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Entrepreneurship in Ireland:
The Global, European and Irish Contexts

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0. Abstract

Embedded in the EU rural development concept is the overall objective of maintaining viable rural communities. (European Commission, Directorate General for Agriculture 1997 (B). It is acknowledged at EU and national level that this cannot be achieved by agriculture alone, or by traditional methods, for example, tourism, or other low profit, low skill based alternative farm enterprises.

The EU Commission believe that the key to the sustainable development of rural regions lies in the development of an independent perspective, the discovery of indigenous potential and the exchange of experience with other regions, but not in the copying of development perspectives for other regions in the EU.

This thesis on rural micro entrepreneurship is our response in the development of an independent perspective for rural Ireland that includes the identification of and the means of nurturing the entrepreneurial potential of rural persons by distinguishing entrepreneurs from enterprising persons with the discovery of “what it is” that compels, entices or persuades a person to undertake entrepreneurial activity in a rural area a key component of the research. The thesis ends with the outlining of a new way forward for rural micro entrepreneurship.

1. Introduction

There has been a notable transition in the nature, content, and administration of rural policies in the EU during the 1980s and 1990s. The specific changes concern, in particular, a shift from sectoral to territorial policy involving attempts to integrate the various sectoral policies at regional and local levels, and define over-arching policy goals, particularly of “sustainable rural development” especially within Objectives 1, 2, 5b and 6 areas prior to 2000 and post 2000 in Objectives 1 areas only with a lesser emphasis in Objective 2 regions through LEADER (Liason Entres Actions de Developpement de l'Economie Rurale).

Within the EU, rural development is viewed as a method of reducing excess supply by encouraging movement of resources to non-agricultural activity. It is also more than ever before linked to entrepreneurship. Institutions and individuals promoting rural development now see entrepreneurship as a strategic development intervention that could accelerate the rural development process. We place rural micro entrepreneurship at the heart of rural development in Ireland and define a rural entrepreneur as “as self employed persons whose sights are set beyond providing simply for their own employment but who mean

to create enterprises that will market a product, make a profit, continuously re-invest and thereby provide employment for others.” In addition we ask five questions:-

- (1) What makes a successful rural micro entrepreneur?
- (2) Are entrepreneurs distinguishable from enterprising persons?
- (3) What is the demography of micro entrepreneurs in rural Ireland?
- (4) What inputs are required to build a successful micro entrepreneurship model?
- (5) How might the new model be integrated into existing structures?

Institutions and individuals seem to agree on the urgent need to promote rural enterprises, for example, development agencies see rural entrepreneurship as an enormous employment potential - politicians see it as the key strategy to prevent rural unrest - farmers see it as an instrument for improving farm earnings and women see it as an employment possibility near their homes which provides autonomy, independence and a reduced need for social support. To all these groups, entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment.

The entrepreneurial orientation to rural development accepts entrepreneurship as the central force of economic growth and development. Without it other factors of development will be wasted or frittered away. However, the acceptance of entrepreneurship as a central development force by itself will not lead to rural development and the advancement of rural enterprises. What is required is an enabling environment, however, the existence of such an environment largely depends on policies promoting rural entrepreneurship. The effectiveness of such policies in turn depends on a conceptual framework about rural entrepreneurship, i.e., what it is and where it comes from.

Shepherd (1998) highlights the necessity of the need for an integrated approach and states:- “In rural areas - what is required is local institutional development, including the development of market institutions and enterprises, but also infrastructure, services and governance. It could be argued that without strong civic associations and local organisations the world’s powerful economic corporations will ride roughshod over local interests given that, for example, the 1998 World Investment Report states that, “*The ratio of inward plus outward FDI stocks to global GDP is now 21%. The foreign affiliates exports are now one third of world exports and the GDP attached to foreign affiliates accounts for 7% of global GDP*”.

In addition at the EU level, the weakness of the new Rural Development Regulation - that arose from the Agenda 2000 reforms - becomes immediately apparent when the scope of its menu of eligible measures is compared with the kinds of things, which need to be addressed, for example, specific supports for rural micro entrepreneurship, the marketing of the goods and services of the entrepreneurship endeavours and the adequate financing of such endeavours if failing rural areas are to be turned around economically and demographically. Radical changes are needed in order to further secure a territorially based rural

development policy, which addresses the needs and potential of both small and micro enterprises in the “new rural economy.”

As to the future, the three most important factors underlying EU policy developments after the mid-term review in 2002 and the subsequent policy reviews covering the period after 2006 remain Eastern enlargement, the Millennium Round of trade talks and internal pressures arising from consumers, environmental organisations, and taxpayers. All three are likely to further reduce the importance of sectoral agricultural and forestry policies and increase the importance of rural development policies.

The challenge of enlargement will be most likely to lead to cuts in the direct payments to farmers. This is not only a question of budgetary costs, but also more importantly an issue of what scarce resources should be spent on. Most of the member states desperately need rural diversification and development beyond agriculture, which is rapidly diminishing in terms of rural employment. There are other urgent priorities to be faced concerning rural education and training, infrastructure and upgrading of marketing and processing of all rural products. Moreover, the EU's negotiating position on the Trade Round makes it very clear that the “European model” of agriculture and rural development is non-negotiable. In this context issues of agriculture's inter-relationships (“multifunctionality”) with sustainable territorial development come to the fore and will increasingly force policy makers to address the non-agricultural parts of the rural economy. This research with its emphasis on rural micro entrepreneurship focuses on the non-agricultural parts of the rural economy of Ireland.

Rural micro entrepreneurship- the research context -

Embedded in the EU rural development concept is the overall objective of maintaining viable rural communities. (European Commission, Directorate General for Agriculture 1997 (B). It is acknowledged at EU and national level that this cannot be achieved by agriculture alone, or by traditional methods, for example, tourism, or other low profit, low skill based alternative farm enterprises (AFEs). Agenda 2000 makes specific references to the uncoupling of rural development from farming as a way forward, recognises rural micro entrepreneurship as a driver of change and as a way of maintaining rural communities.

The four main aims of EU rural development policy are:-

- (1) To promote economic and social cohesion, by maintaining and creating jobs.
- (2) To overcome barriers to development by encouraging diversification and improving infrastructure and facilitating access to new technologies.
- (3) To increase the quality of life by preserving the environment and by giving access to basic services, etc.
- (4) To maintain viable communities whilst preserving their culture and traditions.

The European Spatial Development Perspective (ESDP), published in 1999, recognised the diversity of rural regions, as well as the need to treat them as spatially integrated in complex urban-rural systems.

"The Commission believe that the key to the sustainable development of rural regions lies in the development of an independent perspective and the discovery of indigenous potential and the exchange of experience with other regions, but not in the copying of development perspectives for other regions in the EU. Policy strategies must also take account of the diversity in development opportunities and threats. They have to provide the means for the rural areas to act. This will allow the regional and local players to respond to their problems with greatest flexibility". (EC 1999A).

This thesis on rural micro entrepreneurship is our response to the development of an independent perspective, the discovery of indigenous entrepreneurial potential in rural Ireland and the charting of a possible new way forward for rural micro entrepreneurship.

The Scope of the Research.

The research will be undertaken in the Border, Midlands and Western areas of Ireland (BMW), which is about 50% of the country and will be limited to rural micro entrepreneurs and rural micro entrepreneurship. The development needs, marketing needs, the human capital requirements in addition to the ICT requirements to co-ordinate and integrate the process with existing programmes will be important aspects of the research.

The purposes of the research.

- (A) To establish a method or some other means of distinguishing entrepreneurs from enterprising persons and to discover what it is that compels, entices or persuades a person to undertake entrepreneurial activity in a rural area.
- (B) To explore the possibility that entrepreneurial potential of rural persons can be better utilised, developed and nurtured by the intervention of the development agencies with innovative financial and marketing instruments at the appropriate development stages.
- (C) To establish what are the specific financial, training, advice or marketing needs of existing entrepreneurs and enterprising persons.
- (D) To make recommendations based on the outcomes of the research or chart a new way forward for rural micro entrepreneurship.

The research methodology has three elements.

(A) The Globalisation dimension.

Research by the Global Entrepreneurship Monitor 2001 forms a key part of this element. The "ranking" of Ireland within a global context and conclusions are other important elements. Three questions are addressed:-

The Questions

- (1) Does the level of entrepreneurial activity vary between countries?
- (2) Are the differences in entrepreneurial activity associated with national economic growth?
- (3) What national characteristics are related to differences in the level of entrepreneurial activity?

(B) The European dimension.

To get an overall understanding and a measurement of the effectiveness of the approach of the Irish development agencies operating at the micro level a comparative study of similar or broadly similar agencies was undertaken in Scotland, Denmark and Ireland. The Highlands & Islands Enterprise Agency, Technological Information Centres (TIC) Denmark and the County Enterprise Boards in Ireland were selected on the basis that they function in broadly similar type rural areas in their respective countries, with agriculture a significant generator of employment in each country. One region was selected in each of the three countries that would allow a sufficient level of comparability and also differentiate the areas in terms of institutional or state support for micro rural entrepreneurship.

The Highlands & Islands of Scotland, The BMW areas of Ireland and the remote regions of Denmark - an introduction -

The Highlands and Islands areas had a GDP per capita as % of UK - 81.4% in 1995 with Objective 1 status between 1994 and 1999 and Transitional status between 2000 and 2006. Population density is 65 persons per sq. Km.

In the Boarder, Midlands and Western regions of Ireland (BMW) 68% of the population live in rural areas compared to 32% in the South and Eastern region. Population density in Ireland is among the lowest in Europe with 52 persons per sq. kilometre in (1996) compared with a EU average of 115. Between 1971 and 1976 the rural population increased by 7% while the urban population increased by 36%.

It should be stressed that Ireland is still a predominantly rural country with 42% of the population living in villages below 1,500 in population or in the countryside. Outside of Dublin 52% of the population live in rural areas.

According to Danish statistics (2000) 23% of the Danish population live in the open land with villages having up to 1,000 inhabitants. The Danish Ministry of the Interior reports (2000) and Sogaard (1997) suggest that many people are interested in living in rural districts. The long-term tendency has been a decline in the number of inhabitants in rural districts, but under the present economic boom this trend has been broken as "the locals" stay on living in the districts and

at the same time, people in employment are moving out from towns and living in rural areas (Graversen *et al.* 1996).

(C) The Irish dimension.

The Irish research methodology has one-principle research instrument – A Questionnaire:

- (1) To get a representative sample, by way of returned survey documents of the stratified population of rural micro entrepreneurs as indicated by the demographic information provided by the research, the mailed questionnaire will be weighed in respect of the stratification identified in the demographic study.
- (2) A sub region - “The Lake District” Co. Mayo – has been chosen for a “pilot study.”

The “Lake District” is a new term for an area of relatively undiscovered natural beauty in South Mayo and a small part of North Galway. It derives its name from the abundance of freshwater in the area. It consists of 840 km² of which 400 km² are covered by lakes. It is a predominantly rural area, stretching from Lough Carra in the North to Lough Corrib in the South and from West of Lough Mask to Shrile in the East. The overall population of the area is about 12,000 people, though this figure is thought to be increasing due to a small increase in employment opportunities and housing developments in the area.¹ The main town of the area is Ballinrobe, situated close to Lough Mask and with a population of 2,136 people (1996 Census).

Additional elements include:-

- (1) The calculation of the overall business activity at the micro level by county and the input and relevance of the existing development agencies relative to the total business effort at the micro level.
- (2) In-depth interviews with the leadership of farming and rural development organisations will also be an important component of the research in addition to interviews with potential rural and other entrepreneurs. Of special interest will be the 23.7% of diversifiers and non diversifiers 7.5% - farmers - classified as “entrepreneurs” in the 1995 Teagasc research - (Farm diversification – Studies Relating to the West of Ireland – Cawley, Gillmor, Leahy, McDonagh.)
- (3) Recommendations will be made in addition to the outlining of a suitable electronic (farm gate) marketing model for local, regional, national and international sales.

2. Literature Review

¹ Population figures are based on the 1996 Census. More up to date figures will be available after the Census carried out in April 2002.

We draw upon the theoretical contributions of economists, sociologists, psychologists, researchers and business analysts in attempting to understand and integrate a number of different perspectives on entrepreneurship. Theory is crucial, not only for understanding the processes underlying entrepreneurship, but to determine whether the size of the entrepreneurial population can be expanded and whether it is possible, through selective educational and policy measures, to increase the number of new enterprises being formed. In this chapter, five broad headings - economics, psychology, sociology, management and entrepreneurship - form the basis for discussion on the subject of entrepreneurship.

The Classical View of the Entrepreneur.

The word entrepreneur surfaced in the writings of an Irish economist, Richard Cantillon (1755), in Paris. He identified the entrepreneur as a pivotal figure in the economy, a risk-taker, taking chances and facing uncertainty. In his *Essai Sur la Nature de Commerce en General*, Cantillon formally defined entrepreneurship as self-employment of any and every sort. So long as the person was not hired or working for wages, he was an entrepreneur. Commenting on the work of Cantillon, O'Farrell (1986, p.144) says:- "Uncertainty is all-pervasive." Those who cope with it in their economic pursuits are Cantillon's entrepreneurs, implying that they are not necessarily capitalists - the key role of the entrepreneur being to bear uncertainty. Cantillon's work is held by many economists as having made a major contribution to economic theory Schumpeter (1934) described it as the first systematic attempt to work over the whole field of economics. In 1848, John Stuart Mill identified direction, control, superintendence and risk bearing as the prime functions of the entrepreneur. Mill's work is important also, because he introduced the term "entrepreneur" to the English language. The work of Jean Baptiste Say (1845), who expanded on Canutillo's work, made a further impact on the study of entrepreneurship. He separated the profits of the entrepreneur from the profits of capital. He observed that, in the family enterprise, the owner received profit as the entrepreneur, salary as a manager, and interest as the investor of capital. Say further argued that the entrepreneur should possess not only the talents of "superintendence and administration" but also judgement, perseverance, a knowledge of the world of business and an ability to organise the factors of production and to put them into operation. Classical economics appears to consign the entrepreneur to the shadowy realm of "external forces", thus accomplishing the almost impossible feat of excluding the entrepreneur completely (Kirchhoff, 1994). From the writings of Cantillon and Say some common traits or characteristics of the entrepreneur can be identified, particularly risk-taking, profit, motivation, management, and organisation, and according to Say, an ability to accommodate the unexpected and overcome problems. Neither writer, however, placed the entrepreneur in a particularly dynamic environment but rather within a stationary equilibrium. The neo-classical paradigm fused the roles of the capitalist and the entrepreneur. The entrepreneur was viewed by theoretical economists as being an abstract figure oblivious to the influences external to the rational operation of the firm they directed (Greenfield and Strickon, 1986). Entrepreneurship is assumed in the neo-classical paradigm to be only a minor occurrence in an otherwise

equilibrium-dominated market. This assumption allows general equilibrium theorists to predict overall market behaviour and overall economic performance. Alfred Marshall (1920) was one of the few writers in the neoclassical tradition to stress the critical importance of the entrepreneur. He separated the manager from the entrepreneur and added the dimension of leadership to the list of entrepreneurial tasks. Keynes (1936) placed the entrepreneur in the role of decision maker within the individual firm, making them primarily responsible for reaching investment decisions and facing uncertainty in their ability to forecast effective demand. Neo-classical theory demonstrates that capitalism equitably distributes income within society. Around the turn of the twentieth century Austrian economists argued that the entrepreneur is the source of new demand (Kirchhoff, 1994).

Carl Menger (1840 - 1921) is regarded as the founder of the Austrian School of Economics. He says, "economic change arises from an individual's awareness and understanding of circumstances." Menger's analysis relies heavily upon the role of knowledge in individual decision-making (Hebert & Link, 1982). Schumpeter (1934), also a student of the Austrian school, ascribed the entrepreneur a key role in the process of economic development. He identified four sources of innovation:-

- (A) Developing new products and services
- (B) Developing new methods of production
- (C) Identifying new markets
- (D) Developing new organisational forms.

He pictured the entrepreneur as the central innovator in a capitalist market. Instead of neo-classical competitive markets functioning systematically to achieve equilibrium between supply and demand, Schumpeter observed "chaotic markets" driven by the regular appearance of entrepreneurs who enter markets using innovations that challenge established, dominant firms. Successful entrepreneurs expand the overall market as buyers increase their purchases to include the new product or service. Entrepreneurs, Schumpeter argues, are the mechanism of wealth creation and distribution in capitalism. Schumpeter's term "creative destruction" implies that entrepreneurs create new wealth through the process of destroying existing market structures as their innovations increase demand and create new wealth. Neo-classical theory depicts the market as static, with changes occurring only as movement from one equilibrium condition to another. Schumpeter's theory argues that the market is dynamic and depending on continuous change in buyer and supplier behaviour (Kirchhoff, 1994).

Schumpeter's position was later supported by Kirzner (1973), who argued that markets are constantly in states of disequilibria and that alertness to disequilibria is the key characteristic of the entrepreneur. He emphasised the equilibrating aspects of the entrepreneurial role - that is, - the movement necessary to shift markets towards a state of equilibrium and states that the "entrepreneur is alert to opportunities that exist, rather than, as in Schumpeter's view, creating them." Kirzner downplays the importance of uncertainty in human decision-making (Hebert and Link, 1982) but agrees that the notion is central to entrepreneurial activity.

In America, the most noted work on the role of the entrepreneur is that of Knight (1921). He expanded Cantillon's concept of uncertainty by stating that entrepreneurs bear the responsibility and consequences of making decisions under uncertainty and emphasised the key distinction between insurable risks and non-insurable uncertainty. Risk implies knowledge of the probability that an event will occur and this is insurable.

Gaibraith (1967), in his book *The New Industrial State*, expressed the belief that large corporations would work in co-ordination with big government and large labour unions to run America. Kirchhoff points out that when entrepreneurs enter markets with new technologies, existing large-scale plants may have difficulty adjusting and can actually fail as they lose market share. Manufacturing costs are a small part of market dynamics in an entrepreneurial economy, and production efficiency does not directly translate into profitability. In other words, equilibrium markets do not exist, and economies of scale are not a dominant economic factor (Kirchhoff, 1994).

In 1979 Birch published the results of an economic analysis demonstrating that in the US small firms dominate job creation and economic growth. As a result of Birch's study, economic theory and society's perceptions of entrepreneurs were irrevocably changed. His research concluded that small firms - those with 100 or fewer employees - created 81% of net new jobs between 1969 and 1976 in the United States. Since 1979 entrepreneurs have become recognised as important components of economic growth. Economics as a profession could be said to be in a state of theoretical turmoil as the dominant neo-classical theory comes under increasing pressure to accommodate the entrepreneur. Economists are now working to construct a new theory to incorporate entrepreneurs into capitalism as Schumpeter's theory cannot be modelled mathematically or used to predict economic events (Kirchhoff, 1994).

The literature suggests that uncertainty, risk bearing, the separation of the entrepreneur and the manager, innovation, creativity, decision-making and alertness to opportunities are the key factors underlying the classical or traditional body of thought and research on the entrepreneur and entrepreneurship.

The Psychological View of the Entrepreneur

Researchers have also articulated theories of entrepreneurship that concentrate specifically upon psychological factors, although they include socio-cultural variables as well. This school argues that entrepreneurs share a common type of personality, which explains their behaviour. The basic assumptions are that entrepreneurs are in some way different from the general population and that this difference can be explained in terms of the entrepreneur's personality profile. The major contributor to this theory of entrepreneurship has been McClelland (1961). According to the psychological viewpoint, a range of personality traits, which are indicators of high need-achievement, can be identified and individuals who exhibit these characteristics are particularly likely to behave entrepreneurially. Personality characteristics include achievement motivation (McClelland, 1961 - Hornaday and Aboud, 1971), risk-taking propensity

(Brockhaus, 1980b - Hull, Bosley and Udell, 1980 - Palmer, 1971), locus of control (Rotter, 1966) Brockhaus, 1982) and innovation (Morris and Fargher, 1974 - Carland, 1982).

Many efforts have been made to identify some of the characteristics or attributes possessed by the entrepreneur. Research began in the 1950s with the work of McClelland *et al.* (1965) who explored the achievement motive or need for achievement as well as other needs, including power and affiliation. While the pioneering work of these researchers has since been criticised for methodological and conceptual problems (Kilby, 1971 - Klinger, 1966), their efforts provided a foundation upon which to build a psychological profile of the individual entrepreneur. McClelland's hypothesis was "that a society with a generally high level of need for achievement will produce more energetic entrepreneurs who, in turn, produce more rapid economic development" (McClelland, 1961, p.205). According to McClelland entrepreneurship is the intervening variable between need-achievement and economic growth. Therefore, by increasing the level of need-achievement in a society, entrepreneurship and economic development will be stimulated.

Kilby (1971) suggests that McClelland's (1961) work may be viewed as an extension of Max Weber's Protestant work ethic. Weber postulated that it is strong ideological values, which lead to entrepreneurial behaviour. McClelland's theory demonstrates that it is not just ideological values but also the process of family socialisation, which leads to, a high need for achievement and in turn to entrepreneurial behaviour. McClelland stressed the significance of parental influence in developing the need for achievement and in particular he emphasised the importance of following standards of excellence, for example, self-reliance training - low father-dominance - a crucial role for the mother-son relationship - a desire to take personal responsibility for decisions - a preference for decisions involving moderate degrees of risk - an interest in the results of decisions and a dislike for routine or repetitive work.

In a more recent study McClelland (1975) shifted the emphasis from achievement to power. He argued that for organisational effectiveness power motivation is required - that is, high power combined with high self-control (socialised power). Many writers have questioned the relevance of his theory of need-achievement for entrepreneurship and economic development. There are four major criticisms of McClelland's work:-

- (A) Research methodologies were borrowed from psychology and were inappropriate in measuring entrepreneurship (Hornaday, 1987).
- (B) Traditional personality models are inappropriate in an interactive entrepreneurial environment (Gergen, 1985 - Rychiak, 1981).
- (C) Following McClelland *et al.*, many other researchers including Collins and Moore (1970).
- (D) Hornaday & Aboud (1971) - Palmer (1971) - Swayne & Tucker (1973), and Shapero (1975) joined the effort to find characteristics that would distinguish entrepreneurs from non-entrepreneurs. As a result, a number of key personality traits in addition to need-achievement dominate the literature. These include risk-taking propensity (Liles, 1974) - (Sexton and Bowman, 1983) -

locus of control, (Rotter, 1966) - (Cromie and Johns, 1982) – (Brockhaus, 1982)
- problem solving (Hagen, 1962), and motivation (Wilken, 1979).

Risk-Taking Propensity

Empirical research carried out by Colton and Udell (1976) on the issue of risk-taking and the entrepreneur suggest that it is the individual's risk-taking propensity, which distinguishes them from the general population. Cantillon (1755) first outlined the importance of the entrepreneur as a bearer of risk. Knight (1971) indicated that entrepreneurs were "takers of non-quantifiable uncertainties" and noted that, with the division of ownership and management, an entrepreneur may not be exposed to financial risk but rather to social and psychological risk. Ray (1986), in a study of risk-taking, discovered that self-esteem was closely associated with, and might have driven, risk-taking propensity. Those with very low self-esteem either take no risks or very high risks - each action reinforces their initial premise that they are unworthy individuals. More recently, research focusing on general risk-taking propensity, such as that carried out by Brockhaus (1980 and 1982), and studies conducted by Sexton and Bowman (1983) do not provide conclusive evidence of a causal relationship between entrepreneurs and risk-taking propensity.

A person who assumes the risk of his or her capital is not necessarily an entrepreneur but only an investor. Numerous textbooks refer to entrepreneurs as "moderate risk-takers". Ray (1993) argues that the phrase may be largely the creation of academic invention, unrelated to how entrepreneurs actually think about risk or cope with risk in their management decisions. Risk in entrepreneurship is better understood as a contextual and strategy variable, not a personality variable, according to Ray.

Researchers are, however, divided as to the risk-taking propensity of entrepreneurs. The findings appear to vary according to the entrepreneur's sex, cultural background, stage of business development and the type of business owned, as well as to the research method used. Brockhaus (1987) found no statistical difference between groups of entrepreneurs and a group of managers on a number of personality characteristics.

Locus of Control.

