

PART II

KEY POLICY ISSUES IN ENTREPRENEURSHIP AND SME DEVELOPMENT

Part II of this report is structured in six thematic chapters. Each chapter starts with a summary of main findings from the local case study areas by the OECD. In the following paper, both theoretical and practical aspects of policy action are discussed in light of new policy approaches and options. References are made to good practice initiatives in East Germany and other regions in OECD member countries. A chapter concludes with the OECD policy recommendations presented as a 'Checklist'. Along with a selection of international learning models and good practice examples in East Germany, this final section of each thematic chapter aims to inspire policy innovation and the development of local approaches to strengthen entrepreneurship.

CHAPTER 1

ENTREPRENEURIAL CULTURE AND ATTITUDES

CULTURAL ASPECTS OF ENTREPRENEURSHIP

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This chapter deals with possible policy action to foster business start-up culture and positive attitudes towards business foundation in OECD countries. The formulation of recommendations for political action presupposes that the interactions between diverse factors of influence, start-up related mindset and business foundation activities are known. For this reason, theoretical reference is made first to the relationship among culture, attitudes and foundation activity. Then, empirical results and a model are presented. Subsequently reference is made to the situation in East Germany and – as far as available – to experience with policy initiatives gained in OECD countries.

Introduction

Discussion about cultural features, attitudes and entrepreneurship is nothing new. More than 100 years ago Max Weber studied the relationship between religious-ethical motivations and entrepreneurship. He put forward the argument that Protestant labour ethics had made a substantial contribution to the development of modern capitalism because it had changed the attitude towards labour (Weber 1905). Even if religious motivations in working life nowadays may be less relevant, the debate on cultural features, enterprise-related attitudes and entrepreneurship has remained quite a topical issue. First, however, the concept of "culture" should be clarified and defined. Then, the influence of cultural features on business foundation activities will be addressed and the results of empirical studies presented.

The concept of "culture" is very complex and is used with various meanings. Under a pragmatic definition one can say that any group of human beings whose thinking and acting differs from that of other groups has a "culture" (see Frick et al. 1998, p. 43). Hofstede likewise emphasizes the relationship between culture and group affiliation. He clearly defines culture as "collective programming of the mind which distinguishes the members of one group or category of people from another" (Hofstede 1994, p. 5). According to Fukuyama (2001, p. 31-30), culture encompasses the values, norms, interpretations and modes of behaviour that characterise societies or other social groups. The different definitions clearly show culture to be always a collective phenomenon, for it is shared, at least in part, with humans living in the same social environment or belonging to the same group. Accordingly, any human being belongs to different social groups and thus also carries different layers of "mental programming". In addition to a national level, which is commonly understood under the term "culture", there is also a regional level, an ethnical, religious and gender level (see Shapero 1984, p. 26; Hofstede 1994, p. 10ff). Culture is learnt consciously and unconsciously. It should therefore be distinguished from human nature, on the one hand, and from the individual personality, on the other. Cultural features are passed on in socialisation processes. That is why culture cannot be changed in the short term, but has a long-term character (see Hofstede 1994, p. 5). Against this background, it becomes evident already at this point that political programmes can only ever have a conditioned and long-term impact on cultural features.

In recent years, research has increasingly devoted itself to the subject of attitudes and their role in the process of business foundation. Unlike cultural features and personality traits, attitudes towards business foundation have proved less stable. They are influenced by environmental factors and may alter as time passes.

Relationship between culture and entrepreneurship

The decision to become self-employed or to start one's own business is influenced by a number of factors. Professional background, the level of education, current employment, personality traits and the social and regional environment have an impact on the start-up decision. Individual factors alone cannot explain why certain individuals become self-employed and others prefer paid employment. Albert Shapero already pointed to this phenomenon some 20 years ago when he characterised the business foundation process as "overdetermined" (see Shapero 1984, p. 23).

Culture can influence economic activity in diverse ways: Culture is known to influence attitudes towards work and consumption. Culture has an influence on the organisation of economic activity and the shaping and effectiveness of institutions, and culture also has an impact on social networks and confidence building within social groups (see Fukuyama 2001, p. 3132ff). Of primary interest in the present study is what kind of influence culture may have on business start-up activities. Such a relationship may be given in different ways. Mostly, analyses on the relationship between culture and start-up activities or entrepreneurship are conducted by considering attitudes towards entrepreneurship or business foundation. One proceeds from the fact that cultural features influence attitudes towards start-ups and that these attitudes, in turn, have an impact on start-up activities. Such a relationship between culture, attitudes and start-up activities may exist on the individual, as well on regional and group levels (see Davidsson/Wiklund 1997, p. 182). There is a direct relationship on the individual level when, on account of cultural features, many persons exhibit a positive attitude towards business foundation and, due to such an attitude, decide to become self-employed or to start a business. In such a case, there is a direct relationship between culture and start-up activities because it is precisely persons with a positive mindset who become self-employed. This argumentation concurs with those of Schumpeter (1934), McClelland (1961) and Kirzner (1985), who likewise describe a direct linkage between attitudes and business foundation activity. Further, there may exist a relationship between culture and foundation activity on the societal level. Etzioni (1987) argues that the values and norms predominant in the social environment of an individual may have an influence on his or her propensity to start a business. In line with this argumentation, a culture averse to business foundation may suppress start-up activities. This would, for example, be the case when entrepreneurs and entrepreneurship have a bad image within a society or a region and the individual therefore does not consider this option of livelihood although he or she does not harbour any reservations towards entrepreneurs. In such a case there is a relationship between culture and business foundation activity not on the individual level but also on the level of groups, region or society.

