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David Storey's Contribution to Enterprise Policy:

The Challenge of Stimulating the "Right" Type of Entrepreneurship

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Abstract

One field of research to which David Storey made important contributions is the alleged impact of enterprise policy on regional economic development. In this field, his legacy to entrepreneurship research is perhaps his constant questioning of whether assumptions underpinning enterprise policy are correct. Possibly the most striking example in this regard relates to the assumption that new firms create new jobs. When questions as fundamental as the contribution of new businesses and SMEs to the creation of value and employment are still not clearly resolved; when they lead to questions about what would a priori be identifiable as the "right" type of entrepreneurship and how to promote it, then also comes a questioning about the "right" type of enterprise policy to pursue. David Storey has nourished this field of research with a significant and sometimes radical scope in his questioning. In this chapter, we outline this specific field of research, highlight David's contributions, and sketch enterprise policy options in the context of global sustainability issues.

1. Introduction

One field of research to which David Storey made important contributions is the alleged impact of enterprise policy on regional economic development. In this field, his legacy to entrepreneurship research is perhaps his constant questioning of whether (sometimes implicit) assumptions underpinning enterprise policy are correct. Possibly the most striking example in this regard relates to the assumption that new firms create new jobs (beyond the job of the business owner).

David Storey questioned this assumption in the 1980s which took a certain amount of nerve at the time, given the research context marked by the work of the American economist David Birch. In 1979, the latter published a study, which was hotly debated, concluding that Small and Medium Enterprises had an advantage over large enterprises with regard to net job creation for the period 1969-1976. The result obtained by Birch was subsequently confirmed for other national contexts, but it was eventually called into question when the evaluation takes into account the bias of regression towards the mean (Davis et al., 1993; Baldwin and Picot, 1995; Picot and Dupuy, 1998). Van Praag and Versloot (2007), comparing the contribution to job creation, innovation, productivity and growth, and level of satisfaction, of so-called entrepreneurial companies (companies satisfying at least one of the following criteria: less than 100 employees; less than 7 years old; being a new entrant on the market) relative to

the “control group” made up of companies over 7 years old, employing more than 100 employees and already present on the market, arrive at very balanced conclusions.

Particularly in the United Kingdom, large sums of public money have been allocated in the past few decades (more specifically, since the Thatcher government) to stimulating new firm formation (Irwin and Scott, 2023), based on the assumption that new firms create new jobs. However, in practice it is not straightforward that new firms actually create new jobs. The job-creating ability of new firms could depend on (1) the business owners involved and (2) the place or region where the new firms are created.¹ These two dimensions are interrelated as business owners or entrepreneurs in different regions, varying in socio-economic development level, may have different characteristics, for instance in terms of human capital levels or entrepreneurial quality (Storey, 1983). Given these observations, David Storey questioned whether it was possible for public policy to successfully fight high unemployment rates (such as in the UK in the 1980s) by increasing new firm formation rates, particularly in low-enterprise regions such as the North East of England (Cowling and Burke, 2023).

When questions as fundamental as the contribution of new businesses and SMEs to the creation of value and employment are still not clearly resolved; when they lead to questions about what would a priori be identifiable as the “right” type of entrepreneurship and how to promote it, then also comes a questioning about the “right” type of enterprise policy to pursue. David Storey has nourished this field of research with a significant and sometimes radical scope in his questioning.

In this chapter we will attempt to sketch this specific field of research, and to highlight David’s contribution to the field. Our ambition is also to go as far as possible in the interpretation and extension of his ideas, and to explore new ways of approaching the question of enterprise policy given global issues, expressed in terms of sustainability, which we are confronted with.

To this purpose, the set-up of this chapter is as follows. In the next section, we will briefly elaborate on the concepts of “enterprise policy” and the “right” type of entrepreneurship. Section 3 will pay attention to the question if and how the “right” type of entrepreneurship can be identified, while Section 4 extends this debate to the regional and country-level context. If, for argument’s sake, we equate the “right” type with successful entrepreneurs (leaving aside what is “success”), and we assume it is possible to identify successful entrepreneurs, another question is whether it is possible to identify successful entrepreneurs *ex-ante*, i.e. before the entrepreneurs involved start their business. Such enterprise policy targeting specific individuals is discussed in Section 5. As mentioned above, successful enterprise policy depends not only on the characteristics of the business owners involved but also on the region or country where enterprise policy is conducted. This spatial aspect of enterprise policy is also discussed in Section 5. In the final section, we cautiously discuss what could be the outlines of a “contextualised enterprise policy” and conclude.