Related to the theory of need for achievement is the argument that entrepreneurs are characterised by their belief that their behaviour is responsible for determining their fate. According to Rotter's locus-of-control theory, an individual perceives the outcome of an event as being either within or beyond his personal control and understanding. Locus of control is the extent to which people believe themselves - that they control their own lives (Rotte, 1996). Rotter devised an "Internal-External" scale to determine the locus of control of entrepreneurs. Rotter claimed that an internal locus of control was consistent with a high need for achievement-orientation and that entrepreneurs tended to be on the "internal" end of the scale. "Internal" people were defined as individuals who felt they had some influence on the course of events in their lives, as opposed to "external" people who felt dominated by outside forces such as luck

or fate. For “internal” people, personal destiny comes from within and, therefore, they tend to be more self-reliant and more in need of independence and autonomy (Kets de Vries, 1977).

Perry (1980) described internal locus of control as embracing three features of entrepreneurship - self-confidence, initiative taking and responsibility seeking. Borland (1975) studied locus of control and entrepreneurship. Pandey and Tewary (1979) have provided empirical evidence that people with high “internal scores” are more likely to be successful entrepreneurs.

Brockhaus and Nord (1979) in their study of a group of entrepreneurs and a group of managers found no difference in locus of control between the groups, on other hand, Cromie and Johns (1982) in a similar study of some personal characteristics of entrepreneurs and middle/senior managers found the only apparent significant differences between the groups were:-

- (A) That the business dominated the life of the entrepreneur more than it did senior managers.
- (B) The entrepreneurs were found to be more internal than the managers.

Brockhaus and Horwitz (1986) conclude that while locus of control fails to distinguish between entrepreneurs and managers, it could possibly help to distinguish successful from unsuccessful entrepreneurs. The evidence from these various studies would seem to suggest that locus of control is a key characteristic of successful entrepreneurs.

Other Entrepreneurial Attributes

Other efforts that have been made to identify some of the attributes possessed by the entrepreneur include a study by Welsh and White (1981). They identify 11 personal characteristics that they consider elements for success in starting a business. They are:-

- (A) Self-confidence
- (B) Comprehensive awareness
- (C) Superior conceptual ability
- (D) A low need for status
- (E) A need to control and direct.
- (F) A sense of urgency
- (G) Good health
- (H) Emotional stability
- (J) Realism
- (K) An objective approach to interpersonal relations.
- (J) An attraction to challenge rather than risk.

According to Hollingsworth and Hand (1979) the entrepreneur generally possesses a high level of motivation, good health, total commitment and self-discipline. Taylor (1978) lists such personal traits as mental alertness, analytical ability, human relations ability, responsibility, resistance to stress, ability to organise, decisiveness, integrity, persistence and family backing.

Among the characteristics that Steinhoff (1978) attributes to successful entrepreneurs are energy initiative, ability to organise, personality, technical

competence, administrative ability, good judgement, restraint, communication ability, leadership qualities and patience. Other studies have identified similar characteristics (Hornaday, 1982 - Gibb, 1987).

In their review of research on personal characteristics and role requirements for entrepreneurs, Timmons *et al.* (1990) suggest more than twenty personal characteristics, which discriminate between entrepreneurs and others - additional characteristics include persistence, ability to deal with failure, and a strong belief in economic values. Timmons *et al.* argue that successful entrepreneurs are very determined. This emphasis on motives tends to stress the specific goals that entrepreneurs pursue.

(Wilken, 1979) and Cole (1959) suggested security, power, prestige and social service as motives in addition to profit maximisation. It has been suggested that personal control has two components:-

- (A) The desire for control.
- (B) The actual possession of control.
- (C)

A high desire for control is likely to motivate individuals to gain more control. Greenberger and Sexton (1988) in a study of the impact of the desire for personal control on potential entrepreneurs found that persons who identified themselves as potential entrepreneurs desire significantly more control than those who did not plan to initiate a venture.

Focusing solely on the personality characteristics of the individual in an effort to determine a profile of the entrepreneur has been criticised by several researchers. Van de Ven (1980) warns researchers not to concentrate solely on studies of traits and characteristics. He argues that much can be learned from the history of research on leadership. This research began by studying the traits and personality characteristics of leaders. Jencks (1950) and Kilby (1971) support this argument. Research, they argue, should focus on the behaviours and activities of entrepreneurs rather than on personality profiles. Gartner (1989), states, "The personality characteristics of the entrepreneur are ancillary to the entrepreneur's behaviour." The primary unit of analysis is the creation of organisations where the individual is viewed in terms of activities undertaken to enable the organisation to come into existence. Research on the entrepreneur should focus on what the entrepreneur does and not who an entrepreneur is. What the entrepreneur does is explained by social learning theory. This theory emphasises the importance of environmental or situational determinants of behaviour.

The main argument, which the psychological viewpoint purports, is that entrepreneurship is a personality variable and that entrepreneurs display greater achievement motivation, achievement values, risk-taking propensity, and self-confidence than other groups in society. They also possess an internal rather than an external locus of control.

The Sociological View of the Entrepreneur

While personality or trait theorist's focus on personal determinants of behaviour, social learning theory emphasises the importance of environmental or situational determinants. According to this school of thought, environmental conditions shape behaviour through learning - a person's behaviour in turn shapes the environment.

To predict behaviour, we need to know how the characteristics of the individual interact with the characteristics of the environment (Atkinson *et al.*, 1983, p. 58).

Social learning theorists assert that individual differences in behaviour result in large part from differences in the kinds of learning experiences encountered in the course of growing up. Some behaviour patterns are learned through direct experience - the individual is rewarded or punished for behaving in a certain manner. In predicting how a person will behave in a specific situation, social learning theorists emphasise the importance of individual differences in cognitive development and in social learning experiences. Some of the individual differences, or person variables, that interact with situational conditions to influence behaviour are:-

- (A) Competencies - What can the individual do?
- (B) Cognitive strategies - How does the individual see the situation?

Mitton (1989) in his study of the behaviour of entrepreneurs argues that in the entrepreneur's broad thinking the environment is abundant with opportunity. The entrepreneur's particular trait is knowing how to capitalise on opportunities, which may present themselves. Many researchers have enumerated the actions the entrepreneur performs in order to set up a new business - Schumpeter, (1934) - Cole, (1969) - Leibenstein, (1968) - Vesper, (1980) - Maidique, (1980). Gartner (1985) condenses these actions into five common behaviours:-

- (A) Locating a business opportunity.
- (B) Accumulating resources.
- (C) Producing the product/service.
- (D) Marketing the product/service.
- (E) Building an organisation.

Chell (1985) lends support to the sociological school approach. She views the development of entrepreneurial behaviours as an interplay between the environment and the situation to which the individual has been exposed. The entrepreneur develops expectancies and values from social experiences. These social experiences in turn influence the person's perception of the entrepreneurial role and expression of values in that role.

Gibb and Ritchie (1982) propose a theory that suggests entrepreneurs can be wholly understood in terms of the types of situation encountered and the social groups to which individuals relate. The model assumes that individual's change throughout life and it is the individual's transactions with specific social contexts and reference groups that shape a person. This theory will be examined further in this section, with the discussion focusing on two important dimensions of the sociological viewpoint - socio-cultural factors and family background - and their resulting impact on entrepreneurship.

The legitimacy of entrepreneurship refers to a system of values and attitudes within a specific socio-cultural setting for the development of entrepreneurship (Wilken, 1979). A value system, which approves of entrepreneurial behaviour, expresses positive attitudes towards business, and awards a high social status to entrepreneurs, will stimulate entrepreneurship (Hoselitz, 1957).

Several social theorists have stressed the importance of some kind of entrepreneurial legitimacy or ideology. Since self-indulgence was sinful the individual worked long hours in his business. Protestantism is therefore more likely to create the independence required for entrepreneurship (Storey, 1982). Although Weber's theory may offer an understanding of the role of the Protestant work ethic in the economic development of certain societies, the theory does not explain the emergence of entrepreneurship in Japan since the Second World War. An argument put forward by several researchers is that entrepreneurship is often stimulated by social marginality with groups or individuals on the periphery of a social system, or between two social systems, more likely to behave entrepreneurially. These groups or individuals, due to their religion, culture, ethnic beliefs or minority status, encounter a marginal social position, which results in psychological effects, which encourage entrepreneurship (Wilken, 1979). Hagen (1962) suggests that entrepreneurial behaviour among certain ethnic minorities is a means by which the disadvantaged minorities seek to alter their *status quo*. Stanworth and Curran (1973) support the concept of "social marginality" in an attempt to further our understanding of the processes of entry into entrepreneurship. They suggest that there is a "perceived incongruity" between the individual's personal attributes and the role he or she holds in society. This relative deprivation may provide the necessary impetus for such individuals to move into entrepreneurship. Most entrepreneurs, according to Stanworth and Curran, experience some sort of role deterioration. Shapiro's model of the factors that determine company formation consists of four aspects:-

(A) The availability of resources.

This model suggests that there is a need for several things to "fall into place" before the individual takes the major step of setting up a business. Later Shapero (1975) depicts the typical entrepreneur as having a history of displacement and dissatisfaction. He reports that 65% of the entrepreneurs in his study started a business for negative reasons such as dissatisfaction with existing employment or career setback. In his study he found that 60% of entrepreneurs decided to start a business before they knew what type of business they wanted to undertake. Research supporting the "push" theory includes studies of the relationship between job satisfaction and the decision to become an entrepreneur (Marris and Somerset, 1971) – (Cromie and Hayes, 1991) - Scott (1980) argues that large organisations "push out" potential entrepreneurs because these companies are management rather than enterprise-centred. He observed that potential entrepreneurs, because they had to conform to the rules and procedures of large organisations, had a basic antagonism against these organisations and were motivated to seek independence from them. Kets de Vries (1977, p. 35) describes entrepreneurs as "misfits" lost and displaced individuals. Kets de

Vries' argument suggests that the entrepreneur is someone unable to fit comfortably into conventional organisational life.

(B) Antecedent Influences –

These include aspects of the entrepreneur's background, which affect his motivation, perception, skills and knowledge:-

- (1) Family and religious background
- (2) Educational background
- (3) Age
- (4) Earlier career experience
- (5) Opportunity to form entrepreneurial groups.
- (6) The Incubator Organisation - the organisation for which the entrepreneur has previously been working, whose characteristics influence the location and the nature of the new firm as well as the likelihood of spin-offs including the nature of skills and knowledge acquired - motivation to stay with or leave organisation and the experience in small business setting.

Examples of Entrepreneurial Action

- (A) Societal attitudes towards entrepreneurship
- (B) Ability to save seed capital
- (C) Accessibility and availability of venture capital
- (D) Opportunities for interim consulting
- (E) Economic conditions.

Cooper's (1973) framework portrays the various factors that influence entrepreneurship, highlighting the most relevant. The model demonstrates the individual characteristics and attitudes of entrepreneurs and the relevant environmental factors that influence the decision to become an entrepreneur.

(C) Family Background.

Social learning theory emphasises the effects of environmental influences on the personality development of the individual through observational learning (Bandura, 1986) and states that parents are the primary role models in the early socialisation of children. Parents affect both the personality development and career attitudes of their children.

(D) Parents as Role Models Affecting Career Preferences.

Many researchers argue that the existence of an entrepreneurial parent creates an environment in which entrepreneurial development is encouraged and success is stressed. Social experiences gained by children, such as observing an entrepreneur, may direct the individual's search for a career similar with those early learning experiences (Jacobowitz and Vidler, 1982).

Bird (1988) has observed that the father, as an entrepreneurial role model, helps to shape the individual's value systems and attitudes. O'Farrell (1986), from a

survey of manufacturing entrepreneurs in Ireland, observed that a high percentage of new firm founders (46%) had fathers who were self-employed, compared with 13% of people whose fathers were employed.

Donkels and Dupont (1987), in a study of new entrepreneurs in Belgium, found that 45% had an entrepreneurial father and 19% an entrepreneurial mother. Scherer *et al.* (1991), in their study of 337 men and women with parent entrepreneurs, concluded that individuals who observed a parent role model whom they perceived as a high performer develop a profile in which personality and the preference for an entrepreneurial career are seen as complementary. Other researchers (Bowen and Hisrich, 1986) – (Waddle, 1983), - Watkins and Watkins, (1983) have also provided descriptive evidence indicating that a large percentage of practising entrepreneurs have at least one parent entrepreneur. Collins and Moore (1970) in their study report that 25% of entrepreneurs had fathers who themselves were self-employed, compared with 17% in a sample of senior executives of large companies. In addition to this, 30% of entrepreneurs had fathers who were labourers, either skilled or unskilled, compared with 15% among business executives.

In one study, Mancuso (1975) suggests that a high percentage of adult entrepreneurs were already active in business during childhood. The conclusion follows that entrepreneurs have the ability to perceive profitable opportunities even when young and that early life experiences shape prominent patterns of behaviour among entrepreneurs.

The theory that the majority of entrepreneurs are first-born children has been cited in several empirical research studies as one of the primary demographic characteristics of entrepreneurs (Van Slooten *et al.*, 1986) - (Hisrich and Brush, 1985) and (Watkins and Watkins, 1983).

Petrof (1981) conducted a discriminant analysis of 12 variables – age - years of marriage - years in the labour force - number of previous jobs - years of formal education - number of previous attempts to start a business - birth order in the family - membership of professional organisations - profit expectations - outside encouragement - anticipated difficulties and evaluation of personal shortcomings. The characteristic most frequently associated with the entrepreneurial group was being the oldest child in the family. It is argued that first or only-born children experience greater degrees of childhood isolation than later-born children. This is claimed to result, in later life, in higher levels of motivation to achieve recognition and control via manipulation of material objects, rather than social skills and sociability (Collins *et al.*, 1964). However, the concept of birth order has had conflicting research results. Robinson and Hunt (1992) in an empirical test, using methodological controls designed specifically to study entrepreneurship and birth order, refute the majority of the studies indicating a relationship between birth-order and the entrepreneur. Hisrich and Peters (1995) report that, in many studies of entrepreneurs, the first-born effect has not been present. According to several studies, the entrepreneur is aged between 30 and 40 years old (Cooper, 1971) - (Litvak and Maule, 1974). More specific limits are suggested by Silver (1988) who claims the entrepreneur is aged between 27 and 34 years old, having gained his experience

in the work field from the age of 20. Hisrich (1988) says that the entrepreneur is typically aged 40 years, married and has two children. The mean age of the entrepreneur, at start-up, appears to be mid-30s - this being consistent with the view that the entrepreneur needs to gain experience in a particular field before starting their own business. There are no stated rules, which can be applied to the age when an entrepreneur should ideally start their own business since each particular venture is unique and different individuals at different rates may gain an appropriate level of expertise. In a study of Northern Ireland entrepreneurs, Hisrich (1988) found that the most recent occupation of the majority of the entrepreneurs prior to starting their own business was in a management position and the highest level of education obtained for one-third was an A Level qualification. Just over 50% of the entrepreneurs had experience in the current business area. The sample expressed confidence in their skills in business operations, product innovation and dealing with people but reported start-up difficulties in the financial area, weak collateral and marketing problems.

Many of the empirical studies carried out to date suggest that entrepreneurship is a male-dominated field. The last decade has been one of the most successful for female entrepreneurs. With the worldwide change towards the increasingly high economic importance of the service industries, women are emerging from this sector as successful entrepreneurs. While Hirsch and Brush identify that male and female entrepreneurs have much in common, there are differences in terms of motivation, departure point, business skills brought to the venture, and type of business started.

The Management View of the Entrepreneur

The management perspective views entrepreneurship as embracing the skills required to operate a business during the rapid expansion and growth phase of a venture - skills that include planning, organising, leading and controlling. According to this life school of thought, entrepreneurship is a series of learned activities that integrate the functional areas of management, marketing, operations and finance into a strategic framework that applies during the growth and development of a firm. According to the management view, entrepreneurship can be taught - a central aim being to identify the specific functions involved and provide training to existing and hopeful entrepreneurs.

Highly developed management capabilities are not always needed during the initial stages of an entrepreneurial small business. The primary objective is on creating and developing innovative products and services, however, as the firm expands and reaches the rapid growth stage, management talents become crucial during this stage. Many entrepreneurs lose control of their companies at this stage. Managing growth is different from managing start-up activities. Entrepreneurs often fail to move from a loose, informally run business to one that requires a more formal system of planning, leading, organising and controlling. Cooper (1980) suggests that as researchers follow the stages of development of a new venture - initiation - growth and expansion - their focus should shift from psychological, sociological and environmental considerations to risk-taking propensity, to personal management skills and to the entrepreneur's ability to develop a management team. Swayne and Tucker

(1973) suggest that different types of entrepreneurial skills are necessary at different stages of the business life cycle. Churchill and Lewis (1983) suggest that firms move through four stages - existence, survival, success and resource - maturity. Flamholz (1986), on the other hand, offers a four-stage model with the first two stages of new venture and expansion being essentially entrepreneurial. At the third and fourth stages of development, there is an apparent need for professional management. As the firm moves out of its second stage, it requires formalised planning, control and organisational systems. Boyle and Desai (1991) argue that entrepreneurs have to recognise that the transition from small, informal, owner-managed operations to a larger productive capacity involves increased leadership and delegated control on the part of management. As the company moves from an internal to an external focus, the key element in this expansion is control over operations.

Ray (1993) identifies the skills required by the entrepreneur in order to grow their business as:-

- (A) Negotiating skills - when dealing with suppliers, distributors, customers and banks. Negotiating skills are inevitably involved in all those activities.
- (B) Interpersonal skills - without good "people skills" it will be difficult for the entrepreneur to succeed.
- (C) Listening and information-acquisition skills - the ability to listen and discover the interests and needs of others.
- (E) Problem-solving skills, since each new venture creates a unique set of problems.

In his identification of the skills required by the entrepreneur, Ray (1993) emphasises that he has difficulty clarifying the meaning of skills. The literature, he argues, lacks clarity as to their meaning and importance. The conceptual line between personal attributes and skills is not clearly drawn. This, he reports, is due to the lack of attention given to entrepreneurial skills in research, entrepreneurship education and training programme design. Gnyawali and Fogel (1994) emphasise the importance of training programmes for growth-oriented entrepreneurs and states that "unless they are well equipped with technical and business skills, they may not be able to overcome various problems they encounter at different stages of their business development." Other studies of the training needs of entrepreneurs emphasise the importance of developing training programmes that are specifically geared to meet the needs of the entrepreneur and delivered by credible training providers who are familiar with the entrepreneurial environment Kirby, (1990) and Gibb, (1993).

3. **Rural Micro Entrepreneurship in Ireland - the Way Forward – a Provisional Model**

What is Rural Micro Entrepreneurship?

It is important to stress that rural entrepreneurship in its substance does not differ from entrepreneurship in urban areas. Entrepreneurship in rural areas is finding a unique blend of resources, either inside or outside of agriculture. This can be achieved by widening the base of a farm business to include all the non-

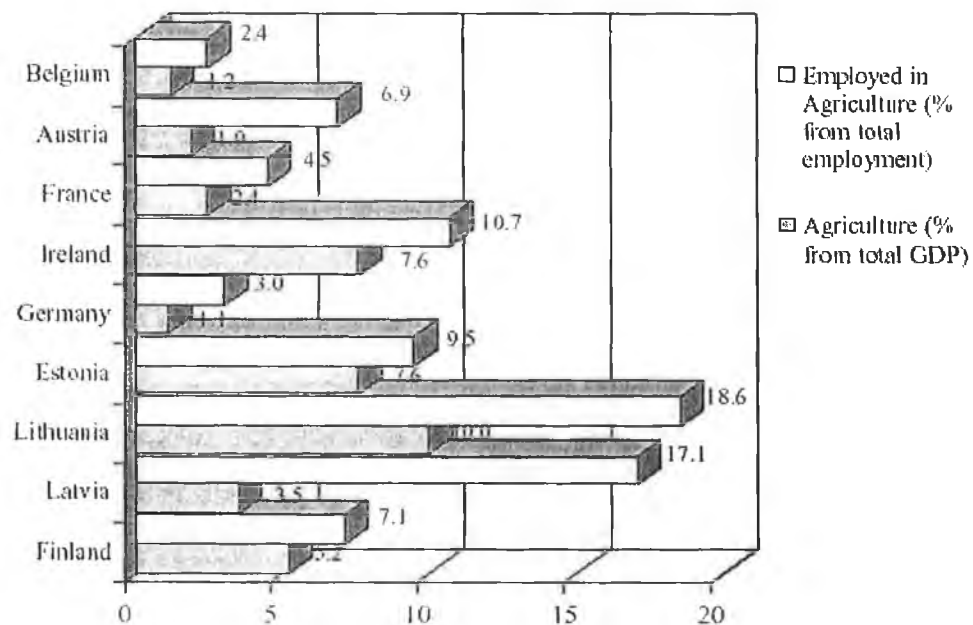
agricultural uses that available resources can be put to or through any major changes in land use or level of production other than those related solely to agriculture. To some degree, however, the economic goals of an entrepreneur and the social goals of rural development are more strongly interlinked than in urban areas. For this reason entrepreneurship in rural areas is usually community based, have strong extended family linkages and a relatively large impact on a rural community.

The Way Forward (a Provisional Route)

For the potential of this new way forward (model) to be realised it must be seen as a separate policy function and must be fully integrated with existing national policies and EU initiatives.

In the rural Ireland context, integration might be best achieved by using and building on existing structures, for example, the local branch networks of organisations representing farmers and rural dwellers in general. Examples of such organisations would include Teagasc, The IFA, ICSMA, The Co Ops, Leader and others. These organisations are in the main at the heart of substantially all of the rural economic activity in Ireland. Given that farming activity in Ireland accounts for 7.6% of GDP (Fig.1) the involvement and co-operation of the Department of Agriculture would be a necessity at the heart of this process as a driving force at regional, national and EU level.

