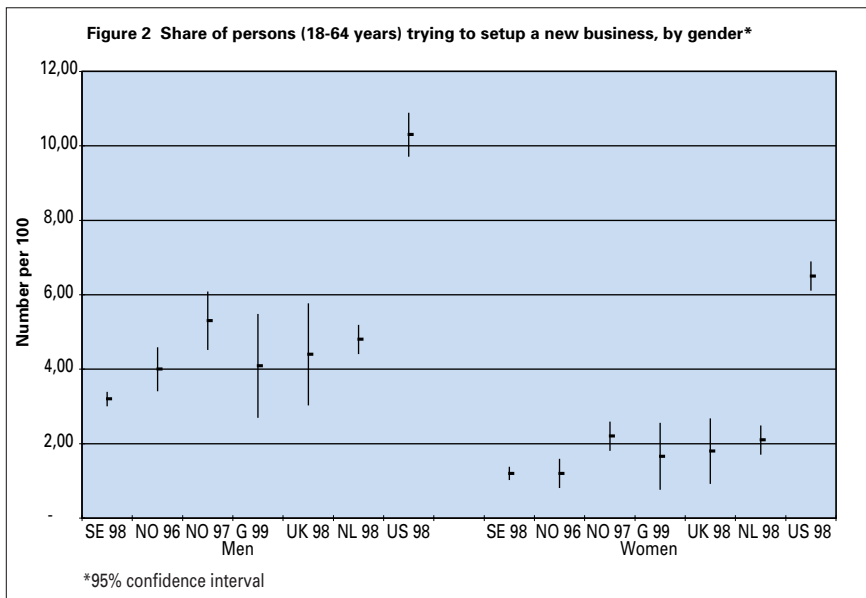
The first comparison comes from national screenings implemented by member units of the Entrepreneurial Research Consortium (ERC), which is the primary sponsor of the National Panel Study of US Business Start-Ups.<sup>xii</sup> The earliest studies utilized a simple one-item survey procedure to locate nascent entrepreneurs. Direct comparisons among seven samples from six countries are, therefore, based on responses to a single question asked of those 18-64 years old<sup>xiii</sup>: "Are you, alone or with others, now trying to start a new business?"

Approximately 8% of adults in the US answered yes to this question in 1998. Approximately 3% answered yes in five European countries between 1996 and 1999, Sweden, Norway (average of two samples), Netherlands, Germany, and the United Kingdom. This is presented in Figure 1. The vertical lines represented the 95% confidence interval, often called the margin of error. These are a direct reflection of the sample size, which was about 30,000 for the Netherlands, Sweden, and the United States; 10,000 for each of the Norwegian samples, and about 2,000 for pretests in Germany (DE) and the United Kingdom. Larger samples provide for reductions in the widths of the confidence intervals.



The same data is provided by gender of the respondent in Figure 2. About 10% of US men answered "yes" compared to about 4% of Northern European men. About 6% of US women answered "yes" compared to about 2% of Northern European women.

This similarity among Northern European countries is in contrast to the differences found when annual rates of new entries into national registries of businesses are compared, which suggest the German rate (12% of total businesses in place) is twice that of Sweden and Finland (6%), with Norway (8%) and the Netherlands (10%) in between<sup>xiv</sup>. These differences in new firm entry rates may reflect dramatically different procedures for incorporating new firms into the national registries, an issue that is avoided with the use of harmonized personal interview schedules.



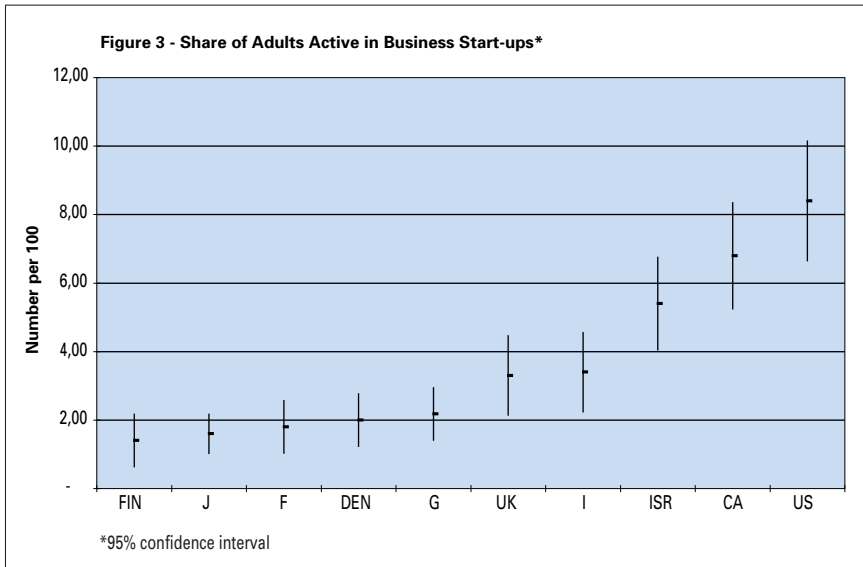
A more recent comparison, based on surveys completed in winter 1999, uses three criteria to determine active start-up involvement<sup>xv</sup>. Those that say they are trying to start a new business on their own or for their employer must then meet three additional criteria:

- expect to own all or part of the new firm
- currently active in promoting the start-up, and
- the effort is not to be considered an "infant business".

