

PART III

CONCLUSION AND OVERALL POLICY RECOMMENDATIONS

Part III concludes this report by summarising the key challenges identified for entrepreneurship and SME development in the East German regions. It gathers key recommendations on what public policy should do to facilitate the creation of more and better jobs and discusses how public policy should intervene, and which level of governance is most appropriate for the design, delivery and evaluation of policies, following the assumption investigated in this report that local tailoring of policies can make a difference in their effectiveness.

CONCLUSIONS AND OVERARCHING POLICY RECOMMENDATIONS

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Two important features of entrepreneurship development in East Germany that have been discussed in this report can be seen through a simple East-West comparison. The first is that East Germany has a significantly lower entrepreneurial activity rate than West Germany whilst East German entrepreneurs are also more likely to start a business for necessity reasons, for example as an alternative to unemployment. The second is a more rapid growth in innovative sectors in East than in West Germany. There is therefore clearly a challenge to increase the rate of entrepreneurship in East Germany and to focus more on opportunity entrepreneurship, but also indications of the strong potential that exists in East Germany to host innovative activities.

However, there are also local variations in the challenges and opportunities for entrepreneurship and SME development across East German regions that cannot be detected in an East-West comparison but are nonetheless of major importance for policy. To pick up these issues, the work for this report started from the very local level by looking closely at local barriers and opportunities for entrepreneurship and SME development and the potential for new avenues of policy development in selected East German districts and cities. For each of the six themes covered in this report, sets of policy recommendations aimed at promoting new and effective policy approaches and initiatives have been developed, based on the evidence from local case studies, reviews of existing local, regional, national and international literature and scientific evidence and examination of good practice approaches in other countries. The format used in the preceding chapters and in the local diagnostic reports to set out these recommendations is that of a checklist that should enable policy makers at federal, land and local level to review current approaches and to devise new actions to strengthen entrepreneurship and SME development. It is here that the more detailed policy messages of this OECD project are to be found.

The question to put forward in concluding this exercise is: What, overall, can and should public policy do to facilitate an increased entrepreneurial activity rate and to stimulate the creation of more and better jobs in East Germany. In other words, here we are looking for the key overarching messages that will have a very wide resonance in the region. Clearly, there should be no either/or approach that directs policy intervention in exclusive directions, for example of either promoting large numbers of new starts or of supporting only high growth potential entrepreneurship. In most cases, what is required is not a choice between opposed alternatives but rather a shift in the balance of policy objectives and methods and it is the major shifts required that are discussed here. In the case of the choice between a focus on the numbers of starts or on their growth, for example, we must recognise the difference between two policy objectives – social and economic – and provide distinct support for each objective, while achieving an appropriate balance. The evidence of this report suggests, however, that rather more emphasis is required on growth than has been the case to date. In examining how policy can better promote entrepreneurship and SME development in East Germany a key subsequent question concerns the level of governance that is the most appropriate for the design, delivery and evaluation of policies. The assumption that has been investigated in this report, and which is recognisable as a common thread throughout, is that local tailoring of policies can make a difference to their effectiveness but that better co-ordination is required to maximise the potential of this approach.

With this in mind, the following key conclusions can be drawn:

- The co-ordination of entrepreneurship and SME policies is not strong across different levels of government. Policy design and delivery reveal signs of fragmentation, caused mainly by the large number of actors involved and the absence of comprehensive, integrated and long-term regional and local strategies for entrepreneurship and SME development.
- There is a large body of SME support that is focused on the act of business start up and the support of existing SMEs rather than on the encouragement of innovation in these types of operation. There is a large body of micro, small and medium-sized enterprises that need to modernise and diversify their activities to remain competitive and policy needs to encourage these firms to innovate. Furthermore there is strong potential to generate a core of high growth potential firms from some of the strongest Universities and research institutions in the region, but channels for research commercialisation and knowledge transfer need to be strengthened.
- The recent socio-economic legacy in East Germany has not been favourable to the emergence of an entrepreneurial culture. Whilst there are hotspots of entrepreneurialism in certain sectors and population groups, overall attitudes in society towards entrepreneurship are not conducive towards an entrepreneurial spirit. Certain policy initiatives have led the way but there is still much to be done to improve attitudes to entrepreneurship as a career option and hence to increase the pool of entrepreneurial people from which enterprise growth will emerge.

These three conclusions are translated below into overall policy recommendations.

Address the fragmentation in policy design and delivery

Entrepreneurship and SME development is a horizontal policy area involving several government departments and with an important local dimension. To make policy and government programmes more effective and efficient, a greater attention to institutional adaptation in the policy area of entrepreneurship is needed across ministerial boundaries. Increased policy co-ordination at federal and Land levels will also help to minimise co-ordination difficulties at the local level since different ministries and agencies at a higher level often set different priorities, objectives and targets which are then translated into overlapping strategies, measures and initiatives at the lower tier level. Such fragmentation implies the likelihood of duplication and inefficient use of resources.