Figure 1 – Agriculture and its contribution to “National” GDPs



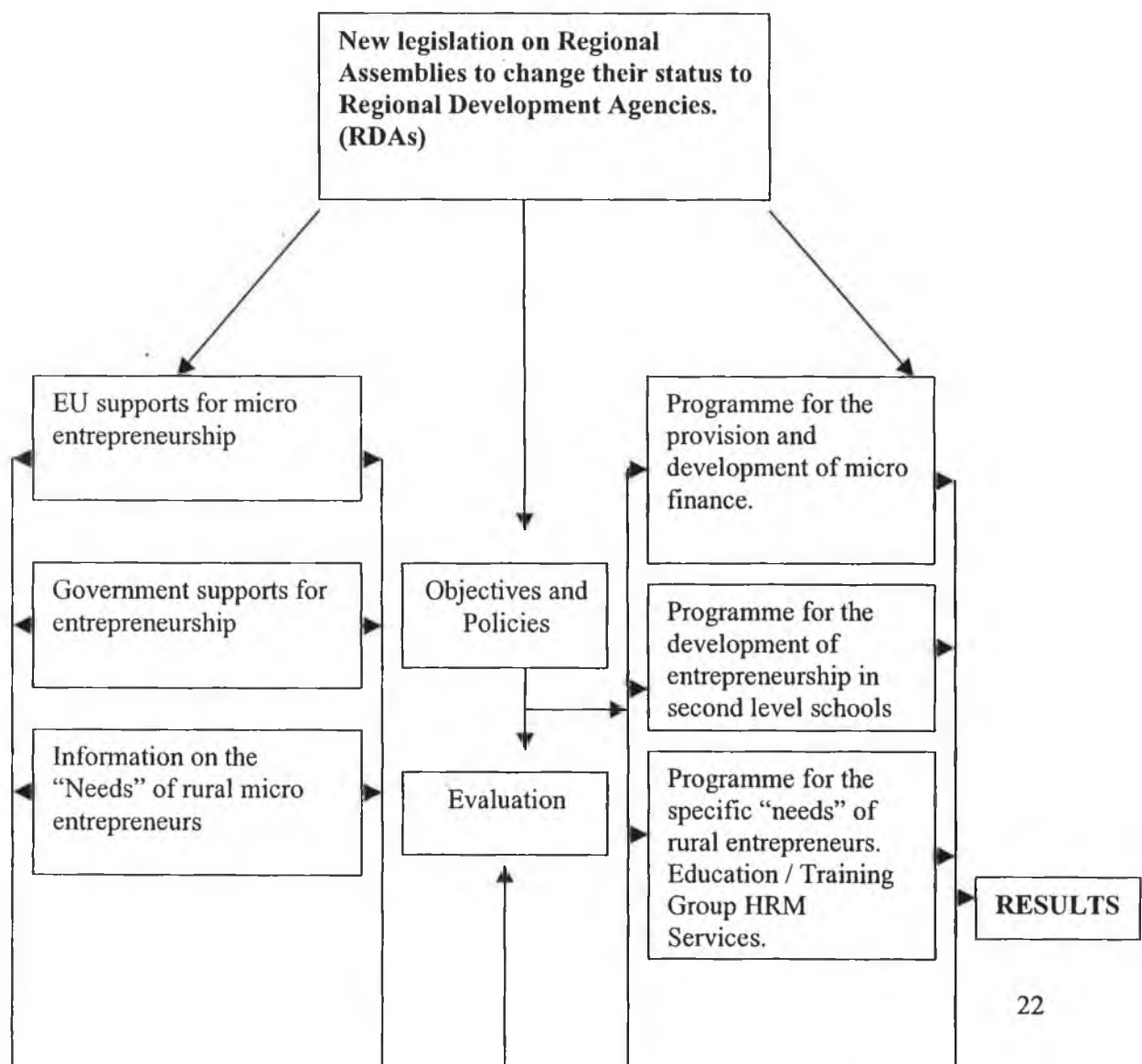
Source: Mc Fadden 2002

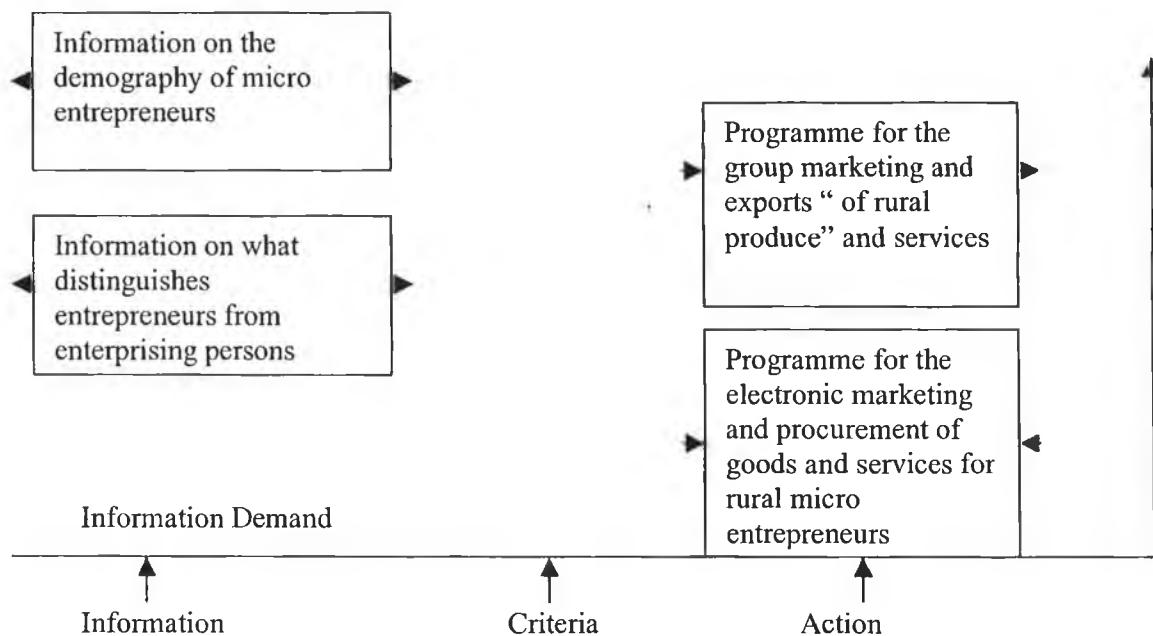
To further enhance the potential of model, it is essential that it should be an integral part of the new regional structures. These regional structures were

created very recently and in practice their role is extremely limited. There are also two “Regional Assemblies”, established in 1999 to deal with the new regional structure introduced for European funding purposes. Prior to that, Ireland was treated as one region with Objective 1 Status. Under the 2000-06 funding structure, Ireland was divided into two regions, with the Southern and Eastern Region (S&E) losing its Objective 1 Status and the Border, Midlands and Western Region (BMW), which has retained its Objective 1 status. These regional structures were created in a system in which there is very little sense of regional identity and many people are unaware of their existence.

For effective functioning of the new model we would suggest that “The Assemblies” be upgraded to Regional Development Agencies status (RDAs) and should meet the requirements of Yuill and Allen (1982 p1) definition of an RDA. i.e. – “any publicly financed institution outside the mainstream of central and local government administration designed to promote economic development in regions that are generally designated as problem or priority areas” –

The Mc Fadden (Provisional) Rural Micro Entrepreneurship Development Model.





4. The Global Aspects of Entrepreneurship in Ireland

Introduction

In this section entrepreneurship in Ireland is set in a global context. The Global Entrepreneurship Monitor 2001 report is the principle piece of research quoted in this section.

What is the Globalisation Dimension of Entrepreneurship.?

Dawe and Bryden (1999) note, it is an advanced stage of capitalism. Martin (1989) and Urry (1984) state that is driven by the restructuring of economic relations and competition. The OECD defines globalisation as the 'increased movement of tangible and intangible goods and services, including ownership rights, via trade and investment, and often of people, via migration. This definition identifies a key feature of globalisation, for example, the movement of finance, information, goods, services and people. The change of order witnessed under globalisation has also included the instability of financial markets and currencies, the massive escalation in global inequality; and the restructuring of the American economy, which has helped to yield it as the dominant player in today's global arena. Hart (2000) and Friedman (2000) argues that the globalisation system is built around three balances, which overlap and affect one another:-

- (1) The balance of power between nation states.
- (2) The balance between nation states and global markets.
- (3) The balance between individuals and nation states.

Overlooking the debate over globalisation vs. internationalisation, globalisation vs. (triadisation) or globalisation vs. Americanisation - See for example Hirst and Thompson, (1999) is the belief in rural Ireland, that somehow globalisation

is a matter for others. We suggest that it would be prudent to consider some of the possible consequences of globalisation for rural Irish areas. In the 1980s, contemporary literature tended to emphasise the increasing instability of local, regional and national economies in the face of global economic restructuring Meegan (1989). Some also regarded globalisation as a homogenising process where a virtually borderless world was being created with a single global identity - See for example Ohmae (1989). - Differences in national economic structures, values, cultures, institutions and histories contribute profoundly to economic success Porter (1990 p19). Likewise, according to Amin (1999) meeting the challenge of globalisation does not mean the sacrifice of a progressive sense of place, but more a civic solidarity drawing upon local diversity and difference. Indeed, as Roca (2000) illustrates, the accelerated globalisation of the economy, culture and other spheres of life, the concern for local diversity, autonomy of places and regions has been increasingly voiced across social science disciplines Agnew (2000) - Massey and Jess (1999) - Amin and Thrift (1994) – Hadjimikalis (1994) – and Massey (1991). Translating the challenges of globalisation faced by rural areas into feasible policy measures therefore demands an understanding of how local diversity can be manipulated in order to improve economic competitiveness whilst preserving a sense of identity, home and community. A key aim of the proposed “New way forward for Rural Micro Entrepreneurship” (Model) is to identify the broad structures for such change in rural Ireland.

Amin (1999) provides some useful insights into how the balance of power between nation states can be achieved whilst recognising the interdependence of global and local activities, which result in the greater hybridisation, and perforation of social, economic and political life, for example,

- (1) Developing an appropriate supply base - skills, innovation, education and communication.
- (2) Building an institutional base - development agencies, business fora and a political voice.
- (3) Identifying firm interdependencies and rationalities of behaviour - reciprocity, trust and interactive decision-making - that aid local competitive advantage in the global environment.

The 2001 Global Entrepreneurship Monitor Executive states that:-

Entrepreneurship is a global phenomenon with significant differences between countries. About 1.4 billion working-age individuals - 20 to 64 years old - live in the 29 GEM 2001 countries. Slightly less than 10% of these people are, at any point in time, in the process of creating and growing new businesses. Thus, in the GEM countries alone, almost 150 million people are engaged in some form of entrepreneurial activity. The level of that activity varies from country to country, from a low of approximately 5% of the adults in Belgium and Japan to about 18% in Mexico. In addition, about 3% of the adults in the 29 countries have recently invested personal funds into the new businesses of other individuals.

The creation and growth of new firms, whether out of necessity or opportunity, is the essence of entrepreneurship. However, as GEM has revealed, there are

considerable differences from country to country in the levels of entrepreneurship and the context in which entrepreneurship flourishes. Many countries struggle with increasing the level of entrepreneurial activity due to deeply rooted cultural issues that may take decades to resolve through standard policies, programs and practices. Some of the struggle, however, is due to a lack of understanding.

The Research Methodology of The Global entrepreneurship Model 2001

For several years, evidence has accumulated that documents the significant relationship between entrepreneurship and national economic adaptation and expansion. As a result, the rate of public and private investments devoted to entrepreneurial activity has exploded in the hopes of accelerating innovation, technology development and job creation benefits. Despite the added attention, however, there have been few systematic cross-national comparisons of the level of entrepreneurship, its association with national economic growth, or the factors that influence it over time. The third annual assessment of these issues has been completed with 29 countries - including Ireland - involved in the Global Entrepreneurship Monitor (GEM) program. GEM was initiated in 1997 by leading scholars from Babson College and the London Business School, with strong support from the Kauffman Center for Entrepreneurial Leadership at the Ewing Marion Kauffman Foundation in Kansas City, Missouri. IBM became a global sponsor for GEM 2001.

The central aim of GEM is to assemble the world's leading scholars to address three questions:-

- (1) Does the level of entrepreneurial activity vary between countries?
- (2) Are the differences in entrepreneurial activity associated with national economic growth?
- (3) What national characteristics are related to differences in the level of entrepreneurial activity?

The GEM (2001) research methodology.

Data were assembled for each participating country from four basic sources:-

- (A) Surveys of at least 2,000 adults in each country;
- (B) In-depth interviews with more than 950 national experts on entrepreneurship;
- (C) Standardized questionnaires completed by the national experts; and
- (D) A wide selection of standardized national data.

The first phase of the analysis consisted of a count of the three most important issues raised in each country. This gives a basis of comparison with data obtained through interviews in GEM 2000 and defines the common global landscape for entrepreneurship.

Entrepreneurial Activity by Country

The Global Entrepreneurship Monitor 2001 (GEM) states that about 54% - i.e., 80 million people - of those involved in creating and growing new firms claimed

they were pursuing a business opportunity for personal interest, often at the same time they were working in a regular job. These efforts are referred to as “opportunity entrepreneurship,” reflecting the voluntary nature of participation. In contrast, about 43% (i.e., 63 million people) reported they were involved because they had “no better choices for work.” Such efforts are referred to as “necessity entrepreneurship,” reflecting to the individual’s perception that such actions presented the best option available for employment but not necessarily the preferred option. The patterns of participation in opportunity and necessity entrepreneurship varied dramatically across the GEM 2001 countries. The remaining 3% (i.e., 4 million people) involved in new business activity reflect other motivations. The cross-national comparisons for opportunity entrepreneurship are presented in Figure 3. The range of prevalence rates represents more than a six-fold difference, from 2% for Israel to 15% for New Zealand. There is no statistically significant difference among the top three countries — Australia, Mexico and New Zealand.

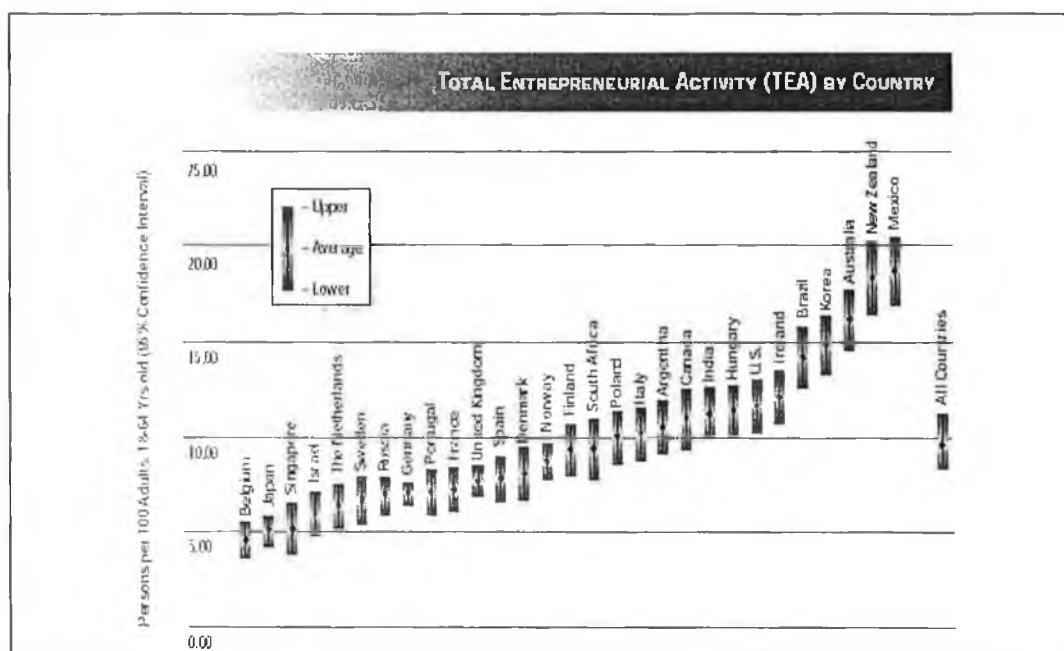
The variations in the overall level of entrepreneurial activity by country

Does the level of entrepreneurial activity vary between countries, and, if so, by how much?

The overall level of entrepreneurial activity for each country is presented in Figure 2. The value depicted for each country shows the number per every 100 adult individuals who are trying to start a new firm or are the owner/ managers of an active business less than 42 months old (i.e., the Total Entrepreneurial Activity Index). The vertical bars represent the precision of each estimate based on the size of the sample in each country at the 95% confidence interval.

As depicted in Figure 2, the range in prevalence rates represents a four-fold difference from a low of less than 5% in Belgium to approximately 18% in Mexico, with Ireland at about 13%. Mexico and New Zealand appear to lead a group of five countries with generally higher prevalence rates than all other GEM 2001 countries. However, the rank order among the five is uncertain since the differences between the countries are not statistically significant.

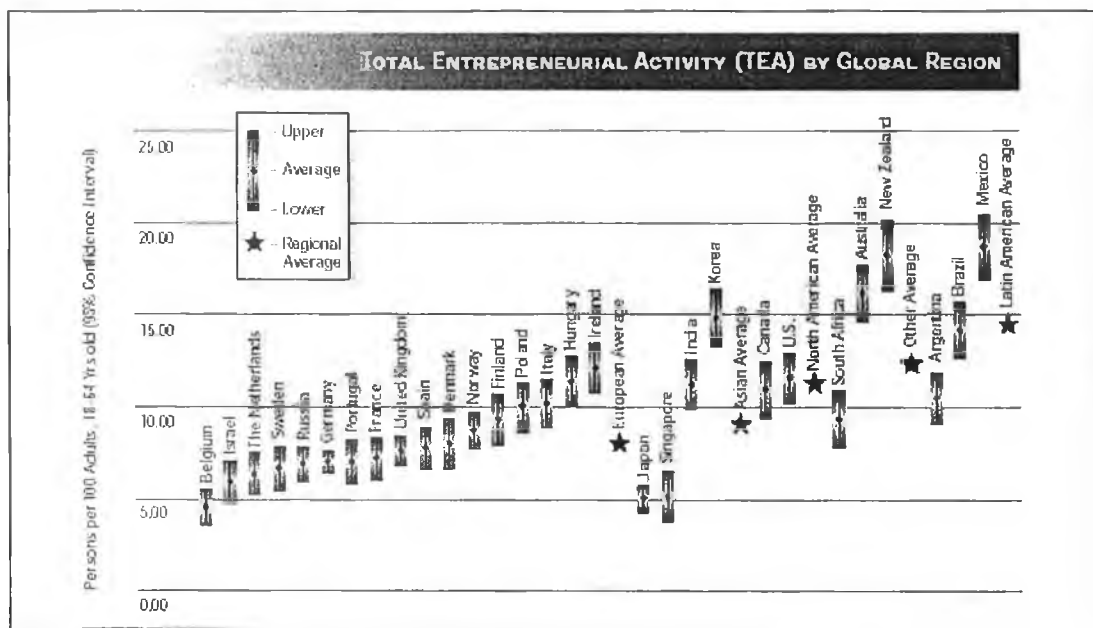
Figure 2 –The Entrepreneurship activity by country.



Source:- Global Entrepreneurial Monitor 2001

In Figure 3, the 29 countries are grouped according to global region. The 16 European countries plus Israel form one rather homogenous group with an average prevalence rate of about 8 percent. The four Asian countries (India, Japan, Korea and Singapore) average about 9% but with very substantial variation. The two North American countries (Canada and the United States) have an average prevalence rate of approximately 11.3%. Three other former United Kingdom colonies (Australia, New Zealand and South Africa) average almost 14%, and the three Latin American countries (Argentina, Brazil and Mexico) have an average rate of 14.5%. As evident in Figure 2, the North American region has the greatest stability in prevalence rates followed closely by Europe. Differences between developed and developing countries appear significant as well.

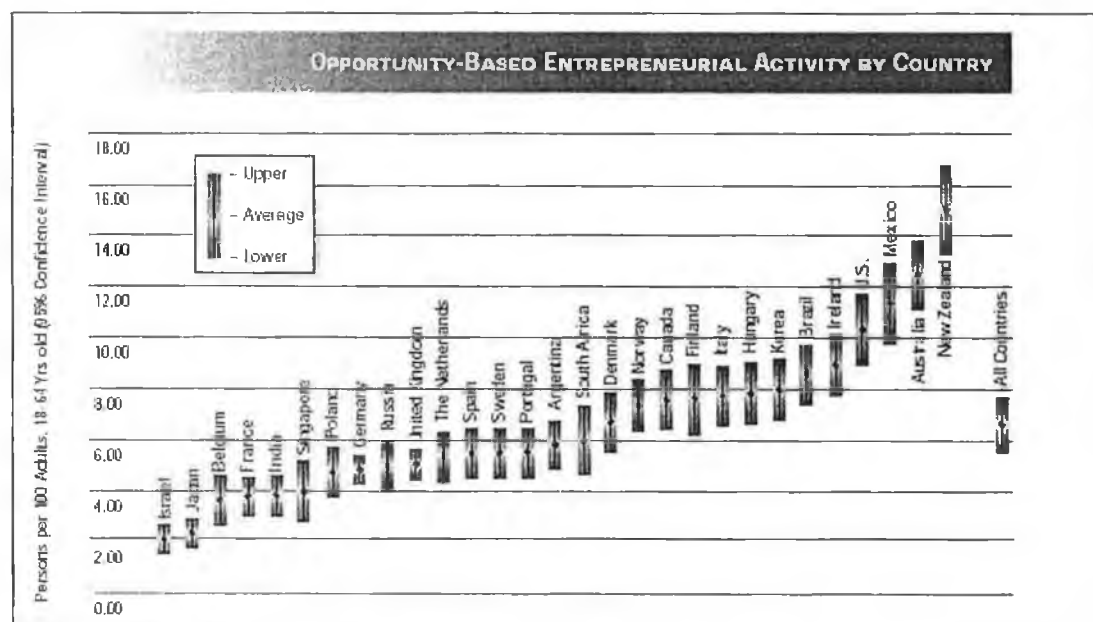
Figure 3 – Total entrepreneurial activity by global region.



Source:- Global Entrepreneurial Monitor 2001

The patterns of participation in opportunity and necessity entrepreneurship varied dramatically across the GEM 2001 countries. The remaining 3% (i.e., 4 million people) involved in new business activity reflect other motivations. The cross-national comparisons for opportunity entrepreneurship are presented in Figure 4. The range of prevalence rates represents more than a six-fold difference, from 2% for Israel to 15% for New Zealand. There is no statistically significant difference among the top three countries - Australia, Mexico and New Zealand.

Figure 4 – Opportunity Based Entrepreneurship

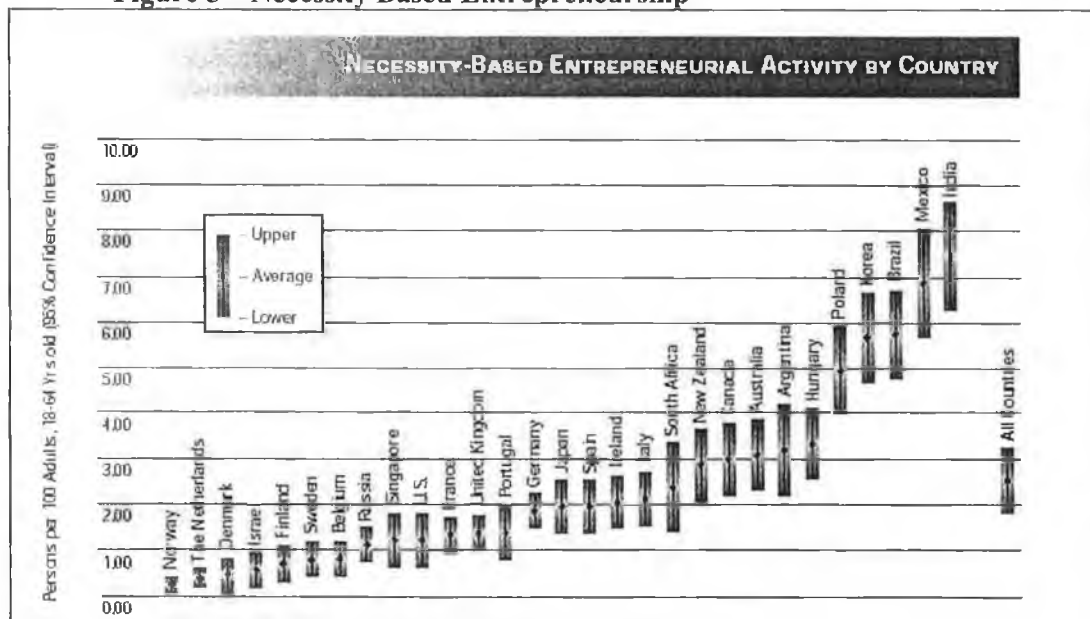


Source:- Global Entrepreneurial Monitor 2001

Necessity entrepreneurship.

The pattern for necessity entrepreneurship is presented in Figure 5. The range in the prevalence rates represents a 30-fold difference, from less than 0.25% (i.e., one in every 400 people) in Norway to approximately 7.5% in India, with Ireland at about 2.75%. One clear pattern depicted in Figure 5 is that most developing countries, or those with a substantial developing sector, are at the high end of this measure. The more advanced countries tend to be clustered at the low end. Six of the seven countries at or below 1 percent are advanced European Union countries where substantial economic security programs are in place.

Figure 5 – Necessity Based Entrepreneurship



Source:- Global Entrepreneurial Monitor 2001

Growth aspirations

As shown at the bottom of Table 1, growth aspirations also vary dramatically between necessity and opportunity driven entrepreneurs. About 14% of opportunity-driven entrepreneurs expect their new ventures to produce 20 or more jobs in five years (i.e., high-growth firms), seven times the percentage (2%) of high-growth firms expected from necessity entrepreneurship activities. In contrast, 9 of 10 necessity-driven entrepreneurs expect their new firms to provide no more than five new jobs in the next five years.