This last criterion reflects the ambiguity associated with the phrase "start-up". Many people managing new operating business consider them "start-ups" in their early years.

The results are presented in Figure 3 for samples of 1,000 obtained in each of ten countries. Again, the US is at the upper end with 8.4 % of the adults meeting these criteria, closely followed by Canada and Israel. Four northern European countries, Finland, Denmark, Germany, and France reflect participation levels of 1.4% to 2.1% of the population, an average of 1.8%. Though not shown, Northern European differences by gender are similar to those presented in Figure 2, with men three times as likely to be involved as women.





This is, then, the basic finding that justifies attention to national differences. In the United States about one of every 12 adults is actively involved in trying to start new firms. The prevalence rates among men 25-44 years old are as high as one in ten. In Northern Europe, it seems that only one in fifty adults is actively involved in a firm start-up, and in the Netherlands about one in thirty.

While attending to factors that may account for these differences is the major focus of this chapter, the significance of the difference is considerable. For example, virtually anyone in the United States, and certainly anyone actively working, knows at least one person, and sometimes several people, that are trying to start a new firm. And it is not considered odd for women to be so involved. In the US more adults are focusing on creating a firm birth than are focusing on creating a human birth. In contrast, knowing someone that is trying to start a new business - and particularly knowing women who are so occupied - is less common in Northern Europe.

Quite simply, participation in new and small firms is an integral part of daily life and work careers in the United States. This does not seem to be the case in Northern Europe and The Netherlands. What accounts for this difference?

#### 4.3 Sources of National Differences

Determining sources of national differences in entrepreneurial activity was a major focus of the 1999 Global Entrepreneurship Monitor Report. For this analysis, countries were placed in three categories, high level of activity (Canada, Israel, and the US, average prevalence 6.9%), moderate level of activity (Italy and the UK; average prevalence 3.4%), and low levels of activity (Denmark, Finland, France, Germany and Japan; average prevalence 1.8 %). Wide ranges of factors that may affect the level of entrepreneurial activity were considered. Two major patterns emerged.

First, there were substantial differences on a variety of dimensions, including features of the adult population:

- Perception of opportunities for entrepreneurial initiatives;
- Capacity of the population to pursue entrepreneurial initiatives;
- Motivation of the population to pursue entrepreneurial initiatives;
- Respect for those involved in new firm start-ups;
- Social value assigned to independence;

Other differences were associated with the context in which start-ups take place, including:

- Availability of equity financing from financial institutions;
- Availability of informal financial support;
- Availability of professional services;
- Mechanisms for the transfer of R & D from universities and governments to the commercial sector;
- Availability of entrepreneurial training;
- Flexibility of labor markets;

Still others reflected the more general national features:

- Anticipated population growth by 2025;
- Emphasis on post-high school educational activity, reflected in proportion of population involved;
- Income diversity within the population.

With only ten countries available for analysis, it was impossible to determine the relative impact of these 14 factors and many are highly correlated. For example, countries where there is high respect for start-ups are those where there is a strong positive value on personal independence.

Measures of several factors in this analysis were from standardized international sources. In those cases where the Netherlands can be compared with other Northern European countries, the patterns are virtually identical. For example, a Netherlands participation by 49% of the age appropriate adults in post-secondary educational programs in 1996; and an income diversity ratio of 5 (top 20% in income/bottom 20% in income) was within the range of values for Denmark, Finland, France, and Germany. Further, the percentage of men 35-44 years old in the labor force (those 18-64 years old) was almost identical - 24% - to the four Northern European countries. It is this age group that has the highest rate of participation in start-ups. It is reasonable to assume that the patterns associated with Denmark, Finland, France and Germany would be present in the Netherlands, although other more specific criteria suggest that the Netherlands may be in the category of moderate entrepreneurial activity.

The second major finding was the dramatic pattern of diversity across the three types of countries. For almost all factors, and after the measures were standardized, the differences between countries in the low and moderate entrepreneurial activity categories were small and consistent. But the differences between the moderate and high entrepreneurial activity countries were substantial, 3-5 times greater than the low to moderate difference. It was clear that a modest increase in entrepreneurial activity from 1.8% to 3.4% may be easy to create; but a substantial change - to the 7% or 8% found in North America - would require profound adjustments in a number of national

infrastructure and cultural features. Adding a few programs and changing some regulations would not - in the near future - create the levels of entrepreneurial activity associated with Canada, Israel, and the United States.

The major challenge, then, is identifying the features of these three high entrepreneurial activity countries - Canada, Israel, and United States - that would lead to such large differences on so many national features. As a preliminary exercise, a comparison will focus on the Netherlands, representing northern Europe, and the United States, representing entrepreneurially active countries.

#### **4.4 Historical Development of the Netherlands and the United States**

As the modern global economy emerged following World War II, it is convenient to consider the background of the two countries in two parts, before and after 1945.

##### ***From the Beginning***

A comparison of the critical events in the known history of the Netherlands and the United States is presented in Table 1<sup>xvi</sup>. Two measures are used to capture time. First, the actual number of years, either before the present [BP] for the distant past and in "the year of our Lord" [AD] for recent events.