2. Defining Enterprise Policy and the “Right” Type of Entrepreneurship

Arshed et al. (2014) understand the term “enterprise policy” to include both entrepreneurship policy and SME policy, where entrepreneurship policy is aimed at stimulating entrepreneurship in the early stages of the entrepreneurial process (including the nascent stage) and SME policy is focused on the viability of the existing population of enterprises. Combined, enterprise policy is aimed at fostering business start-up and growth rates (Arshed et al., 2014).

¹ This ability also varies greatly depending on the industry. We do not address this dimension here, nor the policy that may be associated with it.

It must be recognised that it took some time before economic policy theory distinguished between policy in favour of SMEs and entrepreneurship policy. If the distinction deserves to be made, since it is also a question of acting on reality, it is undoubtedly difficult to imagine isolating one from the other (as is, moreover, isolating the policy aimed at large firms) as the potential interactions appear important. Nowadays, enterprise policy will be called upon to engage in more sustainable economic development. Its target groups may still be defined as emerging companies and SMEs. The policy is designed to stimulate their contribution to development while making them more environmentally sustainable.

Regarding the “right” type of entrepreneurship, this refers back to the notion that entrepreneurship is a highly heterogeneous phenomenon (Gartner, 1985), and thus, entrepreneurs come in many different types (Wennekers and Van Stel, 2017). In this regard, a famous typology is that of Baumol (1990), who classified entrepreneurship in productive, unproductive, and destructive types of entrepreneurs. When philosophising about what is the “right” type of entrepreneurship, it is clear that this must at least be sought in the realm of productive entrepreneurship. However, in this chapter we are considering a narrower group of entrepreneurs, i.e. entrepreneurs that make a more than proportionate contribution to macro-economic performance. In this regard we can think of innovators (Schumpeterian entrepreneurs), job creators, and so-called strategic forms of entrepreneurship (Estrin et al., 2022). Together these types are often considered “high-quality” entrepreneurs (Giotopoulos et al., 2017).

Hence the question then becomes if and how enterprise policy can contribute to increasing the number of innovating and job-creating entrepreneurs? Although this may sound as an obvious policy target today, it has been the result of an evolution in enterprise policies and evaluation of such policies. In the 1980s in the United Kingdom, enterprise policy was focused on stimulating the number of new-firm start-ups, and hence, the policy evaluation question was if indeed the policy, which had cost considerable amounts of taxpayers’ money, had succeeded in increasing the rates of new firm formation over time. The conclusion was that the policy was largely unsuccessful (Greene et al., 2008). But this was not considering yet the alleged contribution of new firms to macro-economic performance. Specifically, studies such as Greene et al. (2004) and Van Stel and Storey (2004) found evidence that questioned the effectiveness, in terms of regional employment creation, of policies designed to raise rates of new firm formation, particularly in “low enterprise” areas. Then it was Scott Shane who, in a seminal paper, further influenced the debate by putting bluntly that subsidising the formation of the “typical startup” is bad public policy “because the typical start-up is not innovative, creates few jobs, and generates little wealth” (Shane, 2009, p. 141). Remarkably though, this conclusion was already reached in so many words by David Storey in 1983 in a largely unknown publication (10 citations in Google Scholar at the time of writing this chapter), when he writes that policy should be focused on assisting small businesses to become medium-sized and large, going on to say that “This will not be achieved simply by encouraging births, but instead involves a recognition that relatively few individuals have the capacity to create even a medium sized firm on their own. This means priority should be given to picking winners or at least avoiding investments in ‘losers’ – a challenging topic for researchers, and venture capitalists.” (Storey, 1983, p. 16).

3. Identifying the “Right” Type of Entrepreneurship

Is it possible to identify the “right” type of entrepreneurship? To put it succinctly, the type in question is the one capable of significant innovation and an equally significant contribution to job creation. Moreover, in recent times, contributing to environmental sustainability by producing in cleaner ways

and by contributing to solutions to the challenges posed by global environmental change, also has become indispensable.