Seen theoretically, the relationship among relevant magnitudes of influence, business foundation attitudes and start-up activities may be explained by the theory of planned behaviour. This theory, derived from social psychology, is one of the most frequently used approaches to explain and predict human behaviour (see Ajzen/Fishbein 1980; Ajzen 1991). Institutional economics, as well, can establish a relationship between culture and entrepreneurial activity. Institutional economics deals with institutions and their impacts on human behaviour. The term "institutions" is to be understood here in a comprehensive sense meaning both formal laws and organisations and informal rules of behaviour, for example standards, habits and customs. North (1992, p. 3) describes institutions as restrictions of human interaction conceived by people, in short: as rules of game of a society. Commonly, institutional economics is devoted to formal institutions such as law, governmental regulations or enterprises (see Richter 1994, p. 2f). As a matter of fact, informal or, as North puts it, "formless" restrictions do play a great role in modern communities. "Our daily dealings with others – be it in the family, in social relations, outside of these or in working life – are subject to an order that is mainly determined by behavioural codices, habits and customs and conventions." (North 1992, p. 43.). Formless restrictions emerge from pieces of information that have been passed on in society and are part of culture. Cultural traits and hence formless restrictions are extremely long-lived and change but

slowly. Even when form-tied restrictions change abruptly, the culturally specific formless restrictions tend to change only slowly (see North 1992, p. 43ff). Human behaviour and thus foundation behaviour is essentially shaped by institutions. Institutions constitute the scope of action for entrepreneurs. The respective shaping of the institutional framework influences the behaviour of choice in favour of or against business foundation and, consequently, the availability of business founders. The formal institutions of a society ensure the existence of entrepreneurial opportunities. The informal institutions, i.e. attitudes, habits and customs, determine the extent to which these opportunities are actually recognised and grasped (see Welter 2002, p. 2f). The formal and informal institutions are mutually dependent here. If members of a society have a strongly felt need for security, in the long term this will lead to the emergence of formal institutions that meet such a security need.

The approaches presented here are designed to establish a relationship between culture, attitudes and economic activity. Cultural values and norms influence attitudes and patterns of behaviour and in this way have an impact on economic activities. When empirically verifying these approaches, it proves problematic that culture cannot be measured directly. Culture acts as a kind of background variable that manifests itself in attitudes and patterns of behaviour. Apart from cultural background, a number of other individual-related influences determine attitudes and patterns of behaviour, too. Furthermore, people belong to different social groups. That is why regional cultural features overlap with group-specific cultural features (see Hofstede 1994, p. 10ff; Shapero 1984, p. 26). Persons with the same regional cultural background may also display different attitudes and patterns of behaviour. Only in sum it is to be expected that cultural differences lead to varying frequencies of certain attitudes in different regions or cultural groups. Therefore, it is quite difficult to distinguish between individual-related features and cultural features. Attitudes and patterns of behaviour can be categorised as cultural features only when these are not individual features of single persons. Thus it is an empirical question whether certain features can be regarded as individual features or as cultural features of a major group of individuals.

Empirical studies on the significance of cultural features for business start-up activities

Many studies on business foundations have emphasised the significance of the regional "foundation culture" or of the regional "foundation climate" (cf. Armington/Acs 2002, p. 39; Goetz/Freshwater 2001, p. 59; Johannisson 1984, from p. 33f; p. 157ff; Shapero 1984, p. 25f; Shapero/Sokol 1982). However, it must be noted that the concepts of "foundation culture" or "foundation climate" are often not unequivocally defined and operationalised; moreover, they are mostly not directly raised.

A few empirical studies related to regional business start-up activities that make reference to the significance of the factors culture and environment do not cover these in a direct way but handle them merely as a residual category. That part of regional variance that cannot be explained by structural factors is ascribed to the regional foundation culture or the specific regional environment for business founders (for the USA, see Armington/Acs 2002, p. 42f; Goetz/Freshwater 2001, p. 61; for Germany: Fritsch/Niese 2000, p. 241f; for the UK: Robson 1998). But this procedure is unsatisfactory because it remains open which aspects of regional culture or the regional foundation environment are actually of relevance or whether other, unconsidered factors might account for the unexplained remnant of variance.

A study of the significance of cultural factors in the business foundation process is required to directly record values, norms and attitudes of the population of a region. Few studies have so far done this. In view of the fact that many theoretical papers suggest the significance of cultural features for enterprise foundations, there are an amazingly small number of empirical research results. Davidsson and Wiklund (1997, p. 182) attribute this research gap above all to the high cost of data collection and

to the methodological problems of such studies. Because of their relevance for this study, the few studies on culture and entrepreneurship are briefly outlined:

Davidsson and Delmar (1992) and Davidsson (1995) describe the results of an empirical research project covering six differently structured Swedish regions. Using a written survey, a total of 1547 randomly chosen persons of the same age group from the six regions were interviewed for values and attitudes related to start-ups. Aspects such as achievement motivation, locus of control, need for autonomy and change orientation were considered. The regional distinctness of the attitude patterns was then compared with the regional rate of business foundation. Davidsson und Delmar arrived at the result that there are variations in foundation-related values of the regions under scrutiny, but that they proved to be relatively small. Only for Stockholm did they find significantly higher values compared with the remaining regions. Despite these slight differences and individual deviations, the authors found a trend of relationship between foundation-related values and regional start-up activities (see Davidsson/Delmar 1992, p. 451f; Davidsson 1995, p. 49f). Davidsson (1995, p. 52f) further shows that there is a relationship between business foundation activities and regional structural characteristics such as the share of self-employed persons, population density, demographic growth and unemployment. Both cultural and structural factors were found to influence start-up activities, as well. But these two groups of factors of influence might not be independent of each another: "... where the structural (pull) conditions for entrepreneurship are favourable, the culture tends to favour entrepreneurship" (Davidsson 1995, p. 53). On account of the small number of study regions and of the design of the study, Davidsson is unable to definitely clarify the question of causality of culture, structure and foundation intensity. He suggests, though, that cultural differences might be the result of structural differences: "The possibility would remain, however, that structural pull factors are the real determinants and culture but an epiphenomenon that has no unique causal influence." (Davidsson 1995, p. 55).

To investigate in greater detail the relationship between structure and culture, Davidsson and Wiklund (1997) conducted a second study applying a different design. Using a cluster analysis of all 80 Swedish labour market regions, they identified three structurally equal pairs of regions. The two regions of one region pair belong to the same respective cluster, i.e. they do not differ in terms of branch structure, population density or other structural factors that are frequently used in other studies to explain regional business foundation rates. However, the regions were chosen in such a way that one of them would reveal a high and one a low foundation rate. As the two regions do not differ structurally, Davidsson und Wiklund suspect that cultural differences are responsible for the varying foundation rates. Similarly to the preceding study, the cultural features and attitudes of the regions' inhabitants were surveyed using a questionnaire with randomly chosen individuals 35 to 40 years old. A comparison of the survey results for the three pairs of regions reveals that foundation-related values, views and attitudes are mostly positive in the regions with high foundation intensity. Davidsson und Wiklund (1997, p. 189ff) therefore conclude that cultural differences do explain part of the variation in business foundation rates. However, the cultural differences between the six Swedish regions studied were found to be relatively small. As in other studies, about 70% of the variance of regional foundation rates could be explained by structural features (see Audretsch/Fritsch 1994; Reynolds/Storey/Westhead 1994) and the study conducted in Sweden showed cultural differences between structurally equal regions to be small. Davidsson und Wiklund (1997, p. 193) conclude that cultural factors as the whole can explain a smaller proportion of the variance of regional business foundation rates than can structural features: "Our preferred interpretation of the results is that the cultural differences are minor and that their effects are likely to be small in comparison to the effects of some structural factors." (Davidsson/Wiklund 1997, p. 196).

Mueller and Goić (2002) studied foundation-related attitudes in six transformation countries. They, too, came to the result that the differences between countries can be explained essentially by the level of economic development and not by culture or experience with market economy.

The studies here described make an important contribution to understanding the relationship between cultural features and regional business foundation activities: Cultural factors play a role in the foundation process, but presumably these are of lesser relevance than structural features related with economy and demography.

The role of attitudes in the business foundation process

Whilst there are very few studies covering cultural features directly and investigating them in relation to foundation activities, the relationship between foundation-related attitudes and foundation activities has been dealt with more frequently. The findings show that foundation-related attitudes and abilities exert a significant influence on business foundation activities (Arenius/Minitti 2005, Sternberg/Brixy/Hundt, 2007; Bergmann 2004a, 2004b; Koellinger/Minitti/Schade 2007; Lee/Wong/Ho 2004).

In order to derive recommendations for policy action, the question arises of the factors leading to positive foundation-related attitudes. In the literature, there are few studies that refer to the determinants of positive or negative attitudes towards business foundation. Most investigations deal with the relationship of attitudes and foundation activities, leaving unconsidered the origin of foundation-related attitudes. Bergmann (2004, 2005) studied the factors of influence on individual attitudes towards business foundation in ten German regions on the basis of a representative telephone opinion poll. In line with the distribution of population, two regions in East Germany and eight regions in western Germany were considered. The study focused on three foundation-related attitudes that had proved relevant in previous analyses in relation to individual propensity to business foundation: the assessment of one's own foundation capabilities, the perception of opportunities for founding a business in the region and individual risk aversion, i.e. the question whether fear of failure would stop the respective person from founding a business.

Individual confidence in one's own foundation capabilities was found to depend almost exclusively on the individual traits of the person interviewed and on his or her integration into social networks. Regionally related features are significant, but prove less relevant. People think themselves particularly capable of founding a business if they are already self-employed, have started a business in the past or know somebody who has founded a business successfully.