Second, the number of human generations preceding 2000 AD, assuming a generation is 20 years in length, has value as a measure of "cultural time." Much of the cultural norms about the nature of an appropriate political system, suitable work careers, and judgments about the allocation of societal resources are transmitted during primary socialization. These orientations are absorbed by the young within the family, as infants are raised to take adult roles in the broader society. They generally persist throughout adult life and are conveyed to the next generation with modest adjustments. For this reason, the culturally accepted world view may change very slowly. Measuring cultural time in generations emphasizes this basic feature of the adaptation process.

There are several striking differences between the historical development of the two countries. First, the Netherlands, as a single society, is considerably older. Leaving aside the human artifacts from the Maastricht region that were produced 10,000 generations ago, continuous human societies were clearly established in the Netherlands region before Christ, over 100 generations ago. From that time forward, until about 1850 AD, or 8 generations ago, the history was a series of conflicts over the control of the area. In the first millennium those living in the Netherlands had to deal with dominance from the Romans, Germanic tribes, Franks, and the Vikings. As towns and territorial principalities began to emerge, the region went through a period of political consolidation, and began to negotiate and deal with external powers in a unified way. Modern Netherlands is a direct descendant from the formation of the republic in 1579 AD, 22 generations ago. This was followed by both considerable periods of conflict with outside countries, notably Spain over control of land and England over the control of the seas.

Between the beginning sustained depressions in Italy and Spain in about 1600 AD and before the dramatic economic growth of England in 1700 AD the Netherlands, and particularly the Northern Low Countries, contained the most sophisticated and highest

growth economy in the world. While this growth was shared by the Southern Low Countries, it was muted by continuing warfare with Spain, a conflict that coexisted with continuing trade<sup>xvii</sup>. The set of social and public institutions that allowed the Netherlands to dominate the world economy in this period involved a wide range of features - widely accepted monetary system, well developed capital markets with low interest rates (4 to 12%), relative easy access to information and a capacity to react by adjusting commercial strategies, good internal transportation systems, well developed external trade routes, advanced agricultural technology, the capacity to organize limited liability stock corporations for commercial exploitation, sophisticated technicians and engineers, and a very efficient productive sector - despite high relative wages. It has been suggested that during its "golden age" the Netherlands was the first "modern economy."<sup>xviii</sup>

There was also occasional ambivalence over how to achieve internal coordination, reflected in the two Stadholderless periods, when there was no clear ruling group. The current political structure reflects the establishment of the constitutional monarchy in 1814 AD, approximately eight generations ago. This structure survived the latest occupation, by the Germans during World War II, three generations ago. Whereas the Dutch economy during the 17th century may be to some extent be viewed as an "enterprise economy", in contrast the 20th century brought the advent of centralized unions, corporate institutions, the rise of the welfare state and an emphasis on equal distribution.

Dutch history is in sharp contrast with the history of the United States, which had hardly been discovered when the Netherlands Republic was formed, about twenty-five generations ago. The US constitution was developed and adopted only eleven generations ago, in 1776, ten generations after the formation of the Netherlands Republic. Much of the remaining history was devoted to expansion across the continent, as tens of millions - mostly from Europe - displaced hundreds of thousands of American Indians. They created new towns, counties, and states as the territories were acquired - not always peacefully - from Britain, France, Mexico, and Spain. This trend was severely interrupted by the Civil War, which occurred only 7 generations ago - a few Civil War veterans as well as former Southern slaves died after World War II. National geographic consolidation was largely completed before World War I, or 4 generations ago, when migrations from rural to urban areas began.

There are, then, two major differences between the history of the Netherlands and the United States. First is the difference in the age of the nations. The Netherlands is, more or less, ten times older - 100 generations compared to 10 generations - than the United States. The Netherlands is the clear winner in terms of longevity, so the Dutch must have been doing something right.

**Table 1. Historical Background: Netherlands and the United States**

Dates [BP=before present]	Family Generations [5/100 years]	Netherlands	Family Generations [5/100 years]	United States
250,000 BP	10,000	Human artifacts, Maastricht region		
80,000-35,000 BP	4,000-1,750	Human artifacts, North Brabant		
35,000-10,000 BP	1,750-500	Human artifacts, Limburg	1,750-500	Asian migrations via Bearing Straights
10,000-6,000 BP	500-300	Human artifacts, Rotterdam, Pesse		
6,000-4,900 BP	300-245	Multiple settlements: Limburg, Sittard, Geleen, Elsloo, Stein		
4,000-2,700 BP	200-135	Evidence of Bronze Age civilization		
2,700-2,000 BP	135-100	Evidence of Iron Age civilization		
0-400 AD	100-80	Roman control of area		
400-480 AD	80-78	German tribes overrun Romans		
480-900 AD	78-55	Frankish rule dominates southern NL Vikings raid coasts in 900 AD		
900-1350 AD	55-33	Territorial Principalities, Towns emerge		
1350-1567 AD	33-22	Consolidation of Territorial States		
1492 AD			25	Columbus Arrives; estimated 1.5 million Indians in North America
1567-1579 AD	22-21	Revolt, Netherlands Republic formed		
1500-1600 AD			25-20	Various Efforts by Britain, France, Portugal, & Spain to establish settlements in the Americas
1607 AD			20	Virginia Company Settlement
1620 AD			19	Pilgrims settle in Plymouth
1624 AD			19	New Netherlands settled [Albany, NY]
1621-1648 AD	19-18	War with Spain		
1650-1672 AD	18-17	First Stadtholderless Period		
1609-1713 AD	20-14	Netherlands's Golden Age; Economic consolidation; Pillarization established		
1702-1747 AD	15-13	Second Stadtholderless Period		
1600-1754 AD			20-12	Colonies established throughout North America
1754-1763 AD			12	England wins war with France; Takes control of North America, Colonies
1776 AD			11	Constitution adopted; 13 States established
1776-1782 AD			11	War of Independent from Britain [Spain, France & the Netherlands aid the U.S.]
1782-1822 AD			11-9	Louisiana Purchased from France Florida Purchased from Spain War of 1812; 23 States established
1795-1813 AD	10-9	French Rule [Batavian Republic]		
1814 AD	9-8	Constitutional Monarchy Established		
1822-1861 AD			9-7	Northwest Territory, New Mexico, California Acquired; 34 States established
1861-1865 AD			7	Civil War
1865-1914 AD			7-4	South rebuilt; Westward Expansion; 48 States established
1914-1918 AD	4	World War I	4	World War I
1918-1939 AD	4-3	Belgium territorial conflict resolved	4-3	Great Depression
1939-1945 AD	3	World War II	3	World War II
1946-1980 AD	3-1	Colonies become independent; Pillarization discontinued; Integration into Europe, Substantial economic expansion	3-1	50 States established