High-growth companies can have remarkable relative effects. David Storey showed early on that: “out of every 100 small firms, the fastest growing four firms will create half the jobs in the group over a decade” (Storey et al., 1987; cited by Storey, 1994, p. 113). While performance of a small bunch of firms can indeed be exceptional (Henrekson and Johansson, 2010; Clark et al., 2023), the persistence of exceptional performance is quite rare; might depend on measurement choices (Erhardt, 2021), and be linked to product innovation (Bianchini and Pellegrino, 2019). Next to an evolution in terms of activity and employment, made of small ups and downs, and discontinuities (Coad et al., 2018; Coad, 2022), an outstanding performance may be seen as a random phenomenon and interpreted as a stroke of luck (Coad et al., 2013; Van Witteloostuijn et al., 2022).

At the macroeconomic (aggregate) level, assessing the contribution in terms of innovation or job creation of a particular business or businesses of a particular type should provide important diagnostic elements, particularly enlightening for the policy maker. Too often however, business performance is assessed in isolation, without considering possible spillover effects or, more simply, the effects of capturing market share from other businesses. It is unreasonable to assert, for example, that such and such a business has experienced strong employment growth and has therefore made a considerable contribution to local economic development. Such assertions can lead to an overestimation of the effects in net terms. Of course, if a business is to gain market share, it must be able to attract a greater share of market demand. It can only do this by making its offer more attractive in one way or another (through more attractive prices or products). These factors of change can benefit all stakeholders. But the correct assessment for these stakeholders, *a fortiori* in the context of a localized market and of localized economic development, means considering possible job destruction in other businesses, or even industry concentration and its consequences (in terms of increased market power for the remaining businesses, and reduced competition). For a seminal empirical examination of this type of considerations, see Fritsch and Mueller (2004). Exploiting data available for the 1983-2002 period at the district (*Kreise*) level in West Germany, these authors reveal that the indirect effects (both positive and negative) of new business formation, such as crowding out of competitors, improvement of supply conditions, and improved competitiveness, are more considerable than their direct effect in terms of job creation.

The reflection leads at this stage to redefine the very definition of the “right” type of entrepreneurship. It is not just about being meaningfully productive. The “right” type of entrepreneurship contributes at the aggregate level and in net terms to the development and sustainability of activities. From a policy point of view, the fundamental issue is not to be able to observe the result (value creation; employment; contribution to sustainability) but to be able to identify the high-potential businesses; in other words, to identify the high performance before it even happens. This is no mean feat. Some even may argue that it is impossible. This is in fact what the existing literature would leave us tending towards. However, this view may change in the future. We are thinking in particular of the provision of new data and techniques (Big Data, Machine Learning) allowing renewed identification procedures of substantial (preconditions for) emerging phenomena (beyond spurious ones).²

² See a.o. Van Witteloostuijn and Kolkman (2019), Kaiser and Kuhn (2020), Coad and Srhoj (2020), Coad and Karlsson (2022), Chae (2024).

4. Identifying the “Right” Type of Entrepreneurship: The role of context

4.1 Regional context within countries

The effect of entrepreneurship on regional economic development, and arguably also the “right” type of entrepreneurship, varies by region. Audretsch and Fritsch (2002) were among the first to show the importance of such regional differences as they identified, within the West-German context, different types of regions with different “growth regimes”, where some regions thrive through the prevalence of large enterprises and others through the prevalence of new enterprises. Importantly, in areas where the technological regime favours large enterprises, new firms may be less successful. This is because new firms are typically small and hence have difficulties to compete in areas where large enterprises prevail, and scale economies are important. However, a second reason is that in these areas there is often a relatively negative attitude to enterprise and self-employment (called the Upas Tree effect by Van Stel and Storey, 2004), so that new firms started in those areas may reflect the “wrong” type of entrepreneurship, defined by Mueller et al. (2008) as “new firm formation which leads to zero or even negative subsequent employment growth” (p. 59). Indeed, Mueller et al. (2008) showed that for low-enterprise counties in Great Britain, new firm formation has a negative effect on employment.

Part of the policy challenge is that in low-enterprise areas, subsidy programs designed to stimulate people to start new businesses may attract prospective self-employed for the wrong reasons, i.e. people may be attracted to collecting the subsidy but are not intrinsically motivated to start and run a business.³ A subsequent field of research was then inspired by the above debate and researchers were interested if regional differences in enterprise rates (possibly reflecting differences in regional entrepreneurship culture) are persistent over time. The short answer, based on studies in several countries, is yes, to a large extent such differences are persistent. Regions with higher (sector-adjusted) new firm formation rates or self-employment rates many decades (in some studies even a century) ago, still have relatively higher enterprise rates today (Fotopoulos and Storey, 2017; Fritsch and Wyrwich, 2014; Fritsch et al., 2022). Given such persistent differences in regional entrepreneurship culture, it is only natural that entrepreneurship policies will also differ by region. In this regard, a current policy question is to what extent regional policies that worked in “successful” places and regions, can be transferred to “unsuccessful” (in terms of socio-economic development) regions as well (Ortega-Argilés, 2022).