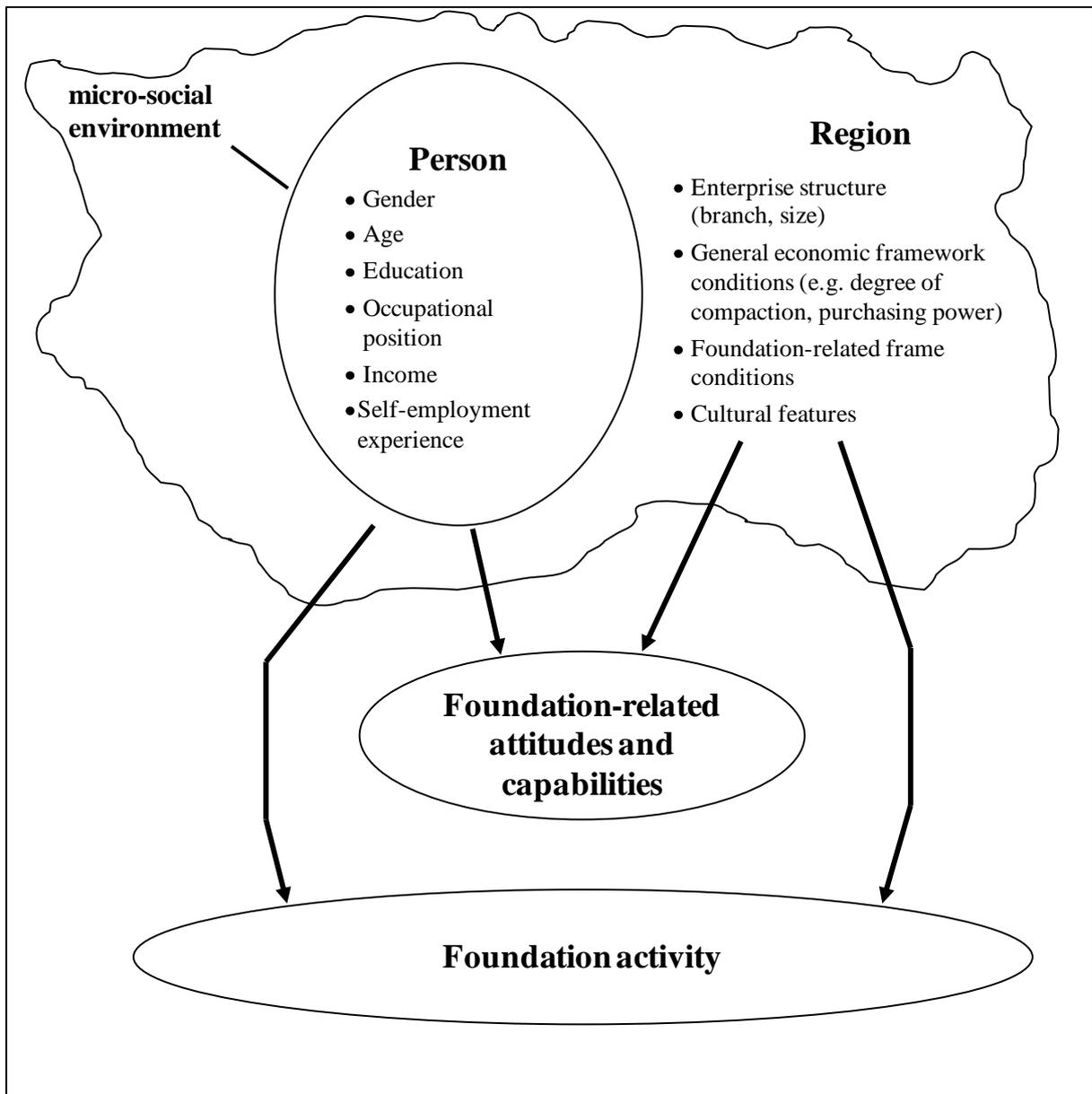
For the other two questions on attitude, the perception of good foundation opportunities and individual risk aversion, individual-related and micro-social factors were also found to be of great significance. Personal experience of self-employment and/or the knowledge of other founders result in a positive mindset for start-ups. But for these two questions of attitude, the regional level is also of great significance: Good business foundation opportunities are seen above all in regions with strong purchasing power or in agglomeration areas. Likewise, the quality of the foundation-related infrastructure has a significant influence, with a close relationship shown between the three variables mentioned above: Purchasing power tends to be high in agglomeration areas where the quality of the foundation-related infrastructure is mostly rated as good. Hence the regional influence on the individual perception of good foundation opportunities is primarily determined by the economic structure of the region.

Individual risk aversion is markedly influenced by the regional level, too. However, it is hard to explain this regional influence by the shaping of economic and demographic structural factors of the

region. The distinction between East and West alone proves to be relevant here. Although a significant regional influence on individual risk aversion can be found, it appears to hardly depend on the region's economic and demographic structural features, which suggests cultural or mentality differences between the regions studied. This finding is of significance because differences in mentality may be behaviourally relevant by influencing the choice of gainful employment.

Against the background of the explanations above, the following model of the significance and role of cultural features and foundation-related attitudes in the start-up process can be devised: Individual business foundation activities depend on personality traits and the respective region. The influence of these characteristics is exerted – almost directly – via foundation-related attitudes and capabilities. Positive foundation-related attitudes thus depend to a great extent on the characteristics of the person and of a region's economic structure and to a lesser degree on cultural background. Consequently, foundation-related attitudes and capabilities play an intermediary role in the start-up process. Policy programmes attempting to influence foundation-related attitudes should take into account these relationships and be aware that foundation-related attitudes prove greatly dependent on the characteristics of the person and his or her regional environment.

Figure 1. Factors influencing foundation-related attitudes and capabilities, as well as business foundation activities



Source: The author's presentation

The situation in East Germany

As regards business foundation dynamics, East Germany presents the following picture: In the early 1990s the number of business foundations first rose sharply, then declined to a level below that of western Germany. In 2003 and 2004 the number of business foundations again went up quite markedly in East Germany, above all due to the massive support for start-ups out of unemployment (Sternberg/Lückgen 2005: p. 14f; Bergmann/Sternberg 2007). When this kind of support for start-ups out of unemployment was restricted, this "boom" ended as early as 2005 (Heger/Metzger 2006). On account of the high unemployment rate, the proportion of start-ups due to the lack of better options of

employment is higher in East Germany than in the West. The growth intentions of these "necessity start-ups" are mostly smaller than with foundations originating from a good business idea.