Second, the underlying issues to be resolved in developing the two political systems appear to be quite different.

In the case of the Netherlands, a continuing issue was coordinated resistance to external threats - some immediate and some long term. This would encourage consensus seeking and a more centralized decision making system. Such a centralized coordination of resources would greatly facilitate massive public works projects. One unique collective achievement of the Netherlands has been reclaiming land from the sea, initially a private effort it became a public effort on a large scale. Also, dike maintenance shifted from reliance upon the labor of adjacent farmers to the creation of tax supported public works organizations established by drainage authorities as early as 1500 AD, although it took two hundred years for its universal adoption.<sup>xix</sup>

In contrast, the underlying issues in developing a political system for the United States was a mechanism that would minimize government influence in the personal and economic affairs of daily life and, in turn, allow each citizen the opportunity for maximum development, as an economic agent. The wealthy landowners and businessmen that developed the constitution in 1776 - and on behalf of people who had fled from Europe with a profound distrust of all governments - were careful to ensure that their economic self-interests would not be jeopardized by the new system. The "pursuit of happiness," or the right to accumulate wealth, was as important as the right to life or liberty. There was a conscious concern for the growth of total wealth of the entire United States, the rationale for the prohibition on any individual state interfering with inter-state commerce within the union. [They were well aware of the economic costs in Europe where each region taxed the goods in transit from adjacent regions.]

The "fathers of the country" that drafted the U.S. constitution managed to overlook the rights of ordinary people, which were added by the state legislatures as the first ten amendments before they would approve the basic document. The "Bill of Rights" was designed to constrain the authority of the central government, to prevent what ordinary citizens considered abuses. Economic well-being, however, was assumed to be a primary responsibility of each citizen, who were expected to seek and develop commercial opportunities - and a vast empty continent provided opportunities for an agrarian economy. This philosophy was emulated repeatedly as towns, counties, and states were established and various charters and constitutions were developed and adopted across the continent.

### ***Post World War II***

Immediately following World War II, the Netherlands confronted a problem common in Europe. Rebuilding the infrastructure and productive facilities for a modern economy. The United States, with an intact infrastructure and productive capacity, was a major source of machines and material required for this effort. A primary challenge for the US was adapting to a shift in the workforce, from women to the men returning from military service. It would be many decades before participation of women in the labor force would reach the same levels found during World War II.

The most prominent external events for the US were the protracted Cold War conflict with the Soviet Union and three military engagements: the Korean War, the Vietnam War, and

the Gulf War. Major internal societal events were the expansion of civil and political rights to all citizens in all regions of the country. In economic matters, there was a systematic effort to reduce the presence of "protected monopolies or oligarchies," and there was substantial deregulation in communications (phone service), transportation (trucking, rail, airlines), and major utilities in the 1970s - a shift that is still being implemented. A systematic effort to increase competition in health care in the 1990s has had mixed results, as costs have decreased but universal access has not yet been achieved. A variety of welfare programs have been adjusted in the late 1990s to reduce welfare benefits to non-working mothers. Overall, there has been a general adjustment to give greater emphasis to market mechanisms for matching demand and supply and a reduced emphasis on federal government programs as a major source of solutions in domestic social and economic affairs. This reflects, in part, the substantial amount of responsibility and activity that occurs at the state and local level, much more than is found in European countries. For example, primary education is the responsibility of over 20,000 school boards, each member selected in local elections, and each with the authority to levy local property taxes.

Some of the more seminal events for the Netherlands following World War II include the following:

- Immediately after World War II, government, industry, and labor agreement on a plan for industrial and commercial expansion that avoided rapid expansion of prices and wages and, consequently, inflation.<sup>xx</sup>;
- Growth and level of productivity in postwar Netherlands has been relatively high, with a slower rise and lower level of per capita income.<sup>xxi</sup>;
- During the 1950s growth was based on capital-widening investments, rapid technological change and expanding labor input, employed at relatively low cost.<sup>xxii</sup>;
- During most of the 1960s and the 1970s productivity improvements were mainly based on capital-deepening investments in combination with a decline in total hours worked and rising labor costs.<sup>xxiii</sup>;
- By maintaining relatively high levels of labor productivity the Dutch economy remained competitive in terms of unit labor costs. These high productivity levels were partly due to the high level of vocational education, but mainly by the capital-intensive nature of investments, compared to neighboring countries.<sup>xxiv</sup>.