Table 1 – Growth Aspirations

	Total	Opportunity Entrepreneurship	Necessity Entrepreneurship	Mixed or Other
Start-up, or Nascent Firm (number of cases)	6,609	3,489	2,908	212
Extractive: Farming, Fishing, Hunting, Forestry, Mining	4%	4%	4%	8%
Transforming: Construction, Manufacturing, Transportation, Wholesale, Communications, Utilities	33%	30%	37%	36%
Business Services: Financial, Insurance, Real Estate, Consulting, Business Professionals	14%	21%	5%	13%
Consumer-Oriented: Retail, Hotels, Restaurants, Consumer Services, Health, Education, and Social Services	49%	45%	54%	43%
	100%	100%	100%	100%
Growth Aspirations				
Expect no jobs in 5 years	14%	14%	14%	18%
Expect 1-5 jobs in 5 years	62%	52%	75%	47%
Expect 6-15 jobs in 5 years	15%	20%	9%	18%
Expect 20 or more jobs in 5 years	9%	14%	2%	18%
	101%	100%	100%	101%

Source:- Global Entrepreneurial Monitor 2001

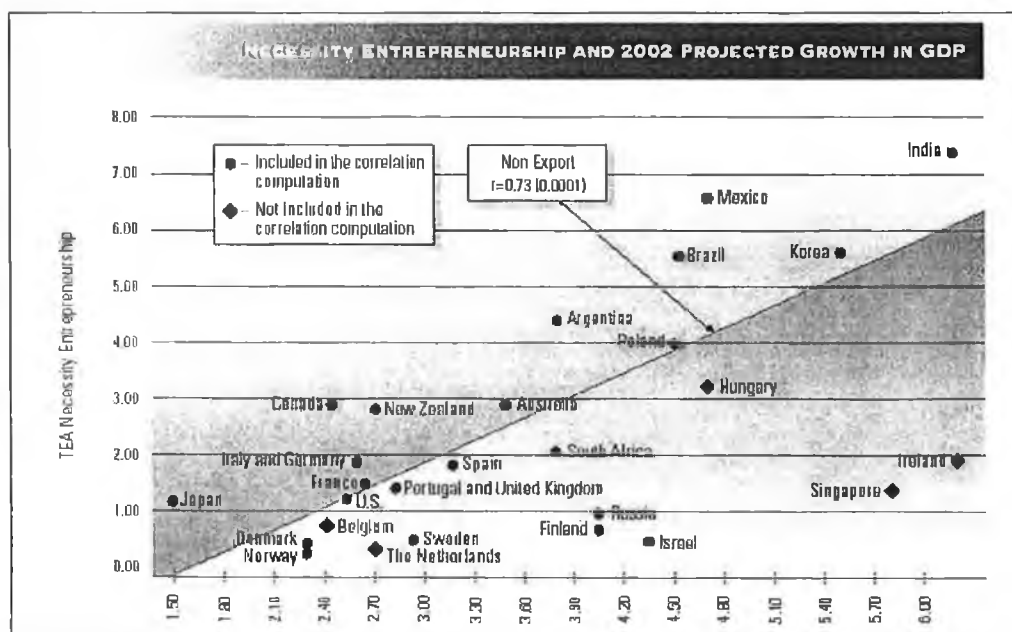
Summary

As evident in Table 1, a much greater percentage of opportunity entrepreneurship activity occurs in the business services sector than in the overall sample. There appears to be a greater percentage of necessity entrepreneurship in the consumer-oriented sectors compared to the overall sample. This may reflect the decisions of necessity-based entrepreneurs to concentrate in less complex, lower cost and more immediately accessible market sectors.

Entrepreneurial activity and economic growth

Since 1999, GEM has demonstrated that entrepreneurial activity is associated with national economic growth. While the relationship is consistent, the strength of the association tends to vary depending on the countries included in the analysis and the nature of the entrepreneurial activity. For GEM 2001, the association between the specific measures of entrepreneurial activity and growth in gross domestic product (GDP) is presented in Figure 6. As shown in the top portion of Figure 6, none of the measures of entrepreneurship has a negative relationship with actual or projected growth in GDP. The strongest measure of association is TEA necessity entrepreneurship, with a statistically significant correlation of 0.55 with 2002-projected growth in GDP.

Figure 6 Necessity Entrepreneurship and 2002 Projected Growth in GDP



Source:- Global Entrepreneurial Monitor 2001

Summary.

For the third year in a row, GEM has demonstrated a statistically significant association between entrepreneurial activity and national economic growth, with the average opportunity entrepreneurship prevalence rate across the 29 GEM countries at about 6.5%, while the average for necessity entrepreneurship was 2.5%.

While very few GEM countries have high levels of necessity entrepreneurship and low levels of economic growth, the countries with the highest level of necessity entrepreneurship are also the most underdeveloped, for example, “East Germany” and Ireland. While it is clear from the 2001 assessment that necessity entrepreneurship is significantly associated with economic growth, unravelling the causal mechanisms that account for this relationship will require tracking both activities over time.

What makes a country entrepreneurial.?

The key personal characteristics that deserve attention are educational attainment and household financial status.

(1) Education.

Educational attainment data were available for 42,000 respondents from 24 countries. The general patterns by gender and educational attainment for the five types of entrepreneurial activity are presented in Figure 7. The GEM analysis shows that nearly 62% of those who are active in entrepreneurship have not completed more than a secondary education. Those with at least some university

experience represent 35% of the total. The remaining 3% include men and women with graduate experience.

Figure 7 – Entrepreneurial Activity by Gender and Education



Source:- Global Entrepreneurial Monitor 2001

When all types of activity are considered, as shown in Figure 7, there are quite different patterns for men and women. Participation in entrepreneurial activity increases with more education for women, with a major jump among those who go beyond completion of secondary education. For men, in contrast, there is a reduced participation among those who go beyond secondary education, with the lowest levels among those with the most (i.e., graduate experience) or least (i.e., no secondary degree) amount of education.

But when those pursuing opportunities are compared with those involved in entrepreneurial activities out of necessity, the patterns are quite different. Among those pursuing opportunities, there is no difference among men who have completed secondary school and received additional education at any level. Participation among those who have not completed secondary school, on the other hand, is rather low. The pattern among women pursuing opportunities is consistent with their pattern overall. — their prevalence rates increase with higher levels of education. However, the pattern for necessity entrepreneurship is reversed for both men and women, although the differences are less dramatic for women (Figure 7).

Education is, however, related to the type of economic activity and expected firm growth. As shown in Figure 8 those with more education are much more likely to engage in entrepreneurial activity in business service sectors and much less likely to pursue a consumer-oriented initiative. While most respondents (82%) anticipated creating no more than five jobs in five years, the percentage that anticipated growing more substantially was significantly higher (31%) for those with graduate experience.

Figure 8 – Education and Economic Activity

	Secondary School Experience	Secondary School Completed	University or College Experience	Graduate Experience	All Levels
Economic Sector					
Number	1,010	1,571	1,258	75	3,954
Extractive	4%	5%	3%	7%	4%
Transforming	32%	32%	29%	20%	31%
Business Services	7%	9%	24%	42%	14%
Consumer Oriented	57%	54%	44%	30%	51%
Expected Growth					
Number	1,048	2,455	2,891	280	7,274
No jobs in 5 years	36%	27%	40%	21%	34%
1-5 jobs in 5 years	57%	54%	38%	48%	48%
6-19 jobs in 5 years	6%	9%	14%	14%	11%
20 or more jobs in 5 years	1%	10%	7%	17%	7%

Source:- Global Entrepreneurial Monitor 2001

Literacy and education in Ireland.

Ireland and its workforce have been 'sold' to foreign multinationals as 'highly educated' and ideal, for the type of 'high-tech' industries considering setting up here.

While this is largely true with, for example a very high proportion of school leavers going onto third level education, a recent report from the OECD showed that 24% of Irish adults have serious literacy problems. The OECD said that almost a quarter of Irish adults are at the lowest level 1, as measured by the organisation, which means an inability to read or comprehend, for example, instructions on a medicine bottle. A further 30% scored at level 2. This means that over half or 54% of Irish adults are ranked at level 3 or below. Level 3, as defined by the OECD, is the minimum desirable level of literacy.

Successive reports and research have confirmed that over 500,000 Irish adults have very low levels of literacy and of those 300,000 are in the workforce. Shocking as these statistics are on their own, even worse in comparable terms we have far greater literacy problems than the vast majority of our European neighbours. Only Poland has more adults at the minimum i.e. level 1 literacy levels. The number of adult Swedes at level 1 is 7% as opposed to Ireland's 24%.

A more recent OECD report in 2001 found the same levels of functional illiteracy – 24% that placed Ireland 14th out of the 22 countries surveyed. This is illustrated in Figure 9.

Figure 9. OECD 2001 – Literacy Survey.



Source:- OECD 2001

A simple way of assessing human capital is to test people's literacy and other core competencies. The International Adult Literacy Survey (IALS) tested the

knowledge and skills required to handle information in various guises, such as official forms, timetables, maps and charts. The chart shows the percentage of adults at each of four main literacy levels, from low (level 1) to high (level 4). Adults on level 3 are generally considered to have the type of skills needed to cope successfully with modern social and economic life. No country did as well as Sweden, and yet, even there, about a quarter of adults fell below this minimum level. In some countries, over half of all adults examined were unable to cope. In Poland, barely over a fifth of those tested managed well enough to qualify for level three or above.

What is perhaps even more disturbing, particularly from a country which has basked in the glory of the recent surge in growth levels, is that despite all the additional wealth thrown at our feet, the levels of literacy have not improved over the last 20 or so years.

A report last year by Dr. Tom Kelleghan of the Education Research Centre in St. Patrick's College, Drumcondra, found that one in ten children leaves primary school with significant literacy problems. Dr. Kelleghan's study also found that the average level of performance in English has remained unchanged since 1980 and there has been no change in the performance of low-achieving pupils. Kelleghan's research backed up by the OECD figures, clearly shows that the literacy problem has, if anything got worse since the early 80s. Literacy and the lack of literacy among the farming community has a major impact on the type of alternative farm enterprises chosen as a means of generating additional income for the farm family, for example, Teagasc research by Cawley, Gillmor, Leahy, Mc Donagh 1995 states in its survey on the role of human capital on farms that:- The majority (90.8%) of non-adopters had never considered an Alternative Farm Enterprises (AFE) as an adjustment strategy. Only 6 (5%) were currently considering one and the remaining 5 (4.2%) respondents said they had considered but rejected the idea of developing an AFE. The enterprises considered were farm afforestation, organic vegetables and new livestock. Only 3 of the 11 farmers who had considered an AFE actually had a feasibility study conducted - two by government organisations - and one by a private consultant. Reasons given for not conducting a feasibility study were that the AFE was still under consideration, that there was no need because the farmer had enough information and that the costs of such studies were prohibitive.

Results from the survey suggested that educational capital firmly favoured AFE adopters, with 70% of them having some second level education, and over half (54.8%) having some formal training. Their spouses too had better educational qualifications and better training standards than their conventional counterparts. Unlike the wives of the non-adopters, spouses of diversifiers took a much more active role in decision-making and enterprise management, thereby enhancing the human capital of these farms.

If educational background is used as an indicator of search 'ability', the evidence presented here suggests that diversifiers have greater 'ability' and can therefore identify a broader range of potential adjustment strategies for their businesses. However, within this group attainments remain quite low, with just over one-third of the farmers having reached Leaving Certificate standards and less than one-

tenth having reached degree level. Accepting that educational attainment is highly correlated with age, and that on average AFE farmers were younger (47 years) than conventional farmers (53 years), it was expected that the former group would have had higher achievements. This is noteworthy because it relates to interpretation of the “education criterion”. While diversifiers are *relatively* better educated/qualified than non-diversifiers, in general, their educational standards were still quite low.

Prior to the establishment of the AFEs, only 16.3% of adopters had conducted a technical feasibility study and only 13.7% formally investigated the potential market for the products of their AFEs. Research concerning second and third enterprises was virtually non-existent. The majority of farm families (72.5%, 58 families) had no specific training relating to the chosen AFE and a similar proportion (77.5%) had no previous experience concerning the AFE, reinforcing the findings reported above. Of the 80 AFE-farmers interviewed, 33 had considered but had not established other enterprises. The enterprise mentioned most frequently was deer farming (8 respondents). Other enterprises considered included farm afforestation (3), fishing facilities (3), pony trekking (3), farmhouse cafes (2), open farms (2), rabbits (2), free-range poultry (2),

The majority (90%) of non-adopters had never considered an AFE as an adjustment strategy. Only 6.5% were currently considering one and the remaining 5 respondents said they had considered but rejected the idea of developing an AFE. The enterprises considered were farm afforestation, organic vegetables and new livestock. Only 3 of the 11 farmers who had considered an AFE actually had a feasibility study conducted - two by government organisations and one by a private consultant. Reasons given for not conducting a feasibility study were that the AFE was still under consideration, that there was no need because the farmer had enough information and that the costs of such studies were prohibitive. The educational backgrounds of diversified and non-diversified farmers is summarised in Table 2.

Table 2 – The educational backgrounds of primary decision markers %

	AFE Farms		Non AFE Farms	
	Farmer	Spouse	Farmer	Spouse
Education				
No second level education	29.1	14.3	64.2	36.6
Second level to 14 years of age	02.5	02.9	02.5	01.4
Second level to 16 years of age	31.6	20.0	21.7	18.3
Second level to 18 years of age	22.8	35.7	09.2	39.4
Post second level	13.9	27.1	02.5	4.2
Training				
No training	45.2	38.1	75.8	81.0
Course completed but not full time	23.2	15.9	18.3	07.9
Basic training	21.9	23.8	01.7	01.6
Agricultural degree	0.14	03.2	00.8	01.6
Other degree	08.2	19.0	03.3	07.9

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Source:-Farm diversification – Cawley, Gillmor, Leahy, Mc Donagh 1995

Summary

Very low educational standards characterised the non-adopters (Table 2). Of particular importance to this group was the farmers' educational attainments, since he/she was the primary decision-maker. With nearly two-thirds 64.2% of farmers in this group having no formal second level education, and three-quarters 75.8% of them having no training, it can be suggested that low education standards of farm operators severely curtail the search behaviour of this group, however, their spouses displayed a better educational profile, with nearly 39.4% having Leaving Certificate standards.

Low literacy levels and its implications for micro entrepreneurship in Ireland.

The GEM 2001 research clearly suggests that:-

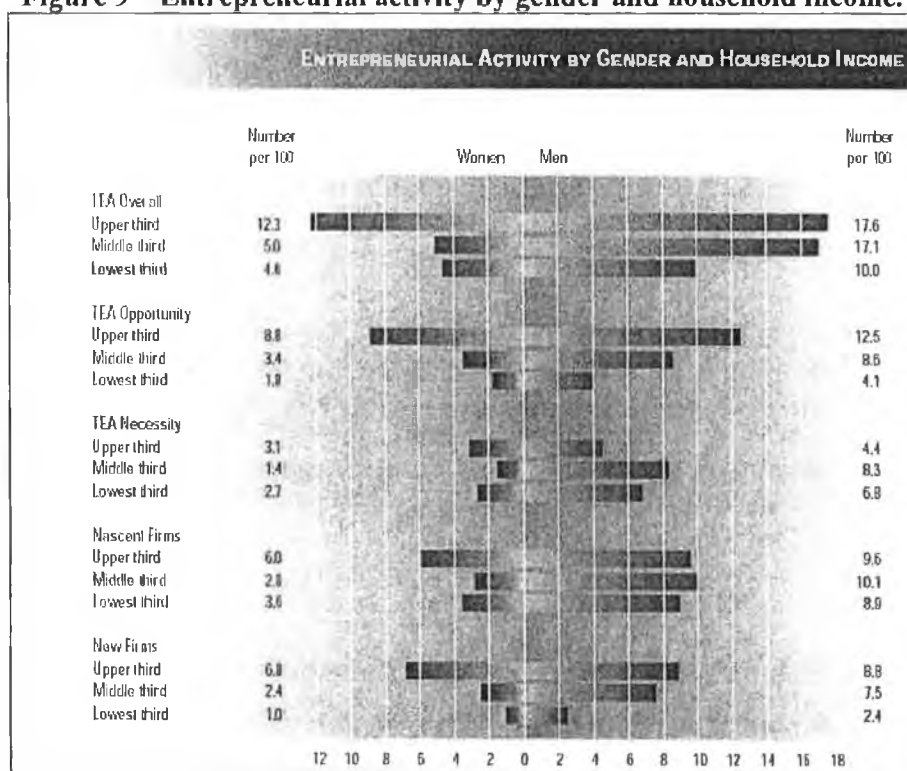
A strong commitment to education, both general and entrepreneurship-specific, is clearly justified across all national contexts. Not only are those with limited education less likely to participate in entrepreneurial initiatives, they tend to match their business aspirations to their level of skills and knowledge. As a consequence, they generally emphasise less ambitious business activities.

An examination of grant aided micro businesses (County Enterprise Boards and Leader1 and 2) would suggest that "less ambitious activities" are in plentiful supply with "new economy" businesses poorly represented. It is recognised that there are other good and valid reasons for this situation and they are discussed in this thesis.

The Gem 2001 research also suggests that the level of Household Income has implications for micro entrepreneurship. A measure of the relative standing of approximately 43,000 respondents from 23 countries related to annual household income was developed. Each respondent was classified in relation to others from the same country into three categories - the upper, middle and lower third of the total household income distribution. - While men again make up the majority of the individuals 72% the allocation is evenly divided among those with different relative household incomes, with 30% from the upper third, 38% from the middle third, and 32% from the lowest third. As shown in Figure 9, there are again differences by gender and type of entrepreneurial activity. Being from the lowest income level is associated with less activity for opportunity entrepreneurship for men and women. This pattern is even more pronounced for the prevalence rates of owner managers of new firms. Lower levels of household income are strongly associated with higher levels of necessity entrepreneurship, especially for men. However, there appears to be no relationship for men between household income and the level of nascent or start-up activity. Factors measuring an entrepreneur's immediate social situation and perceptions of the environment are believed to affect the decision to pursue an entrepreneurial initiative. GEM includes several such measures, including knowing an entrepreneur, perceived opportunities in the community, perceived ability to

start a new business, fear of failure and judgments about the immediate economic future. The GEM analysis shows that those who believe they have the skills to pursue a new venture are six times more likely to be active entrepreneurially (21.3%) than those who do not believe they have the necessary skills (3.7%). In the same fashion, those who believe there are good opportunities to start a business in their community are three times more likely to be involved in entrepreneurship (21.4%) than those who do not believe such opportunities exist (7%). Those who personally know an entrepreneur are more than twice as likely to be involved themselves (18.7%) as those who have no entrepreneurial acquaintances (7.7%). Those expecting their family's economic situation to improve in the next year are three times more likely to be involved in entrepreneurship (15%) than those expecting their situation to decline (4.5%). Entrepreneurial activity by gender and household income is summarised in Figure 9.

Figure 9 – Entrepreneurial activity by gender and household income.



Source:- Global Entrepreneurial Monitor 2001

Household incomes and relative poverty in Ireland

The Global Entrepreneurial Monitor 2001 research has demonstrated that lower levels of household income are strongly associated with higher levels of necessity entrepreneurship, especially for men. However, there appears to be no relationship for men between household income and the level of nascent or start-up activity.

It can be argued that the low level of household incomes, the relative growth in poverty (Table 2) and the relative unattractiveness of employment in a non

unionised multi national organisations has added greatly to high levels of necessity entrepreneurship in Ireland.

Table 2: - The growth in relative poverty in Ireland.

	1994	1997	1998	2000
Households on under 50% of average income	18.60%	22.40%	24.60%	Over 25%
People on under 50% of average income	17.40%	18.10%	20%	Approx.21%
People on under 60% of median income	15.50%	18.20%	20%	Approx. 22%

Source:- ESRI 2000 – Living in Ireland surveys –

In addition the low level of wages, the high cost of essential goods and the absence of a seed capital fund makes the accumulation of start up finance extremely difficult. A comparative European wage survey is outlined in Table 3. It is important to recognise that the term “competitive wage environment” when used in a labour cost survey is a business term to describe low wages.

The Effects of “National Characteristics” on Entrepreneurship.

The three categories are:

- (1) Basic or background national conditions, which rarely change over time.
- (2) Intermediate or framework conditions which change slowly over time.
- (3) The immediate or short-term conditions, which can be more easily influenced.

The assessment is complicated further by the complexity of entrepreneurial activity. While the overall TEA index provides a useful summary measure of entrepreneurial activity, GEM has demonstrated that opportunity and necessity entrepreneurship are disparate phenomena. Therefore, all contextual analyses have utilised GEM’s three primary measures of entrepreneurship. The analyses for each contextual domain are summarised below.

(1) The social, cultural and political context of a national economy usually develops very slowly, requiring a great deal of time for public consensus to emerge regarding acceptable forms of national structures, procedures and values. As a result, it can take decades, if not longer, to establish or change basic conditions. Table 4 presents a series of national features and their correlation with the three GEM measures of entrepreneurial activity.

The specific features under review are:

- (A) The level of economic development.
- (B) The degree of integration into world markets.
- (C) The relative emphasis on different economic sectors - the extent to which government programs attempt to insulate citizens from economic uncertainty - and the role of women in the economy. Because such features take long to

establish within any national context, they are also slow to change, which means the extent to which they influence the level of entrepreneurial activity has significant implications for national public policy. Measures of economic development include GDP per capita and the Human Development Index. The Human Development Index is a product of the United Nations and is based on a combination of measures related to the health status, education and living standards in the population. As revealed in Table 4, these measures have a dramatic negative relationship with the level of necessity entrepreneurship. In other words, countries with higher levels of economic development generally

The focus of this assessment is to understand more fully how different national conditions affect entrepreneurs who create and maintain new businesses. An analysis of the context, for simplicity's sake, requires grouping several factors into three major categories delineated by the degree to which they can be manipulated. Table 3 - Labour Costs Survey.

Ireland has a competitive wage environment. A series of wage agreements between employers and employees ensure that wage inflation is low. Statutory add-on costs are one of the lowest in Europe. A recent study of salary costs in Finance & Administration shows Ireland to have the lowest costs in all job categories of the 5 European locations surveyed.

Total Hourly Compensation costs in (€) for production workers in Manufacturing

Country	Total	Country	Total
Ireland	12.50	United Kingdom	15.88
France	16.38	Germany (Unified)	22.99
Netherlands	19.08	Spain	10.85
USA	19.86	Japan	22.00

Source: US Department of Labour, 2002

have a lower prevalence of necessity entrepreneurship.

(2) The second important national feature is the extent to which countries are involved in international trade.

Table 4 – National Background Conditions and Entrepreneurial Activity.

	TEA Overall	TEA Opportunity	TEA Necessity
Level of Development			
GDP Per Capita: 2000	-0.20	0.08	-0.06**
Human Development Indicator: 2000	-0.24	0.10	-0.70**
Integration in World Markets			
International Trade as percentage of GDP: 2000	-0.28	-0.15	0.26
Globalization Index: 2000	0.40*	-0.03	0.75**
Economic Structure			
Agriculture: Percentage of workforce: 1998	0.53**	0.29	0.72**
Manufacturing: Percentage of workforce: 1998	-0.30*	-0.42*	-0.10
Services: Percentage of workforce: 1998	0.21	0.00	-0.53**
Extent of Social Benefits/Security Program			
Total Social Security Cost as percentage of GDP: 1996 (n: 27)	-0.43*	-0.16	-0.67**
Unemployment benefits as percentage of work salary: 1996 (OECD only, n: 16)	-0.45	-0.37	-0.50*
Role of Women			
Gender Empowerment Measure: Human Development Report 2000	0.10	0.16	0.52**
Female/Male Labor Force Participation Ratio: 1998	0.24	0.00	-0.53**

* Statistically significant 0.05 level, ** Statistically significant 0.01 level

Source:- Global Entrepreneurial Monitor 2001

Two indicators of international trading activity are assessed:

- (A) Total international trade as a percent of GDP, which proved not to be significant (Figure's 6 and 3)
- (B) The A.T. Kearny/Foreign Policy Magazine Globalization Index™.
The Globalization Index is computed by a weighted combination of measures of international trade, the inflow and outflow of capital, personal contacts with outsiders and the Internet capacity of the country. This index, which has been reversed so that large numbers reflect higher levels of globalization, also has a consistent negative relationship with entrepreneurial activity. In other words, countries that are well integrated into the global trading economy have much lower levels of necessity entrepreneurship.
- (C) The third national feature of importance is the economic structure of the host economy. One structural measure is the percentage of the workforce employed in three economic sectors – agriculture - manufacturing and services. - There is a clear pattern among the GEM 2001 countries in this regard, with a significant positive relationship between the level of the workforce employed in agriculture and necessity entrepreneurship, for example, Ireland with 6.9% employed in agriculture and necessity entrepreneurship at 2.75%. In sharp contrast, there is a significant negative relationship between the proportion of the workforce in manufacturing and all three measures of entrepreneurship. The proportion of the labor force in the services sector is also negatively associated with the level of necessity entrepreneurship. Most modern societies have developed a range of programs to provide economic security for their citizens. This includes public programs designed to provide retirement support, health care and unemployment benefits. The cost of such benefits, as a percent of GDP, provides one measure of the state's willingness to reduce ambiguity and uncertainty in the economic life of its citizens. Such a measure for 1996 is available for all but one of

the GEM 2001 countries - the range is from 2% of GDP for India to 34% for Sweden - A measure of the munificence of unemployment payment schemes is available for 16 OCED countries from 1995. The "gross replacement rate" is an estimate of the percentage of full-time wages available to the unemployed and ranges from 21% for the United Kingdom to 77% for Sweden. As shown in Figure 6, the higher the level of national spending on economic security and unemployment benefits, the lower the level of all forms of entrepreneurial activity.