Various studies have revealed that even more than 15 years after German unity the foundation-related attitudes in East Germany are somewhat more cautious than in western Germany. The most recent country report of the Global Entrepreneurship Monitor (GEM) on Germany clearly points to these differences: eastern Germans tend to assess their start-up environment more pessimistically than western Germans do. Further, there is a great, significant difference in relation to the question whether the fear of failure is an obstacle to business foundation: The value for East Germany, 53% affirmative answers, was 8 percentage points above the value for western Germany. No difference, however, was found when assessing individual foundation capabilities. These are rated as almost equal in eastern and western Germany (see Sternberg/Brixy/Hundt, 2007: p. 21). As noted above, the perception of foundation opportunities depends, above all, on regional purchasing power. A specific effect for East Germany could not be ascertained. Hence, of the variables studied, only the one related to risk aversion actually implies a cultural difference between eastern and western Germany. This marked risk aversion presumably results from the socialist past of East Germany, where taking one's own initiative and personally bearing economic risks were suppressed.

However, the below-average business foundation activity in East Germany can be explained only to a small degree by this cultural background. It is rather and above all the result of the comparatively poor economic development. At least in the initial stage, most founders operate for a local or regional market. Particularly low purchasing power therefore diminishes the incentive to become self-employed, a factor seen as a major obstacle in the regional case studies, too (see OECD 2006b: p. 16). The foundation boom right after the Wall came down showed that even in an environment shaped by a less conducive cultural background, many people take the step to self-employment when entrepreneurial opportunities are available in great number.

Areas for policy intervention

It is hard to obtain a review of policy programmes addressing business foundation-related attitudes or the foundation culture of a region because it is difficult to evaluate such programmes scientifically. Therefore, few publications on this subject are available. The success of supportive measures aiming at the creation of an "entrepreneurial culture" is often measured by the degree to which the programme is known among the population or among a certain group of persons or on the basis of motivation for business foundation (see Landtag Mecklenburg-Vorpommern 2005; BMWI 2006). It is not scrutinised whether such support initiatives actually cause an increasing number of businesses to be started. In the case of Mecklenburg-Western Pomerania, the increase of the proportion of self-employed persons from 7% to almost 10% during the campaign "*Einfach Anfangen*" (simply begin) is most likely not primarily due to this campaign, but rather the result of massive supports for start-ups out of unemployment (see Bergmann/Sternberg 2007) and of a general trend towards more self-employment. This does not imply that these support instruments are ineffective. As a rule, it cannot be scientifically substantiated that programmes launched to enhance "entrepreneurial culture" or to improve foundation-related attitudes actually lead to more business foundations (see Storey 2003). Therefore, an overview of such policy measures is possible only within limits.

An important policy initiative to positively influence the start-up mindset of university students and research workers is the support programme "EXIST – *Existenzgründungen aus Hochschulen*" (university spin-offs). As a first step, it seeks to sensitise students and research workers in favour of entrepreneurial self-employment as a viable option. Another priority is the education and professional upgrading of potential business founders. And as a third step, concrete business foundation projects are helped by means of counselling, coaching and infrastructural backup. From 1998 to 2005 a total of

15 regional start-up support networks were assisted by EXIST. These were previously chosen by means of a contest. The design and implementation of the various measures was done by the respective regional stakeholders. It would go beyond the limits of this chapter to outline all the measures. It can be stated that EXIST did enhance the motivation for self-employment at the universities involved. Compared to the initial situation in 1997, substantial headway has been made at the universities in terms of entrepreneurship education and upgrading. The lengthiness of processes of change that aim to promote a culture of entrepreneurial self-employment is also emphasised by the scientific back-up for the support programme. This has caused the lead aims of the programme as a whole to be reached only in part (see BMWI 2006). Factors contributing to the success of EXIST proved to be the competitive character of selecting the regions eligible for support and the freedom to design the individual measures. It still remains doubtful whether EXIST actually induced sustained processes of change and helped set up sustainable support institutions or whether these will disappear as soon as the support payments are discontinued. Furthermore, no statement can be made as to whether the support programme will, in the long term, result in increased start-up activities with positive impacts on the regional economy (see Koch/Kautonen/Grünhagen 2006). Notwithstanding these reservations, regions with major university locations, for example Halle/Saale, can surely benefit from the experience gained with the EXIST programmes (see OECD 2007a).

Autio, Kronlund and Kovalainen (2007) investigated in nine different countries policy programmes and support initiatives designed to foster high-growth enterprises. Most of the programmes studied do not target attitudes or the start-up culture of a determined group of persons, but provide concrete assistance measures for existing companies, e.g. in the form of advisory services, export promotion and opportunities of financing.

The Mastering Growth Program in the Netherlands is one of the few programmes focussed on the attainment and management of growth from a management perspective. The programme supports workshops in which ambitious companies can learn from each other how to reach entrepreneurial growth. The programme's objectives are to enhance growth motivation and, at the same time, to improve the managerial skills of the entrepreneur. The participants are primarily expected to learn from each other. The programme was started in 2006, so it is too early for a final assessment. However, the programme has aroused great expectations (Autio/Kronlund/Kovalainen 2007: 55f).