Among the more dramatic developments, has been a reduction in average hours worked per employed person, from 2,200 in 1950, to 2,000 in 1960, to 1,500 in 1979, and 1,300 in 1990. This massive shift in work-sharing reflects the increase of part-time employment by women<sup>xxv</sup>.

The Dutch welfare system has undergone two major revolutions since the 1950s. Following lengthy negotiations between the state, political parties, the unions, and employers associations, a rather generous program of welfare benefits was established. Established during a time of high growth and low labor force participation by women, it provided generous income supplements and a wide range of individuals were eligible for support. Administration was the responsibility of the Social Insurance Council (SVR) which was controlled by unions and employer representatives, and funding provided by a diverse set of sources. Disability benefits were provided for a broad class of problems to a broad class of people. The result was that at the beginning of the program, about 4% of the Dutch population between 15 and 64 years old were receiving benefits for sickness or disability,

social or unemployment assistance, or unemployment insurance in 1970. This had risen to 22% by 1985, just 15 years later<sup>xxvi</sup>. The annual cost of these programs increased seven-fold, from 5.4 billions NLG to 37.1 billion NLG in these fifteen years. Half of this cost was due to a ten-fold increase in disability costs.

If the first miracle was the installation of a munificent social security system, the second miracle was its modification. This reflected concern about the high costs and large percentage of the work force being supported, a new agreement between unions and employer's associations that involved a reduction of working hours and more job sharing at the "Accord of Wassenaar" in 1982, and philosophical shift from an emphasis on "rights and duties" to a concern for appropriate incentives to encourage participation in the economy. As a consequence, by the early 1990 the social security system was modified to reduce the discretion of administrators in providing benefits, shifting more of the costs of sickness and disability benefits to employers, and reducing the influence of employers and unions and increase the influence of those that paid for the system.

The outcome has been a stabilization of the program and some reduction in participation and costs<sup>xxvii</sup>. The number of those between 15 and 64 that were not working, per 100 working, which was 15 in 1970, rose to 44 in 1984, as the social welfare program was in full development, but declined to 36 in 1998, reflecting the shift in program benefits<sup>xxviii</sup>. Estimates for 1999 suggest that official unemployment in the Netherlands is half that of the EU, although those able to work but receiving social benefits is quite high, and growth in GDP is slightly above the EU average; on both measures the Netherlands has recently been similar to the United States<sup>xxix</sup>.

#### **4.5 Sources of Major Differences**

It seems clear that different national contexts and a different set of internal issues has produced two different social, cultural, and political systems. In the case of the Netherlands external threats have encouraged collective action, and a centralized decision-making structure in control of most resources and all allocation.

No theme is more common in the history of the Netherlands, distant or recent past, than collective solutions to major problems that involve all major stakeholders. It would be appropriate to call such a system a "distribution society" to emphasize the mechanisms that have developed to solve problems associated with internal allocation of wealth and income. Over time, allocation of wealth may dominate the political process, as those seeking to represent different constituencies promote themselves on the basis of a capacity to improve the lot of a unique segment of the society: workers, business owners, the indigent, etc.

An alternative set of conditions may produce a quite different type of social, cultural, and political system. A population of people that have left established societies to create a better life for themselves, as in the colonial United States, will include many that are confident they are better able to take care of themselves without "government interference" - ideal volunteers for an "enterprise society." Second, vast areas of undeveloped land provide seemingly unlimited economic opportunity for an agricultural based economic system - ignoring the claims of the indigenous tribes. Third, the absence



of a continuing, viable threat of invasion and domination by other nations - facilitated by the presence of two major oceans - reduces the pressure to centralize resources and decision making for national defense.

The outcome is likely to be a political structure based on the assumptions that:

- opportunities are plentiful;
- all members should contribute to their exploitation;
- primary emphasis should be given to expansion of the aggregate national wealth, and
- allowing those that make major contributions to this process to retain a significant share of the proceeds.

There may be coordination of resources and efforts to respond to external threats, but market mechanisms may be allowed to coordinate major elements within the country, such as the supply and demand for goods, services, land and labor. Market mechanisms are much more effective if a monetary system is in place, which was clearly the case during the creation of the United States. As the emphasis on wealth creation may lead to an acceptance and encouragement of new business organizations or new enterprises, it would be appropriate to call these "enterprise economies."

These two approaches may produce quite different images of the "government-citizen" relationship. The "distributive society" places most responsibility for economic planning and distribution of wealth in the government. The equitable distribution of wealth is considered as important as growth in total wealth. If the outcome is considered appropriate, people will be encouraged to cooperation with a collective resolution when the next problem is recognized. There would be a strong emphasis on ensuring all citizens have a minimum standard of living and deliberate efforts to restrain dramatic differences in economic well-being. Individual citizens would be expected to prepare themselves for a useful occupation, which would not be expected to change over the work career. Adjustments to the economic and occupational systems would be expected to change slowly, so that disruptions in the work careers of ordinary citizens would be minimized. This can be considered a system based on wealth management, system stability, and life course predictability.