An additional important feature of the GEM 2001 countries is the role of women in the national economy. This is measured by:

- (A) A Gender Empowerment Measure developed with the United Nations Human Development Report.
- (B) The female-to-male ratio in the labour force. The latter measure was provided for 1990 and 1999 as part of the World Bank Development Indicators. During the 1990s, only 10 of 29 GEM 2001 countries reflected any change in the female-to-male ratio in the labour force, and none increased by more than 10%. Both measures reflect the more advantaged status of women in more developed countries, particularly northern Europe, where there are higher levels of female participation in the labour force but less indigenous entrepreneurial activity. The significant negative correlations with necessity entrepreneurship suggest that in countries where women are more active in the labour force the level of necessity entrepreneurship is lower.

Intermediate Conditions

Intermediate conditions consist of several national framework features that can be influenced to produce a more positive climate for entrepreneurship. General framework conditions organised for the annual Global Competitiveness Report sponsored by the World Economic Forum include the newly developed Current Competitive Index and the Growth Competitive Index. Other more direct measures of intermediate conditions include the government's presence in the national economy, the costs associated with registering a new business, measures of household income disparity - income inequality and the availability of venture financing. Correlations between these indices and the prevalence rates for TEA Overall, TEA Opportunity and TEA Necessity are presented in Figures 2, 4 and 5. The global competitiveness indices are complex multi-item measures based on combinations of harmonized national data and responses by business executives to standardized questionnaires. The indices are refined and adjusted to maximize the association with per capita income. Historically, correlations between the indices and measures of economic growth have been strongly negative. This may well reflect the fact that less developed countries grow faster than more developed countries simply because they start from a much lower base as was the case in Ireland in the years 1996 / 2001. This would be consistent with the general pattern among the correlations in Table 5. Almost all aspects of the competitiveness measures have negative relationships with all three measures of entrepreneurial activity, and many are statistically significant. This pattern is particularly true for necessity entrepreneurship.

Table 5 - Global competitiveness indices.

	TEA Overall	TEA Opportunity	TEA Necessity
Global Competitiveness Indices			
Current competitiveness index	-0.37*	-0.09	-0.04**
1) Quality of established firm management	-0.43*	-0.19	-0.65**
2) Efficiency of domestic financial markets	-0.36*	-0.08	-0.58**
3) Technology, R&D national capacity	-0.32	-0.06	-0.62**
4) Efficient, unbiased administrative, judicial institutions	-0.31	-0.02	-0.62**
5) Openness to international trade	-0.29	0.09	-0.71**
6) Quality of physical infrastructure	-0.29	0.04	-0.64**
7) Labor market flexibility	-0.12	0.17	-0.51**
8) Efficiency of government operations	0.32	0.39*	0.11
Growth competitiveness index			
1) Technology transfer capacity	-0.28	-0.17	-0.37
2) Business environment	-0.21	-0.01	-0.39*
3) Economic creativity	-0.20	0.04	-0.48**
4) "Start-up" index (not a direct measure of start-ups)	0.22	-0.06	0.57**
Measurements of Government Presence			
Government employ as percentage of total employ	-0.40*	-0.16	-0.61**
Taxes collected as percentage of GDP	-0.38*	-0.09	-0.68**
Collected income tax as percentage of GDP	-0.06	0.24	-0.53**
Regulation of New Start-ups			
Number of procedures to register new firms: 1995	-0.30	-0.50*	0.35
Start up registration cost index: 1995	-0.26	-0.42*	0.29
Income/Wealth Inequality			
Gini Index: 2001	0.42*	0.25	0.44*
Top 10%/Lowest 10%	0.40*	0.27	0.38*
Access to Capital			
Informal Investors Prevalence: 2001 (18 and older)	0.45*	0.60**	-0.09

* Statistically significant: 0.05 level; ** Statistically significant: 0.01 level

Source:- Global Entrepreneurial Monitor 2001

Another more direct measure of the intermediate framework situation involves the government's role in the national economy. The three measures presented in Table 6 show a similar pattern to that of the competitiveness indices. As a country experiences increases in:-

- (A) The number of government employees as a percentage of the total labour force.
- (B) The total taxes collected as a percent of GDP and the income taxes collected as a percent of GDP, the level of entrepreneurial activity declines. As the government's role increases, the scope of economic activity available for private initiatives is reduced, and fewer individuals will have the skills or motivation to create new businesses. Measures of the costs involved in formally registering a new business have a negative relationship with the level of entrepreneurial activity. Whether a simple count of the number of procedures or an index based on procedures, time

required and financial costs is utilised, the negative association with opportunity entrepreneurship is statistically significant. This result suggests that in countries where the time and costs to register a new business are high, opportunity entrepreneurship will be lower. It is encouraging from an entrepreneurial perspective that in Ireland efforts by government in reforming company registration and compliance laws are been updated on a regular basis.

Entrepreneurial aspirations.

As shown at the bottom of Table 6, growth aspirations also vary dramatically between necessity and opportunity driven entrepreneurs. About 14% of opportunity-driven entrepreneurs expect their new ventures to produce 20 or more jobs in five years (i.e., high-growth firms), seven times the percentage (2%) of high-growth firms expected from necessity entrepreneurship activities. In contrast, 9 of 10 necessity-driven entrepreneurs expect their new firms to provide no more than five new jobs in the next five years.

Table 6 – Growth Aspirations.

	Total	Opportunity Entrepreneurship	Necessity Entrepreneurship	Mixed or Other
Start up, or Nascent Firm (number of cases)	6,609	3,489	2,908	212
Extractive: Farming, Fishing, Hunting, Forestry, Mining	4%	4%	4%	8%
Transforming: Construction, Manufacturing, Transportation, Wholesale, Communications, Utilities	33%	30%	37%	38%
Business Services: Financial, Insurance, Real Estate, Consulting, Business Professionals	14%	21%	5%	13%
Consumer-Oriented: Retail, Hotels, Restaurants, Consumer Services, Health, Education, and Social Services	49%	45%	54%	43%
	100%	100%	100%	100%
Growth Aspirations				
Expect no jobs in 5 years	14%	14%	14%	18%
Expect 1-5 jobs in 5 years	62%	52%	75%	47%
Expect 6-19 jobs in 5 years	15%	20%	9%	18%
Expect 20 or more jobs in 5 years	9%	14%	2%	18%
	101%	100%	100%	101%

Source:- Global Entrepreneurial Monitor 2001

GEM uses five distinct measures to account for the many facets of entrepreneurial behavior. They are:

- (1) The proportion of the population starting new businesses.
- (2) The proportion of the population employed as owner/ managers of new firms less than 42 months old.
- (3) Prevalence rates of the overall - Total Entrepreneurial Activity - TEA index.
- (4) Prevalence rates for opportunity-based TEA.
- (5) Prevalence rates for necessity-based TEA.

The inter-correlations among these measures are presented in Table 6. Four of the five measures are strongly associated: prevalence rates for start-ups, prevalence rates for new firms, the overall TEA index and the opportunity-based TEA. The fifth measure, prevalence rates for necessity-based TEA, does not have a statistically significant relationship to opportunity-based TEA or new firm prevalence rates. This further supports the idea that the motivating influences for people starting businesses out of necessity are distinct from those for other types of entrepreneurial activity. Several other measures of entrepreneurial activity have high and statistically significant correlations with the five measures of entrepreneurship (bottom of Table 6). These include measures of growth-oriented ventures that expect to produce 15 or more new jobs in five years, independent sponsored nascent firms, nascent firms sponsored by existing businesses, and nascent firms initiated by male, female, young and mid-career adults. From the consistently high correlations revealed in Table 5, it is clear that the TEA index provides a good indicator of the overall level of entrepreneurial activity, subject to the unique patterns associated with necessity entrepreneurship.

Table 6 – The Facets of Entrepreneurial Behaviour.

	TEA Overall	TEA Opportunity	TEA Necessity	Nascent Firms	New Firms
TEA Measures					
TEA Overall (#/100 18-64 yrs old)	1.00				
TEA Opportunity (#/100 18-64 yrs old)	0.87	1.00			
TEA Necessity (#/100 18-64 yrs old)	0.67	0.26*	1.00		
Nascent Firms (#/100 18-64 yrs old)	0.92	0.78	0.71	1.00	
New Firms (#/100 18-64 yrs old)	0.82	0.75	0.43	0.53	1.00
Growth Oriented TEA Measures					
Growth Oriented TEA (#/100 18-64 yrs old) ¹	0.73	0.79	0.26*	0.83	0.65
Independent Nascents (#/100 18-64 yrs old)	0.90	0.77	0.72	0.90	0.84
Business Sponsored Nascents (#/100 18-64 yrs old)	0.75	0.73	0.44	0.75	0.54
Male Nascents (#/100 18-64 yrs old)	0.97	0.78	0.70	0.86	0.84
Female Nascents (#/100 18-64 yrs old)	0.93	0.90	0.52	0.90	0.70
Young Adult Nascents (#/100 18-34 yrs old)	0.88	0.67	0.76	0.81	0.72
Mid Career Adult Nascents (#/100 35-54 yrs old)	0.84	0.85	0.38	0.73	0.76

¹Expect 15 or more jobs in five years; *Not statistically significant.

Source:- Global Entrepreneurial Monitor 2001

The Effects of “Family Background” in the Choice Entrepreneurship as a Career.

Social learning theory emphasises the effects of environmental influences on the personality development of the individual through observational learning Bandura (1986). Parents are the early primary role models in the early socialisation of children. Parents affect both the personality development and career attitudes of their children.

Research by Cooper and Dunkelberg (1987) indicates that a high percentage of entrepreneurs are from homes where the parent or parents are self-employed. Scherer *et al.* (1991) in their study of entrepreneurs with parent entrepreneurs concluded that individuals, who have observed a parental role model, develop a profile in which personality and the preference for an entrepreneurial career are seen as complementary.

This research when applied to the West of Ireland and rural Ireland in general would suggest that the stocks of entrepreneurial talent observing a parent entrepreneur might be relatively low in numbers when the high emigration from the areas is factored in - (1.25M. emigrants 1955/95 Ireland). Cooper and Dunkelberg (1987) link the number of graduate entrepreneurs with self-employed parents and this linkage is outlined in Table 7. It is significant that several of the respondents also had brothers and sisters who were running their own businesses. (Scherer *et al.* 1991)

Table 7 - The effects of a "Family Background" in the choice entrepreneurship as a career

	Entrepreneurs in 1991		Entrepreneurs in 1996	
	Number	%	Number	%
Father Self Employed				
• Yes	5	83.3%	9	69.2%
• No	1	16.7%	4	30.8%
Totals	6	100%	13	100%
Mother Self Employed				
• Yes	2	33.4%	4	30.8%
• No	4	66.6%	9	69.2%

Source:- (Cooper and Dunkelberg 1987)

The Effects of Culture and Social Norms in the Choice Entrepreneurship as a Career.

As summarised in Figure 8, the perceived need for role models is greater in the least entrepreneurially active countries, for example, Ireland. Experts agree that role models become particularly important with respect to overcoming the limitations of ethnic and gender discrimination. While the more entrepreneurially active countries were looking for ways to encourage women and minorities to be more entrepreneurial, experts in the least entrepreneurially active countries were focused on efforts to get society to simply accept diversity.

The most entrepreneurially active countries are adept at encouraging an advanced mindset toward creativity and innovation. Those less active have to struggle to even instill the more elementary principles, such as overcoming a social system that breeds dependence and disrespect for self-reliance. Those living in societies with generous welfare benefits may become dependent and lack personal initiative and reduce the level of entrepreneurial activity. More

entrepreneurially active countries, on the other hand, encourage people to act independently and to pursue opportunities for personal gain for example, the USA.

Figure 8 – Culture and social norms.

	Differences	Common Themes
Culture and Social Norms		
More entrepreneurial activity	<ul style="list-style-type: none"> • Encourage women and minorities to be more entrepreneurial • Create mindset of creativity and innovation 	<ul style="list-style-type: none"> • Increase respect for entrepreneurs • Lower fear of failure • Modify perception of wealth creation
Less entrepreneurial activity	<ul style="list-style-type: none"> • Need for role models • Instill elementary aspects of entrepreneurial mindset 	
Financial Support		
More entrepreneurial activity	<ul style="list-style-type: none"> • Improving risk investment culture in the financial community 	<ul style="list-style-type: none"> • Improving ability of lending institutions and equity investors to assess entrepreneurial opportunities • Lower cost of capital for entrepreneurs • Modify inadequate regulation by government of the supply of capital
Less entrepreneurial activity	<ul style="list-style-type: none"> • Improving banking and access to debt capital • Improving entrepreneurs' ability to assess capital needs 	
Government Policy		
More entrepreneurial activity	<ul style="list-style-type: none"> • Increase long term focus in government support of entrepreneurship • Deepen government understanding of entrepreneurship 	<ul style="list-style-type: none"> • Reduce administrative burden of regulatory compliance • Increase fiscal incentives to stimulate entrepreneurial initiatives
Less entrepreneurial activity	<ul style="list-style-type: none"> • Increase coordination in governmental support initiatives • Change government negative perception of entrepreneurship 	

Source:- Global Entrepreneurial Monitor 2001

Financial Support for Entrepreneurial Activity.

The overriding issue that dominated the global landscape concerning financial support for entrepreneurial efforts is the perception of an inadequate supply of risk capital. This includes issues associated with too little capital (i.e., the funding gap), access systems difficult to navigate, inappropriate structures for different stages of venture development and a lack of understanding of how to determine financial needs. Two additional patterns identified in the “experts” opinions involve the reluctance of many financial providers to invest in start-up entrepreneurship activities and the level of ignorance of financial matters on the part of entrepreneurs. Experts around the world believe that the burden of proof is on the investment community to efficiently track and do deals. The entrepreneurs in these countries, while they would prefer easier, quicker and cheaper access to funds, believe the investment community - equity and debt - has difficulty assessing risk in early stage deals. The traditional approach is not appropriate for many new economy deals. Experts agree that the investment community needs to develop more effective ways of evaluating and doing deals. In addition, the investment community needs to address issues of minimum capital requirements, exit strategies, an over-reliance on debt and a general unwillingness on the part of entrepreneurs to share equity.

Experts from all countries consider the cost of capital to too high. Rather than lowering the cost of capital directly, experts from countries with high levels of entrepreneurial activity wanted to see more direct tax relief that would keep the

earnings of the business in the business during its growth phase. Experts from the countries with lower levels of activity expressed greatest concern about costs of capital itself. Across all countries there was a general concern among the experts that their country lacked an investment philosophy that rewarded and encouraged savings and wealth accumulation. All experts expressed equal concern about weakening equity markets around the world and the impact it would have on the entrepreneurial sector.

Government Policies

Experts in all of the GEM 2001 countries identified government regulations as a top priority limiting the level of entrepreneurial activity. Regulatory demands burden burgeoning context it suggests that the government is not aware of the significant contribution entrepreneurship makes. When the national government is supportive through its policies, there tends to be a higher overall level of recognition and support across the country. As such, government policy can play a strong advocacy role for increasing the level of entrepreneurial activity. It is also evident to the national experts that general policies on business practices have a significant impact on the level of entrepreneurial activity and the ability of new firms to survive and prosper. In particular are policies on health care, industry deregulation, competition and fair trade, intellectual property, minimum wage and other labor practices, and export trade. It is the opinion of experts in most GEM countries that governments enact policies and legislation around these types of issues with little or no regard for how those policies impact the small business and entrepreneurship sectors

Patterns Between Countries

GEM 2001 incorporated an in-depth, qualitative assessment of the individual issues in each area to identify thematic differences between countries with high levels of entrepreneurial activity and countries with low levels of activity. For this analysis the countries were separated into two groups based on their overall level of entrepreneurial activity. Countries with entrepreneurial activity equal to or above the median TEA 2001 prevalence rate were labelled "high entrepreneurial activity," while countries below the median prevalence rate were labelled "low entrepreneurial activity." High entrepreneurial activity countries included Australia, Brazil, Hungary, Italy, Mexico, New Zealand and the United States. Low entrepreneurial activity countries included Belgium, **Denmark**, France, Germany, **Ireland**, Japan, the Netherlands, Portugal, Sweden, Spain, South Africa and the **United Kingdom**. Those less active have to struggle to even instil the more elementary principles, such as overcoming a social system that breeds dependence and disrespect for self-reliance. Those living in societies with generous welfare benefits may become dependent and lack personal initiative and reduce the level of entrepreneurial activity. More entrepreneurially active countries, on the other hand, encourage people to act independently and to pursue opportunities for personal gain.

Financial Support for Entrepreneurial Activity

Experts in countries with lower levels of entrepreneurial activity argued that banking and access to debt capital were of special concern. This concern included the impersonal nature with which the banking industry evaluates investments in new start-ups, the strong reliance on asset-based lending and the widely shared, risk-averse investment philosophy. Of particular concern was the inability of banks to appropriately evaluate business deals. In one country this was viewed as the most significant issue contributing to the capital gap for new and promising start-ups, particularly in combination with the “zero tolerance rule” under which any terminated business was viewed as a major banking failure. In less entrepreneurial countries, the experts were also negative about the ability of entrepreneurs to assess capital needs, to identify potential sources of funds and to negotiate deals. Entrepreneurs are, by necessity, more sophisticated in countries with more active entrepreneurial sectors.

Another key difference is the role that new venture performance plays in creating the investment culture of a country. Experts from the countries with high levels of entrepreneurial activity were clearly concerned with the ability to provide investors exit mechanisms and the ability to earn money on investments even when the deals are initially over valued. The experts from the least entrepreneurially active countries argue that there should be more formal controls over the entrepreneurial firms to improve performance. The investment communities in the countries with low levels of entrepreneurship appear to place unreasonable expectations on new firm performance, even while these investors are unwilling or unable to provide the level of management expertise that investors in the highly entrepreneurial countries typically provide.

Government Policies

In countries with more entrepreneurial activity, the experts contend that government lacks a long-term focus and could benefit from a more strategic approach to policy planning (Table 10). The experts from less entrepreneurial countries contend that government policies need to be more closely aligned to the immediate situation and that there needs to be better coordination between programs. The focus for experts from countries with low levels of activity was on what government is doing, while the focus of those from high activity countries was on the underlying philosophy or strategic approach to government’s role in creating the best climate for entrepreneurship. Experts in the more entrepreneurially active countries expressed concern about the permanence of government political power, economic stability and the lack of economic and business skills in the government ranks. Experts from the less entrepreneurial countries worried about better coordination between various regions and programs. While experts in both types of countries agreed that government needed to deepen and extend its understanding of entrepreneurship and its impact on the economy, they differed as to how such an understanding would be beneficial. Experts from less entrepreneurial countries argued that governments need to deepen their understanding of entrepreneurship in order to change the attitudes toward the entrepreneurial sector for a more positive image. Experts from the highly entrepreneurial countries were much more concerned the government understands the impact of its policies on entrepreneurial activity. For experts in the less entrepreneurial countries the issue is image and

awareness, attempting to overcome the general sense of distrust and disrespect policy makers have for entrepreneurs. For experts in the more entrepreneurial settings, the issue is more about policy effectiveness, including policies that reduce the barriers to growth for young emerging entrepreneurial companies. Variation in the national context, then, is well captured by the systematic personal interviews with national experts. While experts from all countries seem to agree on many topics, the problems identified in countries with high levels of entrepreneurial activity are somewhat different compared to those with lower levels of entrepreneurial activity. While this should not be a surprise, it certainly suggests that universal “one-size-fits-all” or “best practice” solutions may not be an optimum strategy for policy development.

5. The European Union and its Small and Medium sized (SMEs) Enterprise Policies

Introduction

Broad consensus is emerging within the European Union on the central role played by small and medium-sized enterprises (SMEs) in growth, competitiveness, innovation and employment. The political will has developed in recent years to promote a more entrepreneurial Europe, as confirmed by the conclusions of the Lisbon European Council of the 23rd and 24th March 2000, which advocates establishing an environment favourable to the creation and development of innovative businesses, in particular SMEs, with the European Charter for SMEs adopted by the Council on 13th June and welcomed by the European Council at Feira on 19th and 20th June 2000.

A Definition of an SME

The abbreviation SME used throughout this thesis refers to the Community definition of small and medium-sized enterprises (SMEs) given in the Commission Recommendation of the 3rd April 1996 addressed to the Member States, the European Investment Bank (EIB) and the European Investment Fund (EIF). The definition of an SME is summarised in the Table 8. It must be applied in all Community or national programmes concerning them. Although use of the definition of an SME is gradually becoming widespread, not all the criteria are yet systematically applied. Consequently, greater discipline is required regarding application of the Community definition of an SME. The definition of an SME used in this thesis is contained in Table 8

Table 8

DEFINITION OF A SMALL AND MEDIUM-SIZED ENTERPRISE (SME)			
Criteria	Micro-enterprise	Small	Medium
Number of employees	< 10	< 50	< 250
Annual turnover or total balance sheet	---	< € 7 m < € 5 m	< € 40 m < € 27 m
Independence	---	No more than 25 % of the capital or voting rights held by one or more enterprises which are not themselves SMEs	

Source:- The EU.

The classification, size and the structure of non-primary private enterprise in the Europe - 19

More than 99 % of the 18 million EU enterprises in the non-agricultural market sectors are SMEs. They employ 66 % of the workforce and generate the 55 % of the total turnover. In the Europe-19 (the EU-countries, Iceland, Liechtenstein, Norway and Switzerland), there are over 20 million enterprises in non-primary private enterprise, providing employment to almost 122 million people. The vast majority of these enterprises are SMEs (defined as enterprises with less than 250 employees) SMEs represent two third of total employment. Within SMEs, total employment is split up roughly equally between micro enterprises - employing less than 10 employees - and small and medium-sized enterprises.

On average, an enterprise provides employment to 6 persons. However, this varies between 2 persons in micro enterprises, and over 1,000 in large enterprises. Turnover per enterprise varies between € 600,000 in SMEs, and € 255 million in large enterprises.

The smaller the enterprise, the smaller its geographical market area tends to be. This shows up in the propensity to export for example, SMEs export only 13 % of turnover, while LSEs sell 21 % of total turnover abroad. However, due to the fact that SMEs also supply goods and services to large "exporting" companies, the indirect exports of SMEs are significant.

The larger an enterprise, the greater its labour productivity and its profitability tends to be. To some extent, however, this is a result of differences in industry structure between SMEs and LSEs. European non-primary private enterprise is relatively small-scaled in comparison with the USA and Japan. Within Europe-19, differences between countries regarding average enterprise size can be explained by economic prosperity, *i.e.* using per capita GDP as an explanatory variable. This relation, however, does not explain differences between the Europe-19, Japan and the USA, instead, differences in economic structure should be called for to explain these differences. Preliminary data for the Candidate Countries show that the enterprise sector in these countries is on average more small-scaled than in Europe -19. However, there is some evidence that there is convergence between the Candidate Countries and Europe-19. The classifications of the non-primary private enterprises are set out in Table 9

Table 9.

**Enterprises in the European Union – distribution by employment size class
data from 1997**

	Business classification by number of employees in % of total					
Size-class	0	1-9	10-49	50-249	> 250	Total
Number of enterprises	49 %	44.1 %	5.9 %	0.8 %	0.2 %	18 802 000
Total employment	9.8 %	24.4 %	18.8 %	13 %	34 %	112 720 000
Turnover	3.8 %	14 %	17.1 %	18 %	47.1 %	18 395 total expressed in € billion

Source:- Office for Official Publications of the European Communities, Luxembourg, n° CA-12-98-174-C. Office for Official Publications of the European Communities,

Is There a Future for Micro Businesses.?

The fifth report of the European Observatory for SMEs was published in 1997. It provides both quantitative and qualitative information on SMEs in the European Economic Area and Switzerland. It dealt mainly with the questions of employment and working conditions and the reactions of SMEs to the challenges of internationalisation and increased competition. It also contained detailed thematic studies on SMEs, the environment and the tourism sector. The report concluded that micro enterprises with fewer than ten employees have the greatest growth potential. The numbers of SMEs in Europe and the USA in 1998 are summarized in Table 10.

