

## Chapter 12

# Supporting Entrepreneurship in High Cost Economies: What Can Governments Do?

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### ABSTRACT

*This chapter sets out the findings of a comprehensive literature review that addressed three objectives: to review internationally recognised and accepted methodologies of entrepreneurial human and firm characteristics data collection and analysis; to formulate the contemporary view and latest research on entrepreneurial characteristics and how these characteristics contribute to a model of entrepreneurial firm behaviour; to examine developments in the literature that explain to what extent human characteristics influence and predict the performance of firms. The implications of this work are that firms with high potential in either innovation or market-based growth opportunities need to have the right environmental settings in terms of social, political, regulatory, economics, and technology for firms with a high success potential to realise this potential. The concept of stage progression and the relationship between the characteristics of the individual, the firm, and the opportunity provide the elements of a framework through which to consider government support programs and interventions.*

### INTRODUCTION

In the context of economic development for regions, entrepreneurship displays a 'U' shaped relationship with the increase of wealth within nations (Kelley, Bosma & Amorós, 2010). Poorer nations experience higher entrepreneurship activity as measured by the rate of early-stage new

venture start-up activity. This occurs as people who have no better means of earning an income start businesses to feed themselves and their families. These are commonly referred to as necessity entrepreneurs. As a nation advances and scale-based firms become more prevalent, much of the pressure on unemployment is reduced and more people find jobs as the industrial sectors of an economy

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become more pervasive and established. During this period the rate of entrepreneurship generally declines. As wealth continues to accumulate in a country, inevitably capital seeks lower cost wage economies for the scale-based firms that once had an advantage. In this phase of development entrepreneurship again increases as the basis of the economy transitions toward a knowledge-based economy that features firms with smaller workforces are more automated and more active within global supply chains.

Under these circumstances entrepreneurship in high-cost economies plays an important role in re-focusing an economy as it transitions from scale-based production centred firms to smaller, flexible and globally connected knowledge-based businesses. Equipping a population with the skills for this transition is a critical role of government. This chapter sets out the findings of a comprehensive literature review that addressed three objectives:

- To review internationally recognised and accepted methodologies for data collection and analysis of entrepreneurial human and firm characteristics.
- To formulate the contemporary view and latest research on entrepreneurial characteristics and how these characteristics contribute to a model of entrepreneurial firm behaviour.
- To examine developments in the literature that explain to what extent human characteristics influence and predict the performance of firms.

The authors argue that there are various economic perspectives and understandings of entrepreneurship and that its relationship to economic outcomes varies dependent upon which perspective is adopted. Regardless, particularly in more economically advanced economies, entrepreneurship is increasingly becoming accepted and

adopted by governments as a means to stimulate fundamental development and growth within an economy.

This chapter also acknowledges the differences between entrepreneurship research agendas and foci. Therefore this chapter not only considers frameworks created for developed countries but also frameworks created for developing countries. It explores the individual characteristics of entrepreneurs and the characteristics of their ventures at various stages of development and growth. Entrepreneurship is not completely separate from its environment and policymakers also need to assess the environment to create conditions that stimulate and support entrepreneurs. Although national entrepreneurial frameworks have been created for different purposes, they represent a broad picture of instruments used internationally for assessing entrepreneurial activities. Analysing the entrepreneur's external environment is very useful in recognizing the opportunities and threats for developing and sustaining an entrepreneurial ecosystem.

The review of the macro level analysis of frameworks suggests that there are four main concerns highlighted by international measures of entrepreneurship. These are the leading indicators that highlight the prevalence of human attitude and aspirations for entrepreneurship; the operational indicators that consider the framework conditions (social, political, regulatory, technology and economic), levels of activity, the barriers and ease of entrepreneurship within an economic region; the lagging measures that isolate performance and impact; and lastly the government pro-activeness indicators that reveal the extent to which a government supports entrepreneurship through policy, programs and infrastructure. These are summarized in Table 1.

The review of the individual and firm level literature reveals both consistent and inconsistent findings with respect to the contribution of individuals toward firm level outcomes. Entrepre-

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