The entrepreneurship policy mix should ideally reflect the local contexts and local needs to which policy is applied. Communication channels therefore need to be established, where hitherto inexistent, and strengthened between different levels of government. A greater involvement of Land ministries and agencies in existing local networks would offer opportunities to further tailor policies locally. A potential pitfall could be that greater involvement of higher tier institutions could be perceived by local actors as a limitation to their flexibility and creative thinking. Nevertheless regular communication could also help in ensuring that local actors have access to timely communication on government programmes and changing eligibility criteria and regulations in public funding as well as on approaches that are proving successful elsewhere. Such linkages and relationships could also provide valuable information to government and Land agency partners on what worked and what did not.

Another barrier to effective policy design and delivery in East Germany is that the majority of initiatives to foster entrepreneurial activity in East Germany are driven 'top-down' from the Land level with varying degrees of local discretion and input, therefore limiting the amount of local tailoring that takes place. It is therefore recommended that systematic analyses of local needs and policy options with regard to entrepreneurship and SME development are introduced. The use of the policy cycle method at the

local level should be encouraged, involving the conceptualisation of the policy development process in four linked stages: problem definition, design, delivery and evaluation. This is a forward-looking approach that may foster more proactive and creative policy actions at local level rather than reactions to occurring local economic changes and higher tier level initiatives.

Regional or local strategies for entrepreneurship and enterprise development are successfully used in other OECD regions and cities to support both policy co-ordination and local policy tailoring. Such strategies have a long-term orientation and in best practice cases include monitoring and evaluation arrangements at ex ante, ongoing and final stages, allowing for reorientation of the strategy where necessary. A regional or local strategy should ideally set out common objectives as well as actions to be undertaken by actors at different levels. In some cases, local agencies at district or municipality levels may wish to co-operate with their neighbours to create sufficient scale and integration for a combined local or regional strategy. Local or regional entrepreneurship strategies can also contribute to a greater involvement of private financing sources in economic and entrepreneurship development projects.

Foster business growth

A key choice that needs to be made in entrepreneurship and SME policy concerns the relative weight to place on supporting a large volume of people and enterprises or on supporting a smaller group of high potential enterprises. In East Germany there is very wide support for new start-ups and SMEs, although many of these firms do not export or innovate. As an economic development strategy this has major weaknesses, since it is a relatively small group of innovating and exporting, or 'entrepreneurial', businesses that generate job and income growth for local and regional economies. It is therefore recommended that the emphasis on overcoming barriers to the development of this group of potential growth firms and individuals should be increased in East Germany, including both new entrepreneurs and enterprises and existing firms interested in modernisation and diversification. The role for policy is to identify a small pool of potential innovators and growers and provide special support to this group to help overcome the particular constraints they encounter, for example in terms of management skills development, growth finance, finding partners in external markets, linking into an innovation support infrastructure, and accessing appropriate premises. A greater focus on tradable goods and services and increased internationalisation activity of SMEs should be fostered and supported by policy and the general shift in federal and Land policy towards innovation support and away from investment allowances should be maintained and encouraged.

There is also strong potential to develop innovative entrepreneurship around core science and technology strengths in East German universities and research establishments. There are nonetheless barriers to overcome in the lack of adaptation of existing university and research cultures and regulatory frameworks to the task of stimulating entrepreneurship. The avenues to follow are on the one hand facilitating the establishment of new spin-out ventures and on the other hand stimulating and enhancing technology and knowledge transfer from higher education institutions (HEI) to companies, particularly from the most capable university centres of excellence. A number of entrepreneurship programmes and initiatives to facilitate technology and knowledge transfer have been established in East Germany and participation in knowledge transfer activities and the number of spin-offs are increasing but there is further potential to exploit.

Build an entrepreneurial culture

There is a dominant employee culture in many aspects of East German life that encourages people to seek employment in established companies or the public sector rather than set up and run their own businesses. In addition, there is a low entrepreneurial activity rate, a high proportion of necessity entrepreneurship, negative opinions of East Germany as a place to start and run a business and out-

migration of many talented people. Even where people do set up and run their own businesses, their activity is often motivated by a desire to avoid unemployment rather than to exploit perceived market opportunities and tends to be associated with relatively poor prospects for business growth and survival. A number of activities are therefore recommended for promoting entrepreneurial skills and motivations. These include promoting successful entrepreneur role models, increasing awareness of entrepreneurial opportunities and establishing mentors for new and potential entrepreneurs.

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 for small and medium-sized enterprises (SMEs) such as finance, premises and training, and not enough on 'soft' support for encouraging the right skills and motivations. The latter activities should be reinforced. They focus on encouraging people to consider entrepreneurship as a valid career choice for themselves and people they know and to view entrepreneurship not just as running or working in a business but more as the pursuit of opportunities to profit from the development of new products and services, new markets and new ways of organising production.

Through an increase in soft support, policy will increasingly combine a more traditional 'SME policy' approach for new and existing businesses with a newer 'entrepreneurship policy' approach to increase the pool of enterprising people and future entrepreneurs, in line with best practice in other countries.