Table 10

**Numbers of Small and Medium-Sized Enterprises in Europe and USA 1998
by employee size-range**

Country	Total SME population	Micro (0-9)	Small (10-49)	Medium (50-249)
Austria	285,000	250,800	28,500	5,700
Belgium	530,000	503,500	21,200	5,300
Denmark	150,000	132,000	15,000	3,000
Finland	210,000	197,400	10,500	2,100
France	2,325,000	2,162,200	139,500	23,300
Germany	3,515,000	3,128,300	351,500	35,200
Greece	620,000	598,900	18,600	2,500
Ireland	85,000	76,500	6,800	1,700
Italy	3,940,000	3,743,000	157,600	39,400
Luxembourg	15,000	12,750	1,800	450
Netherlands	450,000	396,000	45,000	9,000
Portugal	690,000	641,700	41,400	6,900
Spain	2,510,000	2,384,500	100,400	25,100
Sweden	385,000	358,050	23,100	3,850
United Kingdom	3,660,000	3,477,000	146,400	36,600
EU 15	19,370,000	18,062,600	1,107,300	200,100
USA	21,550,000	20,520,000	929,000	216,000

Note: As harmonised data is used, the European data presented in this table is not comparable with data from national sources.

Sources:

EU: The European Observatory for SMEs - Sixth Report (1998 data).

USA: US Census Bureau, and SBA Office of Advocacy. Bannock estimates from data on 0, 1-9, 10-19, 20-99, and 100-499 employee size-bands

The Potential and Needs of the Micro Entrepreneurial Sector.

Enterprises with no employees (self-employed) and micro enterprises with 1-9 employees represent 93 % of all EU enterprises and account for 33% of total employment. (Eurostat-Enterprises in Europe – Fifth report) According to the most recent figures available, (Eurostat Statistics in focus - July 2000) very small enterprises (1 to 9 employees) showed the strongest proliferation throughout the economy in 1997 in all sectors, with an overall growth of 5.5 %. In terms of job-creation, this category of enterprises recorded the biggest increase in the EU, with an overall progression of more than 1%. On the contrary, the number of enterprises without employees decreased by 0.8 % thus leading to an overall declining by more than 1% in the number of jobs. Small enterprises contribute to employment expansion in higher proportion than other businesses and employ more women and young workers.

The EU Political Priority in Support of SMEs and Entrepreneurship

The March 2001 report on the activities of the European Union for small and medium-sized enterprises (SMEs) drawn up in accordance with the Council Decision on the Third Multiannual Programme for SMEs states that:

- (1) The developments since the end of 1997 show that SMEs are at the center of European policy-making. First, under the "Luxembourg employment process", governing the European coordination of national employment policies, promoting entrepreneurship amongst women and men is one of the priorities shared with the Member States the follow-up of which is coordinated by the Commission. Under the "Cardiff process", Member States are creating a regulatory environment, which is more beneficial to SMEs. These processes are part of the Broad Guidelines of the Economic Policies.
- (2) The BEST Action Plan, comprising of initiatives to be taken by the Commission and the Member States and implemented with the Member States in order to improve the business environment. In the context of the Structural Funds, which support national initiatives in the assisted regions of the European Union, the Commission asks the Member States to give priority to SMEs in their programmes, with emphasis on equal opportunities for women and men.
- (3) The eEurope initiative, presented by the Commission to the Special European Council of Lisbon (23-24 March 2000), encourages governments to create a digitally literate Europe supported by an entrepreneurial culture, which is ready to finance and develop new ideas. It calls on the Member States to set up user-friendly Internet sites for businesses in order to improve information and dialogue and boost finance for high-tech SMEs.
- (4) The Lisbon European Council gives strategic priority to creating and developing businesses and asks the Commission to submit a communication on an entrepreneurial, innovative and open Europe together with the 2001-2005 Multiannual Programme for Enterprise and Entrepreneurship.

It also calls on the Council and the Commission to:

- (A) Draw up a European Charter for Small Companies.
- (B) To launch a benchmarking exercise on issues such as the length of time and the costs involved in setting up a company and the amount of risk capital invested, and to review EIB and EIF financial instruments so as to redirect funding towards support for business start-ups, high-tech firms and micro-enterprises.
- (D) To exchange experience and good practice on SME policies and support measures launched under the *Concerted Action* heading has been backed by the Council, which encourages the Commission to continue these efforts.

Since the Lisbon European Council, the European Charter for Small Companies has been adopted by the Council (on 13 June 2000) and welcomed by the *Feira European Council* (19-20 June 2000), which also approved the eEurope 2002 action plan. The Commission also adopted, in April 2000, its communication on the challenges for enterprise policy in the knowledge-driven economy and its proposal for a Council Decision on a multiannual programme for enterprise and entrepreneurship (2001-2005), which was adopted by the Council in December 2000. The common factor in all of these initiatives is the drive towards more effective or, better still, the most effective policies that can be aimed at

businesses and very small businesses in particular. Policies are converging in the direction of a better environment and better support for businesses, thanks to coordination mechanisms such as the employment guidelines incorporated in national employment action plans, the guidelines for the Structural Funds reflected in "Member States" programmes, benchmarking and exchanges and transfers of best practice through Concerted Action.

In addition there is considerable interest in the European Union and in Ireland in rural policy with an increasing recognition that rural development is not synonymous with agricultural development. The EU Commission has, over recent years, placed particular emphasis on rural development with special reference to - enhancing the competitiveness of rural areas, maintaining and creating employment, reducing socio-economic disparities between regions, adapting to new market place realities, providing appropriate training, and converting and re-orientating agricultural production potential (CEC. 1988 - Ray. 1998) This concern for rural development was encapsulated in The Cork Declaration (European Conference on Rural Development, 1996), which announced a 10-point rural development Programme for the European Union. It asserted that sustainable rural development must be put at the top of the agenda of the European Union and defined its aims as reversing rural out-migration, combating poverty, stimulating employment, equality of opportunity, responding to growing requests for more quality, health, safety, personal development, leisure, and improved rural well-being. It also asserted that a rural development policy must be multi-disciplinary in concept, and multi-sectoral in application, with a clear territorial dimension.

In practice rural development policies are implemented at national and regional level. In Ireland the White Paper on Rural Development (Department of Agriculture and Food, 1999) commits the Government to the "rural proofing" of all national policies so as to ensure that policy makers are aware of the likely impact of policy proposals on the economic, social, cultural and environmental well-being of rural communities. Among the policies promised in the White Paper is the preparation of a national spatial development strategy to facilitate the balanced sustainable development of the country as a whole. In parallel with these developments there has been a change in entitlement to EU structural funding since January 2001. A significant part of the country is no longer entitled to priority funding as an Objective 1 region. Different levels of support therefore apply to capital projects in different regions. The levels of grant aid for capital projects in Ireland are set out in Table 11.

Table 11 – The level of grant aid in Ireland.

Region (A)	2000	2001	2002	2003	
South East	37%	31%	26%	20%	
Mid West	37%	31%	26%	20%	Plus 10%
South West	37%	31%	26%	205%	Gross for SMEs
Mid East	35%	29%	23%	18%	
Dublin	17.50%	17.50%	17.50%	17.50%	
Region (B)	2000	2001	2002	2003	
Border	40%	40%	40%	40%	Plus 10%

Midlands	40%	40%	40%	40%	Gross for SMEs
West	40%	40%	40%	40%	

Source:- The Department of Enterprise, Trade and Employment 1999

6. **A Comparative Study of Indigenous Entrepreneurship in Denmark, Scotland and Ireland**

Introduction

The objective of this study is compare how micro entrepreneurship and entrepreneurship in general has been nurtured, financed and supported in the northerly regions of Demark, The Highlands & Islands area of Scotland and the Border, Midlands and Western (BMW) areas of Ireland. The “better elements” of the Highlands & Islands and the Danish models will form part of the proposed new way forward for rural micro entrepreneurship in Ireland.

The three regions are predominantly rural with farming as a major employer. Regional development agencies (RDAs) in Denmark and the Highlands & Islands development agency (Yuill and Allen (1982 p1) have responsibility of promoting, developing and nurturing entrepreneurship in their respective countries. In rural Ireland the County Enterprise Boards – Non RDAs – have responsibility for enterprise development, with entrepreneurship development a responsibility of Enterprise Ireland.

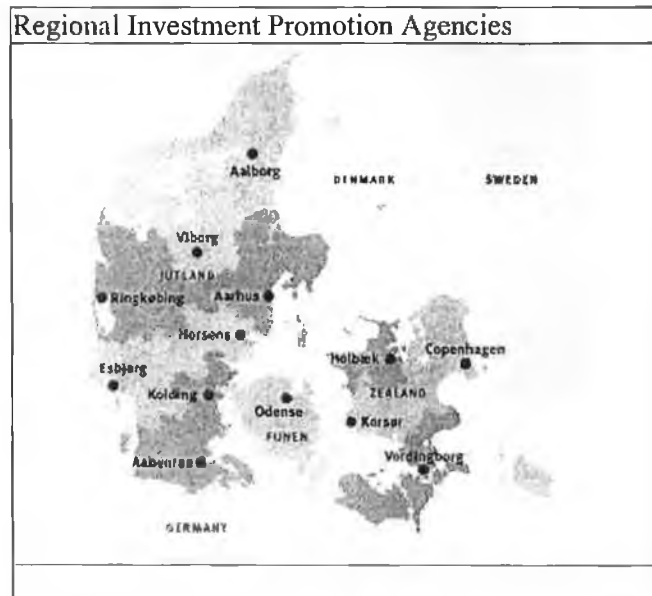
Denmark – Case Study 1.

Entrepreneurial activity in Denmark, at 8.1%, is below the most active GEM 2001 countries, however, it is above the average for European countries.

A relatively high proportion of those engaged in entrepreneurial activity in Denmark 83% do so because of perceived business opportunities. Only 5% are involved for reasons of necessity.

Denmark ranks higher among the GEM 2001 countries in terms of involvement in entrepreneurial activity by men than it does for its level of female participation. More than twice as many men are involved than women in this country.

Map 1 – Locations of the Regional Investment Agencies in Denmark.



Unique National Features

- (1) There are signs of changing social values among young Danes in particular. Entrepreneurship is accorded a higher status than has traditionally been the case. A desire for autonomy and lower levels of concern about income differentials are leading to changes in both employment conditions and interest in entrepreneurial activity.
- (2) Danes generally have a desire to retain control of ideas they perceive as their own. There is a reluctance to raise finances from professional investors who may have an interest in influencing the start-up process.
- (3) Denmark has suffered a "brain drain." As a small country with a high level of general education, many people go abroad.

Regional policy in Denmark

Since the beginning of the 1990s the aims and methods of Danish regional policy have changed dramatically. In the 1960s central government began to operate financial incentives programmes designed to redistribute economic activity within the country by making it more attractive to invest in designated "problem regions" with high levels of unemployment and a limited degree of industrialisation. However, as of January 1991 all central government incentive schemes were terminated, and since then the main components of spatial economic policy have been a host of regional and local initiatives supplemented by European Structural Funds. Policies tend to focus strongly on improving the competitiveness of firms within the region. Sub-national initiatives in economic development can be found everywhere and the preferential treatment traditionally accorded to "problem regions" has been eroded. In many ways it could be argued that Denmark is an extreme example of more general trends in European regional policy, namely the decreasing role of national policy programmes of reactive and redistributive policies in favour of "problem regions" and the increasing importance of a new paradigm in which regional

policy involves many tiers of government in proactive intervention aimed at preventing labour market problems such as high levels of unemployment by making indigenous firms better equipped to operate in an increasingly competitive economic environment.

The current configuration of regional policy is in other words fairly new, having only been in operation for a decade, and hence it is hardly surprising that the institutional arrangements have continued to evolve through the 1990s. The pre 1991 situation reflected the centralised nature of traditional regional policy in that both decisions on area designation and individual grant applications were taken on the national level by central government with only very limited input from regional advisory committees.

At the turn of the century three tiers of government, which are now major actors in Danish regional policy, have shaped the new institutional setting and the outcome is clearly different from the pre 1991 situation. In a number of respects the number of actors have increased, eliminating the effective monopoly of central government on regional policy and establishing a multi-tiered policy network with extensive collaboration between public actors along horizontal and vertical lines. On balance, regional policy has begun to operate in a much more decentralised manner, with sub national actors having a significant input into most aspects of the design and implementation of regional development programmes and projects.

Regional Development in Denmark.

The nature of the regional problem in Denmark reflects the economic history of the country, a history that sets it apart from its neighbours. Contrary to the other Nordic countries no large sparsely populated areas dominated by primary production existed. Unlike Britain to the West and Germany to the south, widespread industrialisation occurred late. With the exception of Copenhagen - and a few provincial towns such as Aalborg and Horsens - manufacturing as a major economic activity only took off in the late 1950s and this economic pattern had important bearings on the existence and perception of the regional problem.

In the 1950s and 1960s regional disparities were primarily of an urban-rural nature, with a double-periphery situation where the west of Zealand was oriented towards the capital Copenhagen and the west of Jutland functioned as a backwater of economic and administrative centers on the east coast of the mainland. The emergence of a spatially concentrated unemployment problem was triggered by the rapid mechanisation of the export-oriented Danish agricultural sector in the 1950s, creating levels of unemployment in the worst hit regions, for example, North Jutland) which were two to three times the level in Copenhagen. This situation was perceived as entailing risks, for example, depopulation of the periphery, congestion in Copenhagen and other urban areas to which redundant labour was gravitating. Hence a policy of peripheral industrialisation on the back of central government would seem to be able to at least partly alleviate this problem, and the first Regional Policy Act was approved by parliament in 1958.

Nearly 40 years after the introduction of regional incentives in Denmark, the overall picture of regional disparities has been transformed beyond recognition. From an economic perspective the two key developments have been the marked decline of many of the traditional industries in the Copenhagen area and the concurrent growth of manufacturing in some of the previously disadvantaged areas, for example, the West Jutland textiles complex, the strong presence of electronics around Aalborg and the rise of a number of mono-industry towns like Billund (Lego), Nordborg (Danfoss) and Bjerringbro (Grundfos). Thus, around 1980 the level of unemployment in the worst hit region was 1.6 times that in Copenhagen, yet by the early 1990s the gap had decreased to 1.15 times. In terms of industrial production the situation has also been reversed in quite a dramatic fashion: while the Copenhagen area lost roughly half of its manufacturing jobs from 1960 to 1990. Formerly lagging parts of West Jutland are now far and away the leading regions with regard to employment in manufacturing and although the Copenhagen area maintains its lead in terms of average level of income, the weakest parts of the country, such as rural areas in the southern-most islands and the far north west of Jutland, are still on 85% of the national average. Add to this the spatially equalising effect of public sector services in a Scandinavian welfare model and it is hardly surprising that the aggregate result has been a significant reduction in inequality between the regions.

United Kingdom / Scotland.

The United Kingdom has a level of entrepreneurial activity of 7.7% that is slightly below the average for the 29 GEM 2001 countries and little changed from the level in 2000, however, 2.6% of the adult population invests in start-up businesses. This is below the GEM 2001 average of 3.1%. The participation of women in entrepreneurial activities relative to that of men is low in the United Kingdom. The rate for women is less than one-third that for men.

Unique National Features

- (1) In terms of the general business and regulatory environment, conditions in the United Kingdom are conducive to entrepreneurship. The United Kingdom ranks lowest in the OECD index of barriers to entrepreneurship, which measures factors such as permits, licenses, the complexity of rules and administrative burdens.
- (2) The United Kingdom has the most highly developed venture capital market in Europe, representing 37% of total funds raised in Europe.
- (3) The government has put entrepreneurship at the heart of its business policy agenda with a focus on reducing regional disparities in start-up rates and removing barriers so that opportunities are available to all regardless of background. Policy proposals include reform of bankruptcy and insolvency laws, changes to capital gains tax and the encouragement of entrepreneurship through education.
- (4) There remain relatively wide regional variations in entrepreneurial activity throughout the United Kingdom.

Key Issues

- (1) The main issue of concern expressed by industry experts is that of cultural and social attitudes to entrepreneurship. Despite an improvement over recent years, partly due to the “dot-com” phenomenon and positive government rhetoric, prevailing attitudes remain negative toward wealth creation, self-employment and business failure.
- (2) Other barriers to entrepreneurship are the availability of financing, particularly for certain groups in society, individual risk aversion and government regulation. There is also concern about a lack of skills and growth aspirations “among” entrepreneurs, a non-supportive education system and low levels of basic education.
- (3) Areas in which the United Kingdom is seen as successfully supporting entrepreneurship are the development of the venture capital industry, macroeconomic stability and increased levels of technology transfer from universities.

Scotland – Case Study 2 - The Highlands & Islands.

Map 2 – The Highlands & Islands of Scotland.

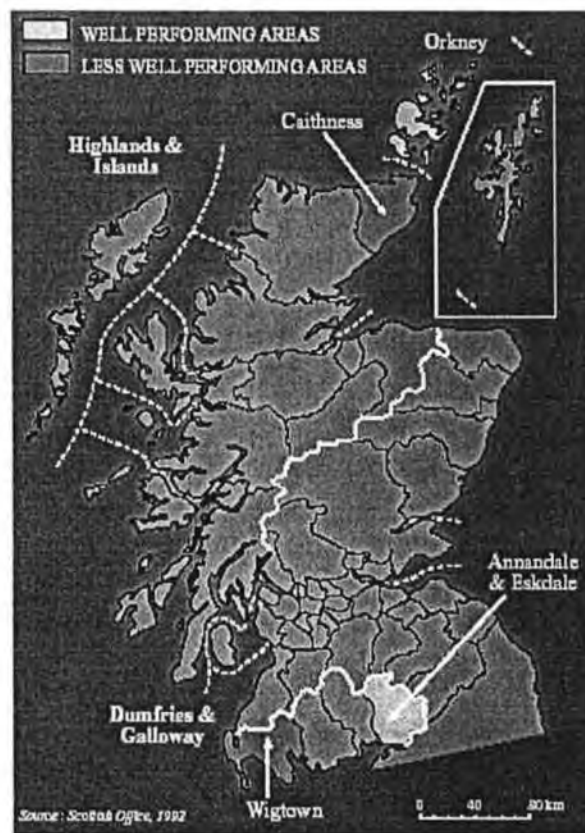


Table 12 - The Socio economic Characteristics of the Highlands & Islands

The Highlands & Islands

The “Highlands and Islands” refers to a sparsely populated and fragmented region, the northern most half of the Scottish landmass, including its insular periphery. The phrase is based on the definition of crofting counties in the “Crofters” Act of 1886.

The Highlands and Islands (hereafter referred to as H&I) accounts for half the total Scottish landmass. In general, the region is sparsely populated and it is considered to be highly peripheral, both in a UK and European context. Between 1994 and 1999, the region was subject to the highest level of EU funding through the Objective 1 programme. The region has been designated Transitional Objective 1 for the period 2000 - 2006 and has a total land area of 39,050 sq.km. This represents one sixth of the UK landmass and more than the landmass of Belgium. However, the region has less than 10% of the Scottish population and 96% of the region’s inhabitants live within 20km of the coast. The vast majority of the region is rural, with much of it described as remote rural. Inverness, the regional capital has a population of 65,000, and has grown rapidly in the last 25 years. The region is one of the most peripheral areas of the EU and it is widely perceived as being remote and underdeveloped and as a region requiring long-term support from urban areas for its survival. A Scottish enterprise survey is summarised in Table 13.

Table 13 – The Scottish Enterprise Survey.

	The Highlands & Islands
NUTS level	NUTS 2
Policy Status 1994 / 1999	Objective 1
Policy Status 2000 / 2006	Objective 1 / Transitional
OCED degree of peripherality	Predominatly rural
Size	39,050 sq. Km
GDP 1996 (UK = 100)	78
Population (1998)	370,376
Population density (sq. Km)	12
% Population change - 1981 / 1991	1.2%

Scottish Enterprise Survey (SES)	
12% of population aged 15+ self-employed or run own business	18% of population aged 16-64 self-employed or active owner of / partner in business
12% of population believe could run own business and hope to do so	6% of population aged 16-64 have recently thought about starting own business or becoming self-employed and plan to do something about it within the next 2 years or so
11% would like to run own business and believe could do so but don't have a business idea that is likely to work	2% of population aged 16-64 have recently thought about starting own business or becoming self-employed but don't have a business idea
35% of population do not particularly want to run own business, but believe would be capable of doing so	46% of population aged 16-64 have not recently thought about starting a business or becoming self-employed but believe they would be capable of running own business or becoming self-employed
27% of population do not particularly want to run own business and do not believe themselves capable of doing so	14% of population aged 16-64 have not recently thought about starting a business or becoming self-employed, and do not believe themselves capable of running own business or becoming self-employed

The Economy of The Highlands & Islands

In terms of employee size, the structure of the Highlands and Islands economy is dominated by small to medium sized enterprises, with almost nine out of ten businesses in the area employing 10 or less people, compared with 82% nationally.

The economy of the H&I has always been centered on a narrow range of sectors, with a high dependence on seasonal industries such as agriculture, forestry and tourism. A specific feature of agriculture in some parts of the H&I is the practice of crofting, dating from around 1800. Land was divided by landowners into "crofts" (or "lots") that were often too small to enable crofters to make a living solely from working their land, especially as rents were often high. Crofters were therefore forced to find employment elsewhere. Crofting has seen somewhat of a renaissance recently, with many young people now involved, encouraged by organisations such as the Scottish Crofters Union, which has served the interests of Scotland's crofters since 1986. Crofting remains an important part of many communities in the H&I, underpinning their social and cultural life. Nevertheless, more often than not, crofters have additional employment outside the croft, for example, in tourism, as incomes from crofting alone are not sufficient. This highlights the strong relationship that exists between agriculture and tourism in the H&I. The tourist industry has been a vital part of the H&I economy for a long time, as people have come to the region, principally to enjoy the quality and beauty of the landscape and culture. Whilst this leads to challenges, not least a high number of seasonal, part-time and low-paid jobs, the industry brings a huge amount of income -estimated at £500million per year - and it has helped to develop a high profile for the region and a strong image, which is reflected in the marketing of many regional products with the 'Highlands' label. The H&I have long been regarded as a dependent region requiring policy and financial support from urban areas for its survival. However, in the last two decades, in the face of declining agricultural

and limited manufacturing employment, the region has successfully attracted “new” sectors, for example call centers.

Ireland

Case Study 3 - The Border, Midlands and Western Regions. (BMW)

An overview

The National Development Plan 2000-2006 identifies balanced regional development as a key objective to be achieved over the period of the Plan. While the positive impact of the unprecedented economic growth experienced over the period 1994 to 1999 in Ireland is evident across the country as a whole, the rapid pace of this growth and the pattern of development, as manifested in increasing urbanisation and clustering of economic activity, have raised issues, particularly in relation to balanced regional development and the distribution of national economic and social progress. The key issues in this regard are:

- (1) The growth and expansion of the Greater Dublin area, giving rise to problems of congestion and housing shortage
- (2) The rapid growth of major urban centers outside Dublin and their role in driving the development of their hinterlands and providing a counter-balance to Dublin
- (3) The implications of these trends for smaller towns and villages and rural areas
- (4) The social, economic and environmental consequences of these trends
- (5) The role of infrastructural provision in facilitating and promoting development at regional, as well as at national level.
- (6) How the investments needed to underpin sustained economic progress at the national level might, at the same time, create more effectively advance balanced regional development
- (7) The relationship between economic and social planning, physical planning and land use policies.

Regionalisation.

The regionalisation arrangements negotiated by the Irish authorities in the context of the Agenda 2000 Agreement, namely the designation of the country into two NUTS II Regions, were part of the response to these issues. The new Regions are:

- (A) The Border, Midland and Western (BMW) Region which has retained Objective 1 status for Structural Funds for the full period to 2006
- (B) The Southern and Eastern (S&E) Region, which will qualify for a six-year phasing out regime for Objective 1 Structural Funds up to the end of 2005. The Government's objective for regional policy is to achieve balanced regional development in order to reduce the disparities between and within the two Regions and to develop the potential of both to contribute to the greatest possible extent to the continuing prosperity of the country. Policy to this end will be advanced in parallel with policies to ensure that development is sustainable, with full regard to the quality of life, social cohesion and conservation of natural and cultural heritage.