4.2 National context: Economic development level

Similar to the regional level considered above, it is also true that the effect of entrepreneurship on national economic development varies by nation. In particular, it has been found that the impact of entrepreneurial activity on national economic growth is significantly larger for developed economies as compared to developing economies (Van Stel et al., 2005). Moreover, it is by now a common (and plausible) assumption that different types of entrepreneurship contribute to different extents to macro-economic development. For policy makers it is thus again important to know what are the “right” types of entrepreneurship, in terms of stimulating macro-economic growth. Although the seemingly obvious answer is high-quality entrepreneurship—in terms of innovation and export activity, and high growth aspirations—as suggested by Giotopoulos et al. (2017), Estrin et al. (2022), and several other studies, country-level evidence of a strong impact of these types of entrepreneurship on macro-economic growth remains scarce, in part due to limited data availability. Nevertheless, considering accumulated evidence on the importance for economic growth of innovation (Block et al.,

³ It can be noted here, without however elaborating because it would go beyond the scope of this chapter, that the risk that subsidies attract bad projects, from a productive point of view, can also concern certain localisation or expansion investment projects by large firms.

2017), export activity (Hessels and Van Stel, 2011) and high growth ambitions (Hermans et al., 2015), it seems a safe assumption that, at the aggregate level, these “high-quality” types of entrepreneurs indeed have a considerable contribution to macro-economic growth, at least for higher developed countries. Importantly, this does not mean that policy makers should simply target prospective entrepreneurs with high growth ambitions, or ambitious plans in terms of innovation and export activity, as it is very difficult to predict beforehand which ambitious entrepreneurs will be able to actually realise their ambitions, and which ambitious entrepreneurs will fail (see Section 5.1: The possibility of “picking winners”). However, policy may focus on creating the right conditions under which high-quality entrepreneurship can flourish, that is, create conditions that make it attractive for talented and ambitious individuals to start a business. Through competition acting as a selection process, the best entrepreneurs will then prevail.

As mentioned, for developing countries there is far less evidence of a positive effect of entrepreneurship on economic growth. In particular, for developing countries no positive link with economic growth was found for entrepreneurship in general (Van Stel et al., 2005) and also not for export-oriented entrepreneurial activity (Hessels and Van Stel, 2011). Hence for developing countries it is less obvious to assume a decisive role for “high-quality” entrepreneurs to contribute (disproportionately) to economic growth. In part this is due to the lower levels of technological development, making innovative entrepreneurship less straightforward, and the role of the informal sector and regulations, making that (some) talented entrepreneurs may want to stay “under the radar” instead of growing to a size where they inevitably have to enter the formal sector and comply with — often burdensome— regulations (Giugale et al., 2000). Even more so for developing countries, limited data availability on different types of entrepreneurship makes the empirical evidence on a positive relationship between entrepreneurship (of whatever type) and economic growth, limited. An exception is Urbano et al. (2020) who found evidence for a positive link between opportunity entrepreneurship and economic growth for a sample of developing countries.

In conclusion, for developed countries, it may be safely assumed that a bigger pool of ambitious entrepreneurs (either in terms of innovation, job creation or export) will eventually, as the result of a process of competition, lead to a higher number of actual “high-quality” entrepreneurs who make strong contributions to economic development. In contrast, the role of entrepreneurship, and different types of entrepreneurship, for economic development is far less known yet for developing countries. Accordingly, for the latter type of economies, it is far less clear which are the “right” types of entrepreneurs. More research is still required here, including research on the interplay between formal and informal entrepreneurship (Laing et al., 2022).

5. Enterprise policy to stimulate economic development at the individual, regional and country level

Once it is known which types of entrepreneurship contribute to job creation and innovation, or economic prosperity more generally, the next question is if and how enterprise policy is able to stimulate these “right” types of entrepreneurship. Enterprise policy can be focused on the individual, regional, and country level. These three forms will in turn be dealt with in the remainder of this section.