High-Growth Start-up is a regional project in South Yorkshire, Great Britain, that was initiated by the Organisation "Business Link". Over a period of 18 months, it offers mentoring and coaching help for high-growth companies. The aim is to equip the entrepreneurs with the necessary management capabilities for enterprise growth. The programme has already given help to several hundred firms. It is generally rated as being very successful. (Autio/Kronlund/Kovalainen 2007: 63f).

The recommendations for action by Autio, Kronlund and Kovalainen (2007: 76) regarding support for high-growth companies agree in many ways with those given in the OECD case study for Halle/Saale (OECD 2007a: 58ff), in particular in its advice to focus on a few high-growth companies, on the motivation of the entrepreneurs and on close cooperation with stakeholders from private business.

What could and should be done through public policy?

Business foundation-related attitudes and capabilities play an important role in the business foundation process. They influence significantly start-up activities and are, in turn, determined by the features of the respective person and region. Against this background one can say that they play an intermediary role in business foundation processes.

Most initiatives fostering entrepreneurship do not focus directly on the improvement of attitudes *per se*, but on an improvement of the framework conditions relevant to business foundation. The existing programmes have so far not provided scientific evidence that policy initiatives aiming to enhance foundation-related attitudes can indeed achieve an increase in the number of business foundations. The number of factors influencing the ultimate decision to start a business is too great to allow a clear-cut answer. There is evidence though that policy initiatives may lead to an improvement of attitudes and capabilities. But often a triggering event is still needed to actually induce people to take the step towards self-employment.

When designing policy programmes aiming at attitudes related with business foundation, it should be borne in mind that they greatly depend on personality traits, on integration into micro-social networks and on regional characteristics. The regional influence on attitudes towards business foundation can be explained quite well by the economic framework conditions of a region. In economically strong regions, people tend to have positive attitudes towards self-employment. In this light, policy measures usually have only a comparatively small and temporary impact on foundation-related attitudes and business foundation culture in a region.

Self-confidence in one's own capabilities to start a business has been found to depend almost exclusively on the individual features of the respective person and his or her integration into social networks. Specifically, the duration the individual's gainful employment, a high level of education and knowledge of others starting a business have a positive influence on one's belief that one is able to start a business. Likewise, in the perception of good opportunities for starting a business and of individual risk aversion person-related and micro-social factors are most relevant: Good opportunities for starting a business are perceived above all in agglomeration areas and in regions with strong purchasing power. In addition, individual knowledge of other business founders and personal experience with self-employment may result in improved perception of start-up opportunities.

A significant difference between eastern and western Germany levels of fear of failure (risk aversion) can be shown that is not completely explainable by economically and demographically structural factors. The question arises whether appropriate measures should be taken to try to reduce this difference. The discussion about the high risk aversion in East Germany should bear in mind that Germany as a whole is characterised by a marked risk aversion: 46.5% of the 18- to 64-year-olds would not start a business for fear of failure. For all countries studied, this value was found to average 35.4% and to be just 21% in the USA (see Sternberg/Brixy/Hundt, 2007: 19). Therefore, one can argue that reducing risk aversion should be attempted generally in Germany. The promotion of individual initiative and of readiness to take individual risks should occur as early as possible and be integrated into all spheres of the education system. As a matter of fact, success in this regard can be expected only in the medium term. (see OECD 2007b: 32).

The positive influence of knowing other business founders and of one's own start-up experience on foundation-related attitudes allow the conclusion that support measures are appropriate, for example by networking persons interested in starting a new business and by presenting role examples. This approach has also been taken up in the regional case studies (OECD 2006a: 38f; OECD 2006b: 17). Other measures proposed in the local case studies, for example the creation of start-up incubators (see 2006a: 12), appear to be less suited to attain an actual improvement in the business foundation climate in a region, as international experience with start-up incubators is limited.

As already stated, empirical studies have revealed that cultural features are responsible only to a small degree for the extent of entrepreneurship in a region. Entrepreneurs themselves do not desire support programmes as much as fewer administrative burdens, greater freedom of action and low

taxation. It is through improvements in this sphere that presumably the attitudes towards entrepreneurial activity could be enhanced best and sustainable.

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MAIN FINDINGS FROM LOCAL CASE STUDIES AND POLICY RECOMMENDATIONS

OECD

The need to strengthen entrepreneurial culture and cultivate favourable attitudes towards entrepreneurship and enterprise development became obvious from all local case studies. The importance of an entrepreneurial culture that encourages start-ups and enhances SME growth has translated into government action and a slew of public-private initiatives. Federal, Land, and local initiatives have been organised, such as entrepreneur's days, business idea competitions and various awards. In some areas, partnerships have been formalised at Land level between the Chambers of Commerce and Trade, the Chambers of Crafts and the Public Employment Service. The idea is to stimulate innovation and support it through internet portals, workshop series and individual events. However, at the local level, in some areas, a lack of identifiable local entrepreneurial role models and success stories became evident. In fact, successful entrepreneurs may even receive more envy than appreciation from other people.

The review of local case studies revealed two main themes in economic activity and entrepreneurship. On the one hand, people tend to seek employment in established companies or the public sector rather than set up and run their own businesses. The current culture still favours undertaking standard tasks and nurtures the expectation of career development within well-established internal labour market structures rather than encouraging the types of capacities that support the development of new and growing businesses – such as creativity, adaptability, self-direction and measured risk taking, and an expectation of career moves between firms and potential periods of self-employment and business management. On the other hand, even when people do set up and run their own businesses, they are often motivated by a desire to avoid unemployment rather than a wish to exploit perceived market opportunities. Therefore, these start-ups tend to have relatively poor growth and even survival prospects.