The alternate system, the emphasis in the "enterprise economy," is a social, cultural, and political system to facilitate the expansion of aggregate national wealth. Centralized economic planning is minimized, with an expectation that the economic system will adjust and adapt in response to new technology and changes in consumer preferences. Market mechanisms are expected to be the primary source of wealth and income allocation. The role of government is to ensure such adjustments do not endanger the public well being, but the source of change is not considered to be the government itself. Public sponsorship of research and technology may provide for economic change, but this may be welcomed as an unintended consequence. Ordinary citizens are expected to educate and train themselves for the jobs that are available when they reach adulthood, but there is a general expectation that occupations may shift over the work career. A primary mode of adaptation to poor economic conditions is residential mobility; an individual or household in economic difficulty moves to a region with more promising opportunities. Individuals are expected to actively take part in defining and exploiting new economic opportunity. It is considered appropriate for personal wealth to grow if a new initiative is successful in open competition. While there is some effort to provide for those that cannot function well

in such a system, all able-bodied adults are expected to be economically self-sufficient, either on their own or as part of a household.

As long as changes in productive technology, global competition, or the threat of military conquest are slow and deliberate, occurring over human generations, either system may be capable of adaptation and change. The history of the Netherlands is the history of change and adaptation, albeit sometime very slowly.

But two conditions would undermine the adaptability and relative efficiency of the "distributive society" structure. First, when productive technology becomes so complicated and turbulent that it is difficult to coordinate with deliberate, conscious planning involving all stakeholders. Modern economic systems have a proliferation of products and productive technologies, and political processes are crude devices for precise coordination of supply and demand. And under these circumstances strong regulatory and other barriers to free entry and exit of business will only hamper the necessary functioning of markets. Second, when the speed of economic change increases, so that major changes are occurring faster than can be accommodated in a "twenty year human generation" time frame. Changes in the accepted cultural mores may lag the contextual shifts. In such situations, individuals' commitments to a single lifetime occupation can lead to substantial inefficiencies. The result may be a reduction in the creation of national wealth. This reduction may lead - if allocations are relatively uniform - to a clear reduction in the individual and household economic well-being.

#### **4.6 Shifting to an Enterprise Economy**

There has been a conscious effort by the Netherlands government to encourage more entrepreneurial activity, more start-up efforts. This has taken the form of an increased emphasis on educational programs, efforts to simplify the regulations and procedures required to register and implement a new business, revision of bankruptcy regulations, and the like. All of these efforts share one important feature: they make it clear that government officials consider the entrepreneurial sector an important feature of the Netherlands economy, one that needs to be enhanced.

However, although the past decade showed an increase in entrepreneurial activity, there is some evidence of a recent stabilization in new firm registration, outlined in Chapter 3, above. What could be the problem?

As the review of the historical development of the Netherlands and the United States makes clear, it took hundreds of years and a number of human generations to develop these different social systems. It will certainly take more than a decade to have a significant impact on the entrepreneurial sector, assuming the programs are widespread, well known, and have a significant impact on the individuals involved.

Second, several major features of the "enterprise economy" may not have been fully addressed. Several elements of a volatile and changing economic system found in an "enterprise economy" may not or not yet be present. The constant churning of firms and jobs is a critical feature. People and firms can respond more quickly to new opportunities as well as changes in competition when there is an absence of complications when

resources are to be reallocated. For example, the Netherlands tendency to create "occupational licenses" for every type of work was reflected in the requirement for a "certificate on entrepreneurship." This suggests that a person who wanted to take advantage of a new market opportunity needed to wait for approval to become an entrepreneur, while the opportunity passed them by or was exploited by another. It was an appropriate decision to discontinue this program in the coming years. Also, realignment of work requirements in a fast changing situation would be substantially more complicated if Dutch employers are still required to seek government approval before dismissing employees<sup>xxx</sup>.

An enterprise economy has a number of positive features, but some aspects are less popular. For example, the reduced job security from a more volatile employment market and the additional social costs from firm closures. It is, in fact, the constant change in jobs, occupations, and firms that provides the adaptation that gives an enterprise economy a competitive advantage. Many of the costs of adaptation are borne by the individuals and communities affected; a major role for government is to provide the resources to ease these costs. It is not clear that the programs to promote entrepreneurship are dealing with these issues.

To use a sports analogy, the highly formalized "distribution society" is much like a North American football team (US football and Canadian football are very similar). A set of highly specialized positions that are carefully co-ordinated by detailed planning with a central authority, the coaching staff. The coaches train the specialized players, develop the highly programmed plays, and select the appropriate reaction for any situation. Each player adopts a single specialization position for their entire playing career. Such highly trained specialized teams can be very effective under the right conditions, such as playing another team under the rules of North American Football.

In contrast, European football - or soccer - is more like an enterprise economy. While the players work in co-ordination, much of the action on the field is opportunistic, with individual players exploiting opportunities and weaknesses as they become apparent. The players, except for the goalies, are much more adaptable, with the capacity to adapt and play many roles during the game. The coach is responsible for player training and the general field strategy, but each player has considerable initiative to make their contributions as they see fit.

The Netherlands economy at least until recently was like an elegant and effective version of North American football, but the global economy game is changing to European football. The question is whether Netherlands can fully change to an "entrepreneurial economy" - or a European Football economy, before the resources available to sponsor the change are exhausted.