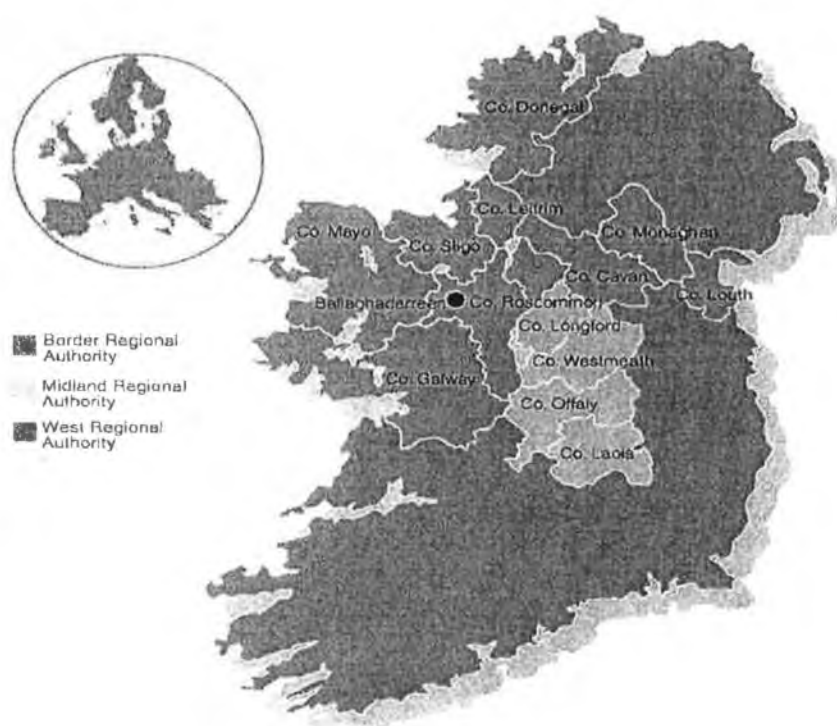
The specific designation of the two Regions is part of the process of achieving more balanced regional development, in that it enables a clear focus on the key issues facing each of the Regions and allows for a differentiation and targeting of policies in a manner which recognises their key attributes and needs. In particular, it has highlighted the differentiation in the level and rate of development between the more prosperous S&E Region and the BMW Region and has thus emphasised the priority, which needs to be afforded to the latter in terms of investment and development about the Region

The Border, Midlands and Western areas of Ireland

The B.M.W. Region comprises the three constituent *NUTS III Regional Authority areas, covering thirteen counties in total.

* NUTS Nomenclature Units for Territorial Statistics.

Map 3. The Border, Midlands and Western areas. (BMW)



Demographic Profile

The BMW Region is sparsely populated and essentially rural in character. While it covers 47% of the state's landmass, it only contains 27% of the population. Its weak urban base is exemplified by the fact that only 32% of its population resides in concentrations of more than 1,500 people compared to the national average of 58%. The region has only one major urban centre, namely Galway.

The region has suffered from high levels of outward migration as the local population had to move outside of the Region in search of employment opportunities. In this regard it is notable that the population increase in the period 1991 to 1996 averaged 2.8% for the state as a whole while the BMW Region only experienced a 1.7% increase in population. Further to this, the

region has a lower proportion of its population in the active working age cohorts, with high levels of age dependency as a result. Some of the larger towns in the Region have experienced significant population growth in recent years, however, much of this growth would appear to arise from a reduction in the number of people engaged in agriculture and greater urbanisation and centralisation of activity.

Economic Profile

It is notable that while the Region accounts for 47% of the landmass and 27% of the population, it only accounts for 21% of Gross Value Added (GVA) - a measure of economic activity. - While the level of GVA has improved in nominal terms - growing by over 7% per annum between 1991 and 1996 - it has deteriorated relative to the State as a whole. On a sectoral basis, the prominence of primary production in agriculture, forestry and fishing is reflected in the fact that the area accounts for 35% of total National GVA in this sector, a share which has nominally increased over the period 1991 to 1996, while its share of National GVA in Industry (19%) and Services (18.7%) has actually declined over the same period. Virtually all of the land in the region is classified as "severely handicapped" or "less severely handicapped". There is also a high dependence on income supports and other transfer payments in the region. Industry - including building/construction - accounts for 40% of output in the Region, equivalent to the National average. Services are by far the largest single sector at 51%, and are growing further in importance.

Despite the economic handicaps the Region suffers, it does possess considerable economic potential. It is an area with a relatively unspoilt environment, very little congestion and many spots of outstanding natural beauty, particularly its mountains and coastline. It has the nucleus of a strong urban structure and the possibilities of arresting rural decline. All of these attributes are factors of critical importance to economic and social development, in particular the incubation or attraction of modern industry and services.

Employment and Earnings

The labour force in the BMW Region represents nearly 25% of the national labour force. However, it shows significant differences as regards employment levels, skills/qualifications, female participation rates and earnings relative to the total labour force. Employment levels in the Region rose by 15% in the period 1986 to 1996, compared with an increase of over 20% in the state as a whole. Unemployment rates remain higher, particularly along the western seaboard. The proportion of the labour force that had completed second or third level education is 44% in the region compared with 52% in the Southern and Eastern Region. The proportion of the labour force employed in unskilled occupations is higher in the region and the percentage employed in professional occupations is lower than the National average.

Educational Attainment

The level of educational attainment among those residing in the Region is illustrated in the fact that 42% of the Region's population had obtained primary level education only, compared with 34% for the State as a whole. It is notable that, at 11%, the Region has a higher university level participation rate among school leavers than the state as a whole, at 10%. It is also notable that while the Region provides 28% of national university students, only 13% of graduates coming from the BMW Region are employed within the Region. The lack of suitable job opportunities for skilled labour along with the lower level of economic and social development in the Region would appear to be significant factors in the choices made by graduates.

Disadvantaged Areas

In spite of the economic progress of recent years, pockets of poverty and disadvantage are evident throughout the Region. Within the B.M.W. Region, the larger urban areas of Galway, Drogheda and Dundalk exhibit some of the key symptoms of extreme disadvantage in terms of the level of unemployment and other relevant indicators. In addition, more remote rural areas such as the Connemara and Donegal Gaeltachts, Inishowen, Leitrim, West Mayo and parts of Roscommon and Cavan display the manifestations of rural deprivation in terms of high age dependency rates, low educational and skills attainment, concentrations of non-viable holdings and unemployment.

Infrastructure

The B.M.W. Region is largely rural with a widely dispersed population and heavy reliance on employment sectors, which by their nature are small-scale and dispersed, for example, Agriculture, Fisheries, Aquaculture, Tourism etc. Consequently, the Region is very dependent on locally provided and maintained infrastructure. Commuting in the region generally involves relatively longer distances, largely along poorer quality non-national roads, requiring private means of transport because of the lack of a satisfactory regional and local public transport system. This is reflected in the fact that only 4% of the Region's population rely on public transport to get to work compared to 11% for the state as a whole. All but two of the country's significant commercial ports, Galway and Sligo, are in the Southern and Eastern Region. There is a strong case for investment in telecommunications infrastructure in the B.M.W. Region.

SWOT summary of the region

In summary, on the positive side, the BMW Region is characterised by:

- (1) A flexible and adaptable work force, which is generally well trained and skilled, though not well endowed in regard to third level qualifications
- (2) A good base for enterprise development based on natural resources
- (3) A relatively high quality environment
- (4) A lack of congestion generally resulting in less pressure on the physical infrastructure.

Countering this, however, the Region has:

- (1) A weak urban structure, generally poor physical infrastructure and, with the exception of its eastern part, a lack of efficient access to the main cities and ports
- (2) Congestion within the main urban centre of the Region and some level of congestion within the more frequented and developed tourist areas
- (3) A limited industrial or services base with GVA across all sectors lower than the national average
- (4) A lower level of employment growth than the national average
- (5) Poor agricultural land and weak agricultural structures
- (6) Few R&D oriented companies and a relatively small share of national third-level infrastructure
- (7) The largest proportion of those citizens who would be classified as rural population.

A comparative analysis of business incentives at the micro level in Denmark, Scotland and Ireland.

Table 14 sets out a package of incentives required by “first time” entrepreneurs at the pre and start up phase of a project. The Table clearly demonstrates that an entrepreneur would find it somewhat less difficult to get their projects “up and running” in The Highlands & Islands areas of Scotland or in a rural area in Denmark than in Ireland. (Table 15) Restrictive stipulations in the CEBs criteria for grant aid for example, *“The project must not compete with or mildly threaten the survival of similar or broadly similar projects in existence within the county*

	Ireland	Scotland	Denmark
Mentors	Yes	Yes	Yes
Management Training	Yes	Yes	Yes
Loans	No	Yes	Yes
Equity	No	Yes	Yes
Bank Guarantees	No	Yes	Yes
Management Training Grants	No	Yes	Yes
Rent Grants / Subsidy	No	Yes	Yes
Skills Training / Business skills	No	Yes	Yes
High Quality Business Advice	No	Yes	Yes
Total – Yes’s	2	9	9
Total – No’s	7	0	0

at the time of the grant application” is a major impediment to the stimulation and fostering of enterprise and entrepreneurship at the start up phase and would prevent many entrepreneurs from obtaining state assistance

Table 14 – Incentives for “First Time” Entrepreneurs.

Source Mc Fadden 2002

	Ireland²	Scotland³	Denmark⁴
Management Training Grants	No	Yes	Yes
Rent Grants / Subsidy	No	Yes	Yes
Interest Grants	Yes	Yes	No
Capital Grants	Yes	Yes	No
Employment Grants	Yes	Yes	No
Feasibility Study Grants	Yes	Yes	No
Mentors	Yes	Yes	Yes
Technical Assistance Grants	Yes	Yes	No
Loans	No	Yes	Yes
Equity	No	Yes	Yes
Bank Guarantees	No	Yes	Yes
International Marketing Assistance	No	Yes	Yes
Marketing Management Training	Yes	Yes	Yes
Buildings	No	Yes	Yes
Skills Training / Business skills	No	Yes	Yes
Management Training	Yes	Yes	Yes
High Quality Business Advice	No	Yes	Yes
Basic Business Advice	Yes	No	No
Access To Buyers and Sellers Databases	No	Yes	Yes
Access to Professional Advice And Help	No	Yes	Yes
Assess To Low Cost Communications	No	Yes	Yes
Access to High Speed Digital Network	No	Yes	Yes
Access to Office Space	No	Yes	No

State Aid for Enterprise and Entrepreneurial Activity at the Micro and SME Level in Ireland, Scotland and Denmark is Summarised in Table 15.

Table 15 – State aid for micro entrepreneurship.

Sources:- Mc Fadden (2000) - TIC. (Denmark) - CEBs (Ireland) - Highlands & Island Enterprise Agency (Scotland)

Source:- Mc Fadden 2002

Conclusions

The West of Ireland and The Highlands & Islands areas of Scotland are rural, with very low population densities, relatively low income persons with low to

² Assistance available from Enterprise Ireland and the CEB's only.

³ Scotland - Small businesses in Scotland can in most instances avail of the DTI

"Bank guarantee loan scheme" or avail of loans from the Highland & Island.

⁴ Assistance available from TIC Denmark

moderate educational levels largely dependent on part time agriculture and other low technology methods of earning a living.

Theories and politics “normally” regard rural districts as residuals or derived entities from towns and often as areas that are distressed as a result of the development and decline of agriculture. The general point of view is that rural districts are to be supported as a socially determined effort to secure a certain subsistence level.

A policy for the development of rural districts ought therefore not only be a question of support to agriculture or a kind of preservation policy, but it ought to be supplemented by a policy for regional innovation with the involvement of “locally grown” entrepreneurs, the EU and local government actions. The development of indigenous entrepreneurship within the regions at the micro and small business level will to an increasing degree depend on the rural development policies, part financed and directed by the EU. It will become increasingly difficult to distinguish enterprising persons from entrepreneurial persons in that both categories of persons will at the micro business level be classified as rural business promoters.

At the small business level the graduate entrepreneur is, and increasingly will be at the heart of indigenous entrepreneurship especially in Ireland and Scotland and to a much lesser degree in Denmark in the next ten to fifteen years. A policy of relatively attractive financial packages of incentives will be the key to developing, nurturing and growing those individuals. Micro business owners with entrepreneurial flair and the “will” to succeed will continue to flourish with or without state financial incentives, however, others caught in the trap of “promoters of small rural businesses” and denied the financial incentives available to graduate entrepreneurs are unlikely to flourish.

Ireland

In Ireland the development agencies in Ireland are to a large degree under the control of central government. This is a most unsatisfactory situation in that the small number of relatively densely populated areas can through local public representatives decide where and how resources are allocated - which usually means that resources are not allocated to sparsely populated rural areas, - for example, at the micro business level there are no “area specific grants” and the criteria for eligibility for grant aid is similar throughout the whole country. In addition seed capital at the micro level is virtually non-existent with loan guarantees almost totally non-existent.

Overall, the current structure and financial resources of the County Enterprise Boards (CEBs) do not allow sufficient flexibility to create imaginative and innovative solutions for entrepreneurial growth at the micro and small business level.

Scotland

The Highlands & Islands Enterprise (HIE) and Scottish Enterprise (SE) are Regional Development Agencies and are charged with the specific responsibilities of stimulating self sustaining economic development, the growth of enterprise, securing the improvement of the environment, encouraging the creation of viable jobs, reducing unemployment and improving the skills of the Scottish workforce. The delivery of the integrated enterprise and training services is sub-contracted by SE and HIE to a network of 22 LEC's.

The design of these bodies serves two functions.

- (1) To explain, justify or to attempt to change prevailing political arrangements within a community.
 - (2) To provide plans for public political institutions.
- (A) This is achieved by involving the private sectors in public policy thereby ensuring greater emphasis on the central by the private sector. This arrangement is complex and makes a policy of "unity of purpose" almost impossible to achieve when problems requiring a solution at local level are required to have an element of central policy as part of the solution.
 - (B) Economic development and job creation are achieved at relatively very low levels of grant aid, with the private sector providing between 60% and 75% of the total finance. The emphasis on the payment of low levels of grant for each job created is difficult to understand given that sales and marketing, co-operation and networking among small companies are also less than adequately financed from public funds and appear to have a low priority status.
 - (C) A pro-active approach with a policy of maximising local competitive advantage with greater emphasis on sales and marketing should be a priority. This approach need not require significant amounts of public money but would however, require significant amounts of leadership, vision and less bureaucracy from the HIE and SE.
The HIE and SE appear not to have a policy of growing, nurturing or developing entrepreneurial talent and appear to deliver incentives and training under the banner of enterprise development or rural development. A more pro-active approach to entrepreneurial training and education is long overdue.
 - (D) A key feature of the HIE support for entrepreneurship is the availability of the "Loan Guarantee Scheme" for working capital purposes while capital grant aid at the micro level is close to Irish levels

Denmark

It is concluded that:-

- (1) Although the regional development organisations exist as independent and highly specialised bodies, they appear to be implementing a policy of networking in an efficient manner. It was also concluded that the provision of consultancy (£1,000) at the business plan stage significantly increased the chances of projects receiving financial backing and the very important first sales.

- (2) The bottom up regional policy in Denmark could be best described as one where regional government takes the general political responsibility while policy implementation is left to an array of external bodies.
- (3) While regional government has gained significantly in importance over the last decade, it has, and is challenged by local initiatives partly financed by the EU. The challenge from EU initiatives is set to increase in the new 'Europe of The Regions' and in the era of "Agenda 2000."
- (4) It is also concluded that the almost total absence of direct financial aid in the form of non-refundable grants has not significantly hindered the development of entrepreneurship at the micro and small business level.
- (5) Modest amounts of seed capital and loan guarantees are a feature of the supports available at the micro level.
- (6) Business supports are delivered by the Technological Information Centres. They are the small and medium sized business impartial and free advisers located throughout Denmark. TIC provides companies with local access to information concerning among other things the possibilities offered by industry and trade promotion activities of the Ministry of Industry. Its primary focus is "The Business Development of Business."

The economic Background within which the Technological Information Centres (TIC Denmark) Operates.

TIC Denmark was greatly helped by the ability of Danish small companies to co-operate and develop niche markets. This is mainly achieved by joint ventures and ever increasing specialisation, cost competitiveness with Germany, high use of modern technology, highly skilled and well-educated workforce and most importantly the vibrant small business culture which was created to a large extent with the aid of the regional development agencies.

The policies employed in achieving TIC objectives are:-

- (1) A single development agency.
- (2) A network of "know how" centres.
- (3) Accredited laboratories in a close to the main food producing areas.
- (4) Formal and informal co-operation between companies producing complementary products and services.
- (5) The creation of science parks for high technology companies and free trade zones.
- (6) The creation and developing of a suitable background for Danish companies to overcome barriers to increased exports.
- (7) The supporting of new schemes by Danish companies in exports markets.

The key elements of the comparative study that have relevance for micro entrepreneurship in Ireland

The elements are:

- (1) Formal and informal co-operation between companies producing complementary products and services in addition to a micro business cluster policy.
- (2) A loan guarantee scheme with many of the elements of the UK model included.
- (3) "A project specific" seed capital scheme for micro businesses.
- (4) Business supports to be delivered by professionals.
- (5) Funding for the preparation of business plans.
- (6) A scaling back of capital grants in favour of equity participation by the proposed new regional development agencies. (RDAs)

While elements 1-6 are important for rural micro entrepreneurship in Ireland we believe that the employment of a modified version of the Danish business culture of "small is beautiful" could be the catalyst for change in Ireland.

7. Irish Rural Areas – Trends and Assumptions

Are peripheral areas of Europe socio-economically viable in a situation of free trade in which Europe will have to maintain its competitiveness with other developed areas of the world? There is a hypothesis that in a context of free trade the "core" of Europe will become the locus of most investment (O' Hearn 1993). This hypothesis implies that remote rural areas are doomed to decline and that any attempt to maintain these areas by investment or transfers from more prosperous areas will lessen, if not undermine, the competitiveness of Europe as a whole. In contrast the The Cork Declaration – "A Living Countryside" (1996) has stated, "Rural areas and their inhabitants are a real asset to the EU, and have the capacity to be competitive." This research on rural micro entrepreneurship proposes to test both hypotheses.

The Irish Government's objective for regional policy is to achieve balanced regional development in order to reduce the disparities between and within the two Regions - East and the West of Ireland - and to develop the potential of both to contribute to the greatest possible extent to the continuing prosperity of the country. Policy to this end is advancing in parallel with policies to ensure that development is sustainable, with full regard to the quality of life, social cohesion and conservation of natural habitats, however, the future economic viability of Irish rural areas, up to and beyond 2010 will be influenced by:

- (1) The macroeconomic forces transcending the farm and non-farm economy
- (2) The location of work and travel to work trends in non-farm employment.
- (3) The changes in policies.

The driving forces of the market economy will induce continued rationalisation in production agriculture, restructuring in the agri-food industry; a poor possibility of more rural employment generated by multinational enterprise, liberalisation of markets and trade, and continued advances in information and communications technologies. Market forces will be modified to some extent by policies dealing with environmental concerns and by measures based on principles of equity and on new concepts of what constitute "public goods." Against this background, a possible scenario of future change in the Irish rural economy was developed under four headings:

- (A) The number of farms and the size of the farm labour force
- (B) Agricultural structures
- (C) Employment and enterprise
- (D) Population and settlement

Assuming that the 1991-1998 average annual percentage changes for each of the main farm size categories will hold until 2010, the number of farms by then would be 118,300 - compared to 146,300 in 1998. On the assumption that a number of influences, for example, pressures for greater competitiveness and attractions of non-farm employment will accelerate the decline, the total number of farms could fall to 100,000 by 2010.

Assuming a continuation of the trends of the 1990s the numbers working in agriculture would fall to 103,000 in 2010 - compared to 130,000 in 1999.

In regard to the subsidisation of farm incomes, the likely evolution of EU policy will be towards attaching progressively more restrictive conditions to any payments provided. There may be a permanent system of area payments based on rigorously defined agri-environmental quality standards.

Area-based subsidies will militate against land sales and thus hinder the expeditious scaling-up of farm size essential for viability in a commercial farming context. On the other hand, the amounts of land being rented and leased are likely to increase. Increasingly, the farm operator provides labour input on farms, with declining contributions from other family members. This trend towards the "one-person-farm" will increase. As commercial farming becomes confined to smaller numbers of farms, dairying and tillage will be more concentrated in core areas of the south and east. The expansion in forestry and environmentally oriented farming in other regions of the State will reinforce trends towards regional specialisation.

Although employment on farms will continue to fall there are optimistic prospects for the expansion of non-farm employment in rural areas. A critical assumption is that the Irish economy in general will continue to grow, even if at lower rates than prevailed in 1994-1998. However, the geographical spread of new employment growth is likely to favour the larger centres of population - upwards of 5,000 persons - This view is based on the established trends in the location of the grant-aided enterprise, the changing composition of investment, which leads to definite preferences for particular topics of location, and the expansion of services employment.

Trends in the Location of the Grant-aided Enterprises in Ireland.

Given the long-term decline in the farm labour force, the availability of other employment is an important factor in rural development. Since the 1950s Irish industrial policy has been concerned about the spatial distribution of industrial enterprise and employment opportunities. It has explicitly encouraged - with varying degrees of success - foreign and indigenous companies to locate in the least industrialised, least populated and most rural regions of the country. While the emphasis on the rural component of the policy has shifted over time, considerations of regional balance have remained (Meyler and Strobl, 2000).

Despite this, the data suggests increasing divergence of enterprise expansion rates between different regions of the country. For example over the past decade employment in manufacturing and internationally traded services increased by over 75% in the Mid East Region and by more than 50% in Dublin. Over the same time period the national average increase was approximately 40%. The Border and Midland regions recorded only half this growth-rate, each only experiencing a 20% increase. At the end of 1999, Dublin had the highest concentration of grant-aided manufacturing firms (2,389), followed by the South West, which includes Cork city (1,324). By contrast, the lowest numbers of firms were recorded for the Midland and Mid West regions (452 and 764 firms respectively).

Part of the explanation lies in the fact that in recent years factors other than policy incentives have become increasingly important in influencing the locational decisions of companies. These include access to skilled employees, availability of support and infrastructural services, physical and electronic accessibility, local amenities and quality of living standards. Locations meeting these requirements are better placed to attract entrepreneurs. Also, the areas most likely to meet these criteria tend to be the larger urban centres.

Despite the policy emphasis placed on encouraging dispersal, little is known about the spatial dynamics of enterprise activity at sub-regional level. In particular, little systematic information is available regarding the geographical consequences of policy interventions to date. We address this gap by analysing the spatial distribution of grant-aided manufacturing enterprise and define rural settlements as:

“Settlements with populations of less than 1,500 with *rural enterprises* and firms located within the settlements.”

In addition one may ask:

- (1) How much of Ireland's manufacturing enterprise is located in rural areas?
- (2) What are the characteristics of rural enterprise and how do they compare to those of enterprise in the urban areas?
- (3) Does the national share of rural enterprise vary by region, by county and / or by degree of rurality?
- (4) How have rural areas fared over time in terms of the distribution of the *gains* in new firms and new jobs?

The analysis is based on data supplied by Forfás, supplemented by census information and covers the period 1981 to 1999. Data relate to all known active manufacturing and internationally traded service companies, foreign and indigenous, which received support from the main industrial promotional agencies - IDA, Enterprise Ireland, Shannon Development and Údarás na Gaeltachta. While it is recognised that this is not the complete population of manufacturing and internationally traded services firms, as for example, it does not include the smaller firms supported since 1993 by the County Enterprise Boards, data relate to the great majority of firms and jobs and therefore provide a comprehensive picture of the present configuration and spatial extent of Ireland's manufacturing industries.

The Spatial Distribution of Manufacturing Industries

Grant aid for non-manufacturing enterprises is a very rare occurrence. Therefore there is very little data available relating to service or other type enterprises. To get a broad view we are relying on data on manufacturing enterprises only.