It is possible that the socio-economic legacy resulting from a dominance of command economy structures during the GDR regime has not been favourable to the emergence of an entrepreneurial culture. However, entrepreneurial activity and development rates worldwide show that fostering an entrepreneurial culture and encouraging the right motivations are not just an issue for economies in transition. These concerns are common to many OECD regions that were dependent on large-scale industrial activity that went into decline, particularly the old-industrial regions of Europe and North America. Many of these regions are now seeking to promote entrepreneurial skills and motivations, in the belief that this is a necessary first step for greater entrepreneurial vitality as well as the development and growth of small businesses overall. A long-term, integrated regional action plan for bringing about cultural change and promoting an entrepreneurial society, encompassing initiatives in education, training, administration, society, businesses, and the media is needed.

Places going through structural changes to their economy often feel that managing this process limits their capacity to generate dynamic and skilled entrepreneurs able to create new job opportunities and new economic activities. The closure of major factories can lead to a shortage of "local patriotism and pride", which are sometimes considered drivers for local start-ups and economic activity. This is why promoting

¹ Cited from Declan Murphy (2006): Supporting Entrepreneurship: Innovation, Exporting, Infrastructure and Financing, in: Entrepreneurship in the Districts Mittweida (Saxony) and Altenburger Land (Thuringia), OECD Discussion Paper, OECD Local Entrepreneurship Reviews.

entrepreneurial skills and motivations requires a strategy that includes improving the image of the districts as a place for setting up and running businesses, promoting successful entrepreneur role models, increasing awareness of entrepreneurial opportunities and establishing mentors for new and potential entrepreneurs. In-migrants, people who wish to return to the districts for family and other reasons, can be a strong asset for future entrepreneurship and economic development. For some of the local case study areas, initial results became visible when a number of successful and entrepreneurially active people entered the districts from other parts of Germany or abroad and successfully started businesses.

The understanding that entrepreneurship is not simply about starting a business, but that, employability and entrepreneurship have increasingly become an inseparable pair, should remind policy makers of the importance attached to apprenticeship schemes. The generation of intrapreneurial attitudes among company managers and staff is an important ingredient in the process of raising a firm's innovation potential and readiness. In some local case study areas, the number of high-skilled employees was above federal average. This suggests viewing an expansion of current activities as widening the group of potential recipients of policy initiatives and including high-skilled employees as a target group with great potential for entrepreneurial activities, in light of the still-limited interest in business succession compared to start-up activities. Being part of a wider economic area is an advantage, as the presence of large, often multinational firms offers a wide range of employment possibilities and the opportunity for employees to gain experience, enhance skills and to be introduced into networks. All this can be relevant when starting one's own business. Increasing responsibility, engagement and the recognition of co-workers is linked to processes of cultural and organisational changes with companies. In strengthening the local economy in its key envisioned economic sectors – health and the automotive industry, most of the local case study areas can draw on the assets of a large pool of qualified young adult workers with academic qualifications and job skills. They can also benefit from a local business community that includes companies of different sizes and specialisations.

The local case studies confirmed the assumption that support to encourage entrepreneurial attitudes is too strongly focused on the unemployed. Avoiding or escaping from unemployment often constitutes the rationale for new business creation. However, such necessity-based enterprises tend to be less successful in competition than opportunity-based enterprises and it is the latter that people should be encouraged to create and grow. A balance is clearly required between activities to support the emergence of entrepreneurial attitudes and skills in the population as a whole and activities that support start-ups and established small businesses. However, it is easy to focus too much on so-called “hard” support, such as finance, premises and start-up counselling, and too little on “softer” support for encouraging the right skills and motivations. The latter type of activity focuses on encouraging people to consider entrepreneurship as a valid career choice for themselves and people they know and to view entrepreneurship as the pursuit of opportunities to profit from the development of new products and services, new markets and new ways of organising production. Widespread necessity entrepreneurship adds to this problem by generating new entrepreneurs from the long-term unemployed with limited capital and entrepreneurial skills. The nature of the entrepreneurship being pursued is relatively weak with respect to product and process innovation, company growth, product quality and the spatial reach of markets. Most necessity-based entrepreneurship addresses non-tradable sectors within local markets, whilst in the long run, unless businesses export out of a locality or substitute for imports, it is unlikely to generate the additional income required to reverse local economic decline in the long term. Actions to increase entrepreneurial motivations and skills are thus important not just for increasing the pool of people interested in and capable of starting and running a business, but also for shifting the nature of business activity in the districts towards opportunity rather than necessity entrepreneurship and towards incremental innovations in products, markets and production techniques that will make local businesses more competitive.

Improving entrepreneurial attitudes implies creating a greater awareness of the opportunities and benefits of entrepreneurship. Such awareness encourages more people to start or grow a business, and it

also helps develop a greater entrepreneurial culture within institutions, communities and businesses. In turn, a strong entrepreneurial culture fosters a correct understanding of market and business opportunities that enable small-scale and traditional businesses to seek new possibilities within the local economy and/or across its borders. The local case studies suggest that for the majority of existing SMEs, a narrow conception of markets and growth opportunities negatively influences aspirations and innovation capacities. In addition, staff development and training are often not among the priorities of SME managers, who spend most of their time on a variety of pressing issues. It is important that training offers, including coaching and counselling, are subject to regular quality checks that take into consideration local business needs and requirements.