#### **4.7 Conclusions**

Several issues have provided the focus of this discussion. First, the level of difference between the Netherlands and the United States with regards to the presence of individuals attempting to create new business entities. Second, this appears - if the Netherlands is typical of Northern Europe - to reflect major differences in a wide range of

national features. Third, what may account for the apparently modest impact of the range of Netherlands government programs on increasing the level of individual efforts to start new firms. The analysis is not designed to provide a comprehensive evaluation of the current or prospective Dutch economy.

The discussion has been based on some broad assumptions:

- New and growth firms are now a major source of national economic growth.
- There are major differences in the level of entrepreneurial activity among developed countries.
- The sources of these differences are pervasive features of the fundamental aspects of the cultural, social, and political order - the deep structure.
- The deep structure reflects the cultural, economic, and political history of the country and has emerged over hundreds of years and tens of generations.
- Fundamental changes in the life course, occupational, and career aspirations of ordinary citizens, required to create an enterprise society, may take several human generations.
- Shifts in global economic competition, lead by countries with a vigorous entrepreneurial sector, are occurring in a time scale measured in years, rather than decades or human generations.

Hence, the dilemma for the Netherlands is clear. If it does not shift to an "enterprise economy," it will gradually become less competitive, national wealth will decline, followed by a decline in the relative standard of living. However, there is considerable evidence that the Netherlands has gone farther in pursuing changes than other European countries<sup>xxxi</sup>.

The Netherlands is in a race with all advanced economies confronted with changing global competition. Two elements are critical, the available national wealth and the speed with which it can adjust from a "distribution society" to a "enterprise economy." The faster it can change, the less critical will be the amount of available national wealth.

Efforts by government leaders and administrators to modify laws, regulations, programs, and educational systems, along with providing financial and program support makes clear a national commitment to new and growth firms and, in turn, an enterprise economy.

The critical element, then, is the speed with which the personal perspectives and orientations of ordinary people can be adjusted. If this is slow, there will be a gradual reduction of individual economic well-being until the "enterprise economy" emerges. But a rapid change in the cultural milieu may be traumatic, as it is difficult for people to adjust their life and career expectations.

What are the major implications for public policy and political leaders? At least two come to mind. First, political leaders need to place the current problem in the proper context for the ordinary citizen and, perhaps more important, Dutch parents. A shift to an "enterprise economy" should not be presented as a mindless imitation of Anglo economies, particularly the United States. It should be presented as a response to changes in the complexity of the economic order, the speed and efficiency of changes by major global competitors, and an admission that government is no longer capable of guiding ALL economic adaptation and opportunity exploitation.

Second, in exchange for the willing contributions of ordinary citizens necessary for an "enterprise economy," they will be allowed to keep a substantial share of the economic benefits, as long as the total national wealth is increased. This may, of course, increase some income disparity. It would seem appropriate for governments to provide a "safety net" for those that try the entrepreneurial way and are not successful or find they prefer other career options.

Most critical, Dutch parents should be encouraged to consider the opportunities foregone for their children if their children are not encouraged to consider, as one option, an entrepreneurial career. Not all have a talent or interest in creating new firms and new ventures, but those that do should be encouraged to pursue responsible entrepreneurship. It can be good for them; it can be very good for the Netherlands.

The Dutch have endured hundreds of years of efforts at military domination and internal conflict over resources, and evolved a political and social order that survived these challenges. The adjustment to avoid global economic domination will occur, the major issues are how and the scale of the transition costs. Current government efforts are an important step in the right direction.

## Notes Chapter 4

- i Ministry of Economic Affairs, 1997, *Benchmarking the Netherlands: Prepared for the Future?*, The Hague.
- ii Isobel van der Kuip, 1999, *Early Development of Entrepreneurial Qualities: The role of Initial Education*, Zoetermeer, EIM Small Business Research and Consultancy.
- iii Ivo R. Verdonkschot, *Examining student attitudes toward entrepreneurship: 1998*, The Hague, Ministry of Economic Affairs.
- iv Ministry of Economic Affairs, 1996, *Running a Business in the Netherlands*, The Hague,
- v David B. Audretsch and A. Roy Thurik, 1998, *The Knowledge Society, Entrepreneurship and Unemployment*. Zoetermeer, EIM Small Business Research and Consultancy.
- vi N. S. Bosma, A. R. M. Wennekers, and W. S. Zwinkels, 1999, *Scanning the Future of Entrepreneurship*, Zoetermeer, EIM Small Business Research and Consultancy.
- vii S. H. Baljé and P. M. Waasdorp, 1999, *High Growth Companies in the Netherlands*, The Hague, Ministry of Economic Affairs.
- viii *New firms: the key to competitiveness and growth, 1998*, and *Ambitious entrepreneurs: the driving force for the next millennium, 1999*, Ministry of Economic Affairs/EIM.
- ix Frits Bolkestein, 1999, *The Dutch Model: The High Road that Leads out of the Low Countries*, *The Economist*, 22 May 1999.
- x Reviewed in Paul Reynolds and Sammis White, 1997, *The Entrepreneurial Process*, Westport, CT: Greenwood Press, Quorum Books.
- xi The concept of "entrepreneurship" is used in many ways, not all of which are convenient for research. Several features are of the concept of entrepreneurship are of consequence: 1) individual versus team efforts, 2) overlap with self-employment, and 3) the relationship to innovation or "creative" contributions to start-ups.