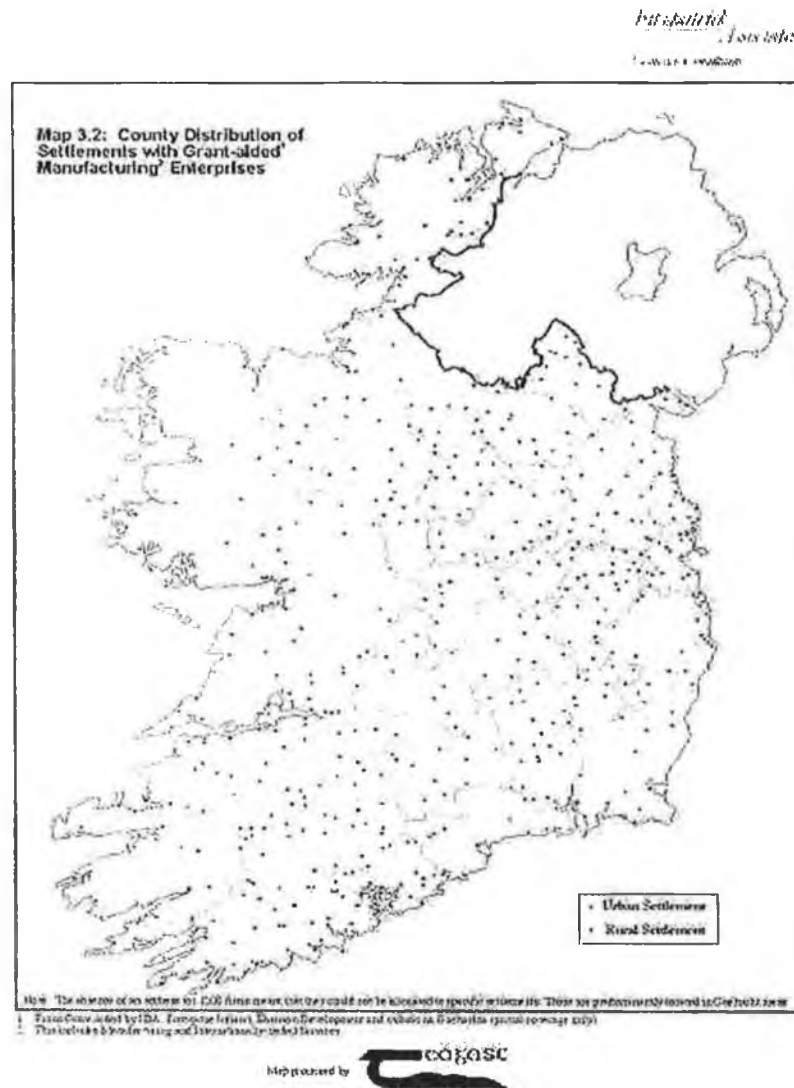
In 1999 the revenue commissioners state that 8,793 grant-aided manufacturing enterprises existed in Ireland. Absence of an address for 1,208 firms meant that they could not be allocated to specific settlement size categories and so were omitted from the analysis. While these firms account for nearly 14% of all enterprises they represented only 2.8% of total employment.

Analysis at sub-county level focused on the distribution within counties of enterprise employment by settlement size. At sub-county level enterprise generally is located in towns and villages as opposed to the open countryside. Only a small number of counties display a balanced distribution across settlement size, for example, Donegal, Monaghan, Meath and Cork. The more rural counties have high proportions of their employment in rural areas by virtue of the fact that their urban systems are weak. For example, 80% of employment in grant-aided companies in Leitrim is in rural areas. In addition - more than half of Cavan's assisted jobs are in small settlements, while Longford and Roscommon also have significant proportions of employment in rural settlements - 41.7% and 38.7% respectively. Other counties with above average employment in rural areas include Kilkenny, Laois, Mayo, Sligo, Westmeath, Kerry, Wicklow and Limerick. Counties with least employment located in rural settlements include Dublin, Kildare, Tipperary, Clare and Offaly.

The high proportions of jobs located in the larger urban centres - across all counties irrespective of their "rurality" ranking "suggests again that enterprise and manufacturing employment are closely linked to existing urban locations which are not evenly distributed across or within counties. This is illustrated in Map 3.2 and in Table 16.

A further breakdown of data relating to the total enterprise effort at the micro level in each county is presented in Table 17. This breakdown relates to "Balliwicks" - a sub county area within the jurisdiction of a bailiff - and also relates to companies and individuals notifying the revenue commissioners of their commencement of a taxable business.

Map 3.2 –County Distribution of Settlements with Grant Aided Manufacturing Enterprises



The map does not make any allowance for the number, size or nature of the enterprises involved. However, it does indicate that manufacturing industries are widely dispersed throughout the country. Blank areas on the map are largely explained by two factors:-

- (1) The absence of “unassigned firms” from the analysis - these firms are mainly associated with Gaeltacht areas
- (2) The topography of the country, i.e. mountainous or peat land areas.

Rurality Ranking	County	% of Cos.	% of Foreign Cos.	% of Irish Cos.	% of Full Time Jobs	Dominant Sector	No. of New Firms 1999	Ave. Emp per New Firm
Most rural 1	Leitrim	0.8	0.5	0.9	0.5	Wood	0	0
2	Cavan	1.6	0.8	1.7	1.4	Food	2	9
3	Roscommon	1.2	1	1.2	1.1	Food	1	10
4	Mayo	3.6	1.7	4	2.3	Metals & Eng.	21	8.9
5	Donegal	5.8	1.9	6.7	3.2	Textiles	38	6.7
6	Longford	1	0.8	1.1	0.8	Food	0	0
7	Monaghan	2	0.5	2.3	1.7	Food	5	14.9
8	Laois	0.9	0.6	0.9	0.6	Metals & Eng.	0	0
9	Kilkenny	1.7	0.6	2	1.3	Food	6	5.5
10	Kerry	5.3	2.4	5.9	2.5	Metals & Eng.	29	6.5
11	Wexford	11.1	1.7	13.1	7.9	Metals & Eng.	3	16.3
12	Sligo	1.4	1.5	1.3	1.5	Metals & Eng.	2	6.5
13	Tipperary Nth	1	0.6	1	1.4	Food	1	19
14	Meath	2.3	1.1	2.5	1.9	Metals & Eng.	2	10
15	Clare	3.6	6.5	3	3.8	Metals & Eng.	17	12.8
16	Offaly	1.6	1.1	1.8	1.6	Metals & Eng.	2	132.7
17	Galway	8.6	4.8	9.4	5.7	Metals & Eng.	55	6.5
18	Tipperary Sth	1.1	0	1.4	0.8	Chemicals	0	0
19	Westmeath	1.6	1.5	1.6	1.5	Metals & Eng.	2	54.5
20	Carlow	1.2	0.5	1.3	1.2	Metals & Eng.	2	4.5
21	Limerick	4.1	3.6	4.2	5.7	Metals & Eng.	23	18.7
22	Waterford	2.1	1.9	2.1	2.5	Int. Traded Servs	0	0
23	Wicklow	3.1	2.6	3.2	3.6	Metals & Eng.	20	6.6
24	Cork	9.8	10.5	9.6	11.6	Metals & Eng.	20	20.8
25	Kildare	2	2.2	2	4.4	Metals & Eng.	0	0
26	Louth	3.1	2.3	3.2	3.2	Metals & Eng.	9	6.3
27	Dublin	27.2	45.7	23.2	31.5	Int. Traded Services	117	11.8
Least rural								

Source: Derived from data provided by Forfás

Table:-16 – Characteristics of Grant Aided Enterprise - County Level 1999

Table 17 – Corporation and Income Tax Registrations by Micro Businesses by Bailiwick in 2001

*CT and *IT Registrations with a date of commencement during 2001.				
		Company Cases (CT)	Non Company Cases (IT)	Totals
Bailiwick Code	County			
01	Carlow	107	411	518
02	Cavan	169	453	622
03	Clare	237	1,010	1,247
04	Donegal	265	1,427	1,692
05	Galway	500	1,718	2,218
06	Kerry	238	924	1,162
07	Kildare	455	1,295	1,750
08	Kilkenny	148	664	812
09	Laois	103	423	526
10	Leitrim	49	214	263
11	Limerick	413	1,427	1,840
12	Longford	61	320	381
13	Louth	276	807	1,083
14	Mayo	204	833	1,037
15	Meath	406	1,036	1,442
16	Monaghan	145	441	586
17	Offaly	130	473	603
18	Roscommon	103	382	485
19	Sligo	88	449	537
20	Tipperary	224	1,075	1,299
21	Waterford	238	795	1,033
22	Westmeath	208	649	857
23	Wexford	296	942	1,238
24	Wicklow	348	942	1,290
25	Dublin City	2,983	5,470	8,453
26	Dublin County	1,500	3,778	5,278
27	Cork City	502	1,091	1,593
28	Cork County	578	1,856	2,434
99	Foreign	243	548	791
	Totals	11,217	31,853	43,070

Source:- The Revenue Commissioners and Mc Fadden 2002

* CT = Corporation Tax.

* IT = Income Tax.

Conclusions

A major weakness of the data contained in Tables 16 and 17 is that it is not possible to separate the self employed enterprising persons from the

entrepreneurs, however, the data is useful in that it quantifies and categorises the numbers of micro business firms and enterprising persons registering with the grant giving agencies and the revenue commissioners at county and sub county level in 2001.

The analysis of Table 16 is confined to gross changes, i.e. ignoring firm closures and job losses and suggests that there has been a continual decline in the rural share of new start-ups from 42.6% for the early period (1981-86) to 34.4% for the last period (1993-98). Some of the decline in the 1993-98 period may be associated with the restructuring of the functions of the main support agencies, and in particular, the establishment of County Enterprise Boards - to assist companies employing less than 10 persons. - However, given the relatively low budgets available to the Boards, trends in firms supported by the main agencies remain important. Another explanation for the decline may well be that there is a shortage of entrepreneurial talent in rural areas. Given that the all important element of entrepreneurship, that is, the "role model" is clearly in decline (fewer start ups) a new approach is required to stimulate the indigenous and latent entrepreneurial traits of persons living in the rural areas. It should be noted that the decline has taken place in spite of a "better" economic national climate in the year's 1993-1998, a continuing relatively high level of necessity entrepreneurship (Table 6) and in the lifetime of the County Enterprise Boards. It is also clear that urban areas have benefited at the expense of the rural areas. This is further emphasised in Map 3.2.

An analysis of the data in Table 17 suggests that non company registrations for tax purposes is greater than four times the rate for companies. This data when combined with data from Table 19 suggests that the grant giving agencies have an input into 25% or less of enterprise activity in all of the counties. This lack of relevance is a key weakness in the approach of the grant giving agencies. This weakness when contrasted with a relevance of greater than 95% in Denmark (TIC 2000) and a relevance of greater than 85% in the Highlands & Islands areas of Scotland suggests that there are major structural problems within the agencies themselves. A possible explanation may be that services in Denmark are delivered by Regional Development Agencies staffed by business professionals, in Scotland by civil servants with business training and by civil servants in Ireland. Another explanation may be that a minimum of two financial instruments are employed by the agencies in Denmark and Scotland while only one (Grants) is available to the agencies in Ireland. It should be noted that grants as a financial instrument were abolished in Denmark in 1991.

The grant aided manufacturing activities in Ireland fall largely into the categories of metal and engineering with food manufacturing as an activity in a small number of counties. International Traded Services appear to be important in Waterford and Dublin with no such activity on a small, modest, or large scale in rural areas.

Overall it could be strongly argued that the "old economy" is alive in rural Ireland with the "new economy" a distant dream with little or no effort or leadership from the grant giving agencies to bring about change or prepare enterprising persons for a digital age. Such change when it happens will come

about by individual efforts and not from, for example, the County Enterprise Boards unless they are radically overhauled, adequately financed and employs innovative financial instruments to encourage, stimulate and nurture enterprising persons and entrepreneurs.

On a more positive note, the 1996 census data on employment and enterprise indicate that despite the difficult conditions for development in the western counties there is a reservoir of entrepreneurial resources in the region. It is also worth noting that the historical concern about out-migration and population decline in the west has tended to overshadow the fact that the region also experiences in-migration. County Leitrim, for example, has had severe long-term depopulation. Census returns, however, show that the proportion of its declining population born outside the county has been rising rapidly, accounting for 30.4% of its 1996 residents. For the province of Connacht the percentage of persons not native to their county of enumeration increased from 14.3% in 1971 to 25.9% in 1996. A survey of 148 small businesses in counties Clare, Mayo and West Galway confirmed the linkage between population replacement and enterprise formation (McDonagh and Commings 1999). Among the operators/managers 22% were migrants who had returned to their home area, a further 30% were newcomers to the west of Ireland (12% coming from outside the Republic). Compared to other sub-groups in the survey, newcomers had comparatively high levels of education and proportionally more came from non-farming business backgrounds. Decisions by return migrants and newcomers to establish their business in their present locations were motivated by the opportunities and incentives provided to establish an enterprise and by their favourable assessments of the quality of life in their chosen localities.

The 148 small-scale enterprises in the survey provided 2,259 full-time job equivalents. Incoming entrepreneurs generated approximately two-thirds of these jobs. However, there were twice as many jobs for males as for females. In total the enterprises paid out some £34m in wages and salaries for 1996. In comparison to non-movers - those who never lived or worked outside their home areas - return migrant and newcomer entrepreneurs employed a less skilled workforce but they relied more on technology and bulk production. However, they were also more integrated into the commercial marketplace, being more involved in exporting with correspondingly less reliance on local markets and more disposed to availing of opportunities to expand their businesses. The data illustrate the importance of fostering attractive living conditions and quality of life in the context of policies supporting enterprise development.

In the UK similar changes are taking place in that the influence of urban-rural migration on business formation in rural areas has been identified by a number of authors. For example, Keeble et al (1992) drew attention to the fact that most rural entrepreneurs are in-migrants, whereas most urban entrepreneurs are locally born. At the same time, it must be recognised that some of these rural entrepreneurs may have moved in some years previously. Interestingly, it has been shown that in-migrants were concentrated in the more externally orientated sectors, whereas those born locally are more likely to be concentrated in local service activities (Centre for Rural Economy, 2000a). The same study also showed in-migrant entrepreneurs to display a greater level of informal business

contacts outside the region, as well as a greater proportion of sales. In this context, a recent review concluded that whilst existing literature emphasises the diversity of entrepreneurial motivation in rural areas, in-migrant business owners are consistently reported to be more dynamic than indigenous ones (DTZ Piedad, 1999). At the same time, caution must be used when interpreting the policy implications from this finding, since many in-migrants move in to rural areas at or near retirement. Whilst some of this group may engage in entrepreneurial activity, this may not be on a full-time basis, or with any intention of growing their business to employ others.

8. Overall Conclusions

Entrepreneurship is a global phenomenon with significant differences between countries. The level of that activity varies from country to country, from a low of approximately 5% of the adults in Belgium and Japan to about 18% in Mexico and there are considerable differences from country to country in the levels of entrepreneurship and the context in which entrepreneurship flourishes. The GEM analysis revealed the three most important issues for 2001 as cultural and social norms, financial support and government policies. Interestingly, these issues were also ranked highest in the GEM 2000 analysis, making it clear that issues in these domains dominate the international scene.

The creation and growth of new firms, whether out of necessity or opportunity, is the essence of entrepreneurship, for example, the Global Entrepreneurship Monitor 2001 (GEM) states that about 54% - i.e., 80 million people - of those involved in creating and growing new firms claimed they were pursuing a business opportunity for personal interest, often at the same time they were working in a regular job. These efforts are referred to as "opportunity entrepreneurship," reflecting the voluntary nature of participation. In contrast, about 43% (i.e., 63 million people) reported they were involved because they had "no better choices for work." Such efforts are referred to as "necessity entrepreneurship," with the range in prevalence rates representing a four-fold difference from a low of less than 5% in Belgium to approximately 18% in Mexico, with Ireland at about 13%. The pattern for necessity entrepreneurship suggests that the prevalence rates represents a 30-fold difference, from less than 0.25% (i.e., one in every 400 people) in Norway to approximately 7.5% in India, with Ireland at about 2.75%. It is important to note that most developing countries, or those with a substantial developing sector, for example, Ireland are at the high end of this measure.

Since 1999, GEM has demonstrated that entrepreneurial activity is associated with national economic growth. While the relationship is consistent, the strength of the association tends to vary depending on the countries included in the analysis and the nature of the entrepreneurial activity. In addition GEM since 1999 has demonstrated that Ireland has a low level of entrepreneurial activity when compared with high entrepreneurial activity countries included Australia, Brazil, Hungary, Italy, Mexico, New Zealand and the United States, despite the unprecedented growth in the economy in the years 1997 / 2001. Since it is generally accepted that the unprecedented growth was generated by the activities of the 1200 + multi nationals it is concluded that their activities were more

exploitative than entrepreneurial. There is little or no evidence of support for, or input by the multi nationals on any meaningful scale into indigenous entrepreneurship development at the micro or the SME level in exchange for the generous grants and corporation tax concessions they receive in Ireland, however, it is acknowledged that Coca Cola have and are supporting indigenous entrepreneurship development by sponsoring the Coca Cola National Enterprise Awards.

The GEM analysis shows that nearly 62% of those who are active in entrepreneurship have not completed more than a secondary education. Those with at least some university experience represent 35% of the total. Education is, however, related to the type of economic activity and expected firm growth and this is clearly demonstrated in the GEM analysis, which states that "most respondents (82%) anticipated creating no more than five jobs in five years. The percentage that anticipated growing more substantially was significantly higher (31%) for those with graduate experience." In addition the analysis stated, "A strong commitment to education, both general and entrepreneurship-specific, is clearly justified across all national contexts. Not only are those with limited education less likely to participate in entrepreneurial initiatives, they tend to match their business aspirations to their level of skills and knowledge. As a consequence, they generally emphasise less ambitious business activities."

The OECD 2001 report on literacy found the levels of functional illiteracy in Ireland at 24% that placed Ireland 14th out of the 22 countries surveyed. The OECD also said that almost a quarter of Irish adults are at the lowest level 1, as measured by the organisation, which means an inability to read or comprehend, for example, instructions on a medicine bottle. A further 30% scored at level 2. This means that over half or 54% of Irish adults are ranked at level 3 or below. Level 3, as defined by the OECD, is the minimum desirable level of literacy. This is important since the GEM analysis 2001 demonstrates that education is related to the type of economic activity and expected firm growth. The GEM analysis also suggests that a significant positive relationship exists between the level of the workforce employed in agriculture and necessity entrepreneurship as is the case in Ireland with 6.9% employed in agriculture and necessity entrepreneurship at 2.75%.

Aspirations vary dramatically between necessity and opportunity driven entrepreneurs. About 14% of opportunity-driven entrepreneurs expect their new ventures to produce 20 or more jobs in five years (i.e., high-growth firms), seven times the percentage (2%) of high-growth firms expected from necessity entrepreneurship activities. In contrast, 9 of 10 necessity-driven entrepreneurs expect their new firms to provide no more than five new jobs in the next five years. In addition Teagasc research by Cawley, Gillmor, Leahy, Mc Donagh (1995) states in its survey on the role of human capital on farms that: "educational capital firmly favoured alternative farm enterprises (AFE) adopters, with 70% of them having some second level education, and over half (54.8%) having some formal training. Their spouses too had better educational qualifications and better training standards than their conventional counterparts.

The perceived need for role models is greater in the least entrepreneurially active countries, for example, Ireland. Experts agree that role models become particularly important with respect to overcoming the limitations of ethnic and gender discrimination. It is difficult to identify a "pool" of role models within Ireland given that greater than 1.5 million persons have emigrated since the founding of the state, however, Teagasc research (1999) suggests that the increasing numbers of "returning emigrants" are more entrepreneurially active than local inhabitants. While the more entrepreneurially active countries were looking for ways to encourage women and minorities to be more entrepreneurial, experts in the least entrepreneurially active countries were focused on efforts to get society to simply accept diversity. The most entrepreneurially active countries are adept at encouraging an advanced mindset toward creativity and innovation. Those less active have to struggle to even instill the more elementary principles, such as overcoming a social system that breeds dependence and disrespect for self-reliance.

Industrial and educational policies in Ireland over the last thirty years have tended to stress the attractiveness of inward investment at the expense of a promoting self-reliance, which has helped greatly in creating the anomaly of high GDP growth rates with no corresponding increase in overall entrepreneurial activity. This outcome is not difficult to understand given that Ireland is a low entrepreneurially active country and GEM have demonstrated that more entrepreneurially active countries encourage people to act independently and to pursue opportunities

Being from the lowest income level is associated with less activity for opportunity entrepreneurship for men and women. This is true in Ireland's case given that approx 22% of persons in 2000 (ESRI 2000) have less than the median level of income compared with approximately 15.5% in 1994. This we suggest contributes greatly to a high level of 2.75% (GEM 2001) necessity entrepreneurship in Ireland in so far as entrepreneurs are unable to save sufficient seed capital, or borrow from a dedicated seed capital fund, to start a business to exploit an opportunity.

The overriding issue that dominated the global landscape concerning financial support for entrepreneurial efforts is the perception of an inadequate supply of risk capital. This includes issues associated with too little capital (i.e., the funding gap), access systems difficult to navigate, inappropriate structures for different stages of venture development and a lack of understanding of how to determine financial needs. Two additional patterns identified in the experts' opinions involve the reluctance of many financial providers to invest in start-up entrepreneurship activities and the level of ignorance of financial matters on the part of entrepreneurs. A survey of its members in Ireland by the Small Firms Association in 2000 has indicated that close on 90% of small business promoters rely on their banks for financial information and business guidance.

It is further concluded that both necessity and opportunity entrepreneurs in Ireland are greatly hindered in growing their businesses in the absence of loan guarantees for bank borrowings given that financial institutions generally require micro businesses to provide a ratio of two or three to one collateral to loans in

addition to personal guarantees. The collateral required is in almost all cases is in the form of fixed assets, that are new and created in part by grants from the grant giving agencies. This “fixation” with collateral has resulted in very small businesses generally employing a fixed asset ratio to share capital and working capital of three to one. In such situations it is sometimes difficult to determine what business the promoters are engaged in, given the level of emphasis on fixed assets - a fixed cost for a business – the ability of the assets to attract grants and their value as collateral. In contrast multi national in Ireland are generally required to provide a ratio of about 75% of collateral to loans with no requirement for the directors to sign personal guarantees. The 6th European Observatory report (2000 p. 155) for SMEs noted that the financial structure of an enterprise seems to depend more on the financial system and financial practices of the country in which the enterprise operates than on the characteristics of the enterprise itself, such as size, sector, age and even profitability. This is very much the case in Ireland at the SME and micro level. There are also considerable differences in the share of “own capital” employed in SMEs in general. In some Member States, for example, in Germany and Austria small businesses rely much less on “own capital” and more on readily available bank loans. In others (France, Belgium, Portugal) own capital financing is more prevalent.

Only one financial instrument (grants) is employed by the “ development agencies” in Ireland. No effort has been employed in developing more modern instruments, for example, equity, working capital and loan guarantees. The official reason given by the government, acting on the advice of financial institutions, for not doing so appears to be a fear of distorting the financial markets in Ireland. Our European partners, for example, the UK have grants and guarantees as financial instruments with seed, equity and working capital guarantees in Denmark available on a modest scale. It should be noted that of the “EU 15” indigenous financial institutions, only the UK, Greece and Finnish institutions have a greater return on equity (ROE) than what is earned (17%) by Irish financial institutions in the home market. – (Eurostat – OECD 2000).

It appears that there is a degree of “hostility” to new financial instruments at the micro level. The degree of “hostility” can be best judged by the reaction of the League of Credit Unions to a proposed government guarantee for £5000 loans to credit union members entering self employment for the first time. (See for example, Duggan et al, *Enterprise Creation by the Unemployed in Ireland: The Role of Micro Finance*, ILO-London, 2000, p.9.) The League strongly indicated to the Department of Enterprise that such a scheme would act as a distortion of their existing business and its existence should not be publicised. The Department agreed to the request and only fourteen persons applied for the guarantee in the year 2000.

In 1998 there were 85,000 SMEs in Ireland with 76,500 of those classified as micro businesses. In addition they were less than 1,200 multi nationals. Enterprises with no employees (self-employed) and micro enterprises with 1-9 employees represent 93% of all EU enterprises and account for 33% of total employment. The very small enterprises - 1 to 9 employees - showed the strongest proliferation throughout the EU economy in 1997 in all sectors, with

an overall growth of 5.5%. In terms of job-creation, this category of enterprises recorded the biggest increase in the EU, with an overall progression of more than 1%. On the contrary, the number of enterprises without employees decreased by 0.8 % thus leading to an overall declining by more than 1% in the number of jobs. Small enterprises contribute to employment expansion in higher proportion than other businesses and employ more women and young workers. While this is also true in Ireland it can strongly argued that this has happened despite the grant giving agencies having an input into, or a relevance for approximately 25% of all the businesses (Table 16 and 17) in contrast to a greater than 95% relevance of the IDA for the multi national sector. The relevance of the grant giving agencies for the SME sector when further contrasted with for example Denmark - greater than 90% - is close to non-relevance.

Overall, it is difficult to envisage a change in present support structures for SMEs in general with state support for micro entrepreneurship delivered as enterprise support or support for self-employment. This situation will continue until new policies are put in place that recognise the distinction between entrepreneurs and enterprising persons. On the positive side, EU regulations relating to the role of entrepreneurship in rural development and the likely exodus of the multi sector to more lower wage economies will urge or possibly force change and a different attitude to SME's in general,

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