5.1 The possibility of “picking winners”

One type of enterprise policy which is focused on the individual level involves targeted financial support of start-ups, following the notion of “picking winners” (Freel, 1998). Here the question is if it is possible to identify successful entrepreneurs *ex-ante*, i.e. before the targeted entrepreneurs start their business. If so, this would allow policy makers to target support in a very tailored way to individuals who are most

likely to make their business a success. If successful, such policy would be highly cost-effective, as the “bang for the buck” –in policy evaluation speech– would be high. In practice, attempts are indeed made to direct government support to specific firms or individuals who are thought to have a higher chance of success. As an example, Cantner and Kösters (2012) study an R&D subsidy program to start-ups in the former East Germany where team start-ups and start-ups with higher initial capital investments were found to have had a higher chance of receiving a subsidy. The authors deem it possible that start-ups with these characteristics more often received a subsidy because policy makers and funding authorities thought that such start-ups would be more successful. In other words, the authors “cannot exclude a “picking the winner” strategy in targeting R&D subsidies to start-ups” (Cantner and Kösters, 2012, p. 921).

Hence, it is certainly possible for policy makers to apply direct policy targeting of entrepreneurial endeavours that are deemed more likely to be successful. However, it is less clear whether the targeted entrepreneurs are able to live up to the expectations, i.e. whether on average, targeted entrepreneurs are indeed more successful. Based on empirical evidence from interviews with 30 companies, Freel (1998) argues that “picking winners” is not a viable alternative to blanket cover. This would be the case because only post-start-up, it will become clear if the entrepreneur is able to deal with managing the business, but this is very difficult to predict pre-entry. This reasoning is very much in line with the classic Jovanovic (1982) model of ‘passive learning’, where individuals only find out their true level of “entrepreneurial ability” after having entered the market. Another obstacle with picking winners is that, even if the “right” entrepreneurs have been targeted, their successful performance may be very temporary in nature. For instance, in the area of high-growth research, Daunfeldt and Halvarsson (2015) found that spells of high growth are often short-lived, and that high-growth firms are therefore essentially “one-hit wonders”. Accordingly, these authors conclude that “it is doubtful whether policymakers can improve economic outcomes by targeting them [high-growth firms]” (Daunfeldt and Halvarsson, 2015, p. 361).

The consensus thus seems to be that picking winners is for now not a viable policy strategy. However, it is possible for policy makers to avoid investments in “losers” (Storey, 1983), by eliminating start-up incentives for individuals with a low probability of generating jobs and enhancing economic growth (Shane, 2009). Such low-probability individuals could for instance be identified on the basis of their education level or (lack of) prior work history (Vivarelli, 2013). But the risk would also be, in this case, to miss out on the small number among low-probability individuals who nevertheless create a large number of jobs.

While it seems difficult to pick winners, it is possible for enterprise policy to spur economic development at the regional and national level, by creating a fruitful environment for talented individuals to start firms. This is the topic of the next two subsections.

5.2 Enterprise policy at the regional level

The literature on entrepreneurial ecosystems is particularly interested in productive and ambitious entrepreneurship. The entrepreneurial ecosystem approach distinguishes traditional statistical measures of entrepreneurship (self-employment and SMEs) from measures focusing on ambitious, innovative, and growth-oriented entrepreneurship. It is of particular interest to us for this aspect and because it inserts productive entrepreneurship into its territorial context. A now classic definition of the entrepreneurial ecosystem is that given by Stam and Spigel (2018), i.e. a “set of interdependent actors and factors coordinated in such a way that they enable productive entrepreneurship within a particular territory” (Stam and Spigel, 2018, p. 407).

A virtuous entrepreneurial ecosystem should lead to quality entrepreneurship of the kind sought to promote regional development. However attractive the notion may be, it remains insufficiently investigated to date. In particular, quantitative empirical studies assessing the contribution of the ecosystem to the creation of quality entrepreneurship (the approach favoured by Erik Stam and his epigones) or evaluating the entrepreneurial system mainly in its individual and institutional dimensions and its contribution in terms of economic performance at the aggregate level (the approach favoured by Zoltán Ács, László Szerb and their team) are few and far between. Fundamental questions that interest us for this chapter are indeed the following: Is a vibrant and dynamic entrepreneurial ecosystem relatively more fertile for the creation of high-growth firms? If this is the case, can we identify and act on the constituent elements of entrepreneurial ecosystems to strengthen the results in terms of high-growth firms?