First, the tendency to anthropomorphize firms, firm decision making, and firm competitive strategy as if they were the product of a single individual is carried over to analyses of start-ups and new firms. It is assumed that every new firm is the product of an individual effort, even those with high growth aspirations or trajectory. If those responsible for start-ups and new firms are defined in terms of ownership of the business, about half of all start-ups and new firms are team efforts, although one person may be the lead participant. Identifying individuals involved in a start-up effort provides a method for locating start-up teams as well as solo start-up efforts. Second, the use of reported self-employment as a surrogate for entrepreneurship is not very satisfactory, and for several reasons. First, the data usually reflect a response among fixed alternatives: full-time employment, part-time employment, self-employment; homemaker; student; retired - PICK ONE. Over half of those involved in starting a new firm are employed during the start-up process; they are unlikely to indicate they are "self-employed" as their primary labor force activity. Second, available evidence suggests that it has a very low correlation with reported start-up activity. The average national self-employment rate for 1974 to 1994 has a correlation of about 0.16 with survey based estimates of start-up participation rates in nine countries in the GEM study, reported below [Wildeman, Ralph E., et al., 1999,

Self-employment in 23 OECD Countries: The Role of Cultural and Economic Factors Zoetermeer, EIM Small Business Research and Consultancy, pg 22.] Third, most conceptualizations of entrepreneurship - in the classic sense - include assumptions of growth and employees, both elements that are largely missing from self-employment. For example, of the 24 million business entities that file annual income tax returns in the United States, 75 % represent business activity without employees - self-employment.

The third complication with the concept of entrepreneurship represents various ideas that it is associated with some form of economic innovation or creativity coupled with growth aspirations. Growth, either as an objective or an outcome, is relatively straightforward to determine. While appealing in concept, it is extremely difficult to develop reliable empirical measures of innovation or creativity, particularly when it may involve the production process, rather than the final goods or services produced. The "destruction" aspect of "creative destruction" is much easier to identify than the "creative" aspects. Growth, either as an objective or an outcome, is relatively straightforward to determine.

One solution to this dilemma - of how to measure the presence of entrepreneurship - is to shift the focus to something else, such as the initiation of new business entities. It is possible to measure such efforts, and determine how many are involved and what type of progress has been accomplished. It can be determined if such efforts have growth aspirations. It is no so easy to measure those that are creative or innovative, but this may not be a critical issue for most analysis. The solution, then, is to emphasize activities that can be measured, and accept that as an indicator of entrepreneurial activity.

- xii This data provided informally among members of the ERC teams from member units in the different countries. The individuals involved were Lars Kolvereid of Bodo Graduate School of Business in Norway, Per Davidsson and Frederic Delmar of Sweden, Frederick Welter of RWI, Essen in Germany, Colin Mason of the University of Southampton, UK, and Paul Reynolds from the United States. The Netherlands data is described in detail in M. W. van Gelderen, 1999. *Ontluikend ondernemerschap*. EIM Small Business Reserach and Consultancy, Zoetermeer.
- xiii Netherlands restricted their sample to those between 18 and 64 years old; to enhance comparisons, other samples were restricted to this age range for the comparative analysis.
- xiv EIM/ENSR, 1998. *The European Observatory for SMEs: Fifth Annual Report*. Netherlands, Zoetermeer: EIM Small Business Research and consultancy, pg. 320.
- xv Based on reports from the Global Entrepreneurship Monitor project. Paul D. Reynolds, Michael Hay, and S. Michael Camp, 1999, *Global Entrepreneurship Monitor: 1999 Executive Report*. Kansas City, MO: Ewing Marion Kauffman Foundation, and Paul D. Reynolds, 1999, *Global Entrepreneurship Monitor: 1999 Research Report*, London, London Business School.
- xvi This chart is based on the sections on the Netherlands and the United States in the *Encyclopaedia Britannica*, 15th Edition, 1994.
- xvii Carlo M. Cipolla. 1976. *Before the Industrial Revolution: European Society and Economy, 1000-1700*. N.Y.: W.W.Norton & Co., pg 232, 244-256.
- xviii Jan de Vries & Ad van der Woude. 1997. *The First Modern Economy: Success, Failure, and Perseverance of the Dutch Economy, 1500-1815*. UK: Cambridge U. Press.

- xix Jan de Vries and Ad van der Woude, op cite, pg 28.
- xx Netherlands, Encyclopaedia Britannica, 15th Edition, 1994, pg. 895.
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- xxii Ibid.
- xxiii Ibid.
- xxiv Ibid, pg. 46.
- xxv Ibid, pg. 9.
- xxvi Van der Veen, Romke and Willem Trommel, 1998, The Dutch Miracle: Managed Liberalisation of the Dutch Welfare State. London, UK: Institute for Public Policy Research, Pub: 1-86030-086-3, pg 6. Old-age and widow pensions excluded.
- xxvii Ibid.
- xxviii Ministry of Economic Affairs, 1997, Benchmarking the Netherlands: Prepared for the Future? The Hague, pg. 12.
- xxix Frits Bolkestein, op cit.
- xxx Bart van Ark, et al, pg 39.
- xxxi Frits Bolkestein, op cit.