The various pilot initiatives designed and conducted by a coalition of Chambers and business associations can be named as good practice that should be further mainstreamed. Most of the current training and awareness raising activity, however, seems to be focused on vocational training and adult education, which leaves little margin for fostering entrepreneurial attitudes in schools and motivating students towards considering entrepreneurship as a valuable alternative to dependent labour. Entrepreneurship promotion activities should therefore be extended to new audiences.

The local case studies in East Germany highlighted a number of policy recommendations that can be taken up by national and local governments and organisations active in developing and strengthening entrepreneurship and local economic development. Despite their local provenance, the policy recommendations have a certain relevance for other localities in East Germany and elsewhere. The following list of recommendations should therefore be considered and consulted as a checklist for policy makers and local organisations creating entrepreneurship policy and developing new local activities to enhance entrepreneurial culture, and both foster and spread favourable attitudes and motivations for starting and growing entrepreneurial activities.

Policy recommendations to enhance an entrepreneurial culture and favourable attitudes	
✓	<i>Increase awareness of entrepreneurial opportunities.</i> Special promotion activities and promotional material should be developed with the aim of increasing awareness of the opportunities for new business start-ups amongst all segments of the population. Regions and localities should be innovative in initiating their own promotion activities.
✓	<i>Improve the image of places.</i> Changing the entrepreneurial culture means changing the image of a place with both internal and external populations. If people do not believe that a place is attractive to live in, and that it allows for being entrepreneurial and innovative, then they will not set up businesses, or will set up or operate their businesses in more attractive places. Campaigns should therefore be created to generate trust in the endogenous strengths and in the future of places. In strengthening their entrepreneurial image places should promote key specific strengths as 'magnets of attraction'.
✓	<i>Intensify enterprise education and awareness campaigns.</i> It is important that entrepreneurship is not seen as a cure for unemployment but rather as a means to dynamic economic development. In the long run, promoting enterprise education throughout the education system up to university level increases entrepreneurial aspirations, attitudes and behaviour in the long run. Education from an early age should promote creativity and empowerment as well as provide children and youth with a realistic picture of entrepreneurship as a viable, also temporary, alternative to paid employment that in the future will be more a blend of dependent and self-employment.
✓	<i>Create identifiable role models and champions.</i> Regional success stories should be identified and promoted in different media (TV, radio, newspapers, magazines, internet), in different forms (e.g. awards, success stories), at different occasions (e.g. conferences, fairs, events) and by different public and private actors (e.g. local government, chambers, business associations, community organisations, etc.). It is important to demonstrate that entrepreneurship is about taking manageable risks and sometimes even about failing, but however it is worth trying and taking the risk. Practical real life stories and happenings provide people with better understanding of what it is like to be an entrepreneur.

- Establish mentor and patron panels.* The availability of a panel of retired business people to counsel new and expanding companies has been an important feature of working with, and supporting SMEs, in other OECD countries. This type of mentoring service is relevant to both micro and larger SMEs, and at start-up and later stages of development in the life cycles of companies.
- Incentives and support for business succession.* In light of the still limited interest in business succession, compared to start-up activities, more incentives and support structures should be developed. The inclusion of highly-skilled employees, with great potential for entrepreneurial activities, should be considered as a target group for training programmes in business succession.
- Create incentives for SMEs to take apprentices.* Apprenticeships assist young people to gain work experience and provide SMEs with possibilities to test young workers and their capabilities and train them according to company needs. Entrepreneurship is not simply about business start-up, but, increasingly employability and entrepreneurship have become an indivisible pair. It is important to continue initiatives that can raise awareness of skills development needs and can create incentives for SME to take apprenticeships.
- Enhance intrapreneurship.* The generation of intrapreneurial attitudes amongst company managers and staff is an important ingredient in the process of raising a SME's innovation potential and readiness. Increasing responsibility, engagement and the recognition of staff is linked to processes of cultural and organisational changes with companies.

Box 1. Being inspired from good practice in fostering an entrepreneurial culture

[Y4 – Making a region entrepreneurial – Finland](#): Removing barriers to entrepreneurship.

[“4x4 pour entreprendre” in Wallonia – Belgium](#): Stimulating an entrepreneurial climate – getting everyone on board.

[Entrepreneurship Action Plan for Wales \(EAP\) – United Kingdom](#): Changing people's attitudes to entrepreneurship and fostering a culture of entrepreneurship that includes students, employees, entrepreneurs and the public sector.

[Scotland's Birth Strategy – United Kingdom](#): Entrepreneurial culture and attitudes, Entrepreneurship policy delivery.

[Basque: A regional strategy to consolidate an entrepreneurial society – Spain](#): A long term integrated regional action plan for bringing about cultural change and promoting an entrepreneurial society.

["Gruender-mv.de" – Increasing entrepreneurial attitudes and actions in Mecklenburg Western Pomerania – Germany](#): Making information about entrepreneurship attractive, easily accessible and ubiquitous.

[Determined to Succeed – Making a Smarter Scotland – United Kingdom](#): An enterprise education programme.

[Distance Education Programme on Entrepreneurship Studies \(DIEPES\) – Finland](#): A radio enterprise education training programme.

[Getting employees thinking about starting a business Enterprise Start Programme – Ireland](#): Getting high skilled employees interested in starting their own business.

[Assist in Business Succession: „ViestinVaihto-ohjelma“ programme – Finland](#): Offering advice and guidance in business succession at an early stage, including an assessment of existing skills and designing a training strategy for business staff.