To date, empirical research seems to face difficulty in establishing significant and positive links between the two. Can we definitively rule it out? Certainly not. Considerable additional research needs to be conducted to establish our knowledge in this regard. Questions as basic as those concerning the validity of measurements (both in terms of input and output), the most appropriate research design to address the issues, and causal inference remain (cf. Coad and Srhoj, 2023; Coad et al., 2023).

It is possible to find in the literature impressive lists of what would comprise the constituent elements, the “pillars”, of entrepreneurial ecosystems (Isenberg, 2011; Ács et al., 2014; Szerb et al., 2015; Stam and Spigel, 2018); so many pillars on which to work to improve the entrepreneurial context. Even if a definitive scientific basis is still lacking to understand all the ins and outs of an entrepreneurial ecosystem, there is probably no harm in wanting to stimulate and to invest in certain (but not all) of its specific elements, like investing in education. In some cases, the “change for better” could appear very challenging. Think of culture, for example. Beyond the difficulty of defining what would be “better” in this regard, the persistence of an entrepreneurial (non-entrepreneurial) culture could be mentioned to explain the persistence of high (low) rates of entrepreneurial activity in some regions and countries (Fritsch and Wyrwich, 2019). Other elements appear more flexible. We are thinking in particular of the education system in the broadest sense, improving human capital, as well as networking and access to resources. However, interdependencies between factors and systemic aspects cannot be neglected (Ács et al., 2023). The entry points for an entrepreneurial policy into the entrepreneurial process matrix are actually multiple (Audretsch et al., 2007). This leads to consider that the policy will most likely not be the business of a single ministry but that of all the ministries making up a government (Audretsch, 2008).

The regional context matters and determines the nature (types) and intensity of productive entrepreneurship. On this basis, it would be possible to imagine an enterprise policy focusing on the development of the arguments at hand. However, it should not be assumed that this would be sufficient for the formulation of a regional development policy. While an enterprise policy targeting the “right” type of entrepreneurship is desirable—even if it has to be able to be defined and made effective—it is unlikely to be successful if implemented in an economic desert. Local resources, both natural and human-made, the supply of local goods and services, even if relatively routine, the location and its amenities, and its connectivity with external resources, are all factors that can be of importance and serve, sometimes indirectly, the productive and ambitious entrepreneurial activities targeted by enterprise policy. Along the same lines, setting on the launch of a deep local development process exclusively based on the promotion of high-growth firms is most likely not the right strategy for the poorest regions. Seeking the coexistence of ventures growing at varying scales would appear more promising, as have recently suggested Kim and Kim (2022).

Supporting regional sustainable development is more complex than it seems. It is probably not enough to focus on one factor or another and expect miraculous development. The entrepreneurial ecosystem approach considers development more as a systemic dynamic. The underlying model is not additive, but rather multiplicative. In an additive model, as in a multiplicative model, increasing a favourable factor increases the result. Even if the factor is missing in the additive model, a non-zero result is still possible. The result obtained is quite different in the multiplicative model: $2+0=2$; $2\times 0=0$ (Dejardin and Levratto, 2023). For an entrepreneurial ecosystem, it means that the interplay between its constituents is important.

5.3 Enterprise policy at the country level⁴

Country-level policy typically involves the set-up of institutions. Several studies have investigated the link between institutional variables —taken from data bases such as the World Bank Doing Business data base (Van Stel et al., 2007) or the Fraser Institute Economic Freedom project (Bosma et al., 2018)— and country-level rates of entrepreneurship. Many of these studies, including the two mentioned above, use entrepreneurship measures from the Global Entrepreneurship Monitor (GEM) data base, including the well-known TEA rate. A very recent example is Audretsch et al. (2024) who link country-level institutional variables from the World Bank Doing Business data base to individual-level, GEM-based entrepreneurship measures, while employing a multi-level data analysis approach. Bosma et al. (2018) provide a list of studies investigating institutional determinants of entrepreneurship while using GEM data to measure entrepreneurship (see their Table 1 on page 486).

By its nature, (formal) institutions influence the emergence and behaviour of formal entrepreneurs, whose businesses are registered with the government authorities, as a result of which the entrepreneurs incur tax payments and compliance requirements. An issue that has received limited attention so far is that GEM's entrepreneurial activity measures include both formal and informal entrepreneurs but that, even considering the collected dataset at the individual level, it is not known whether the entrepreneurs involved operate in the formal or informal sector. For developed countries this is arguably not such a big deal as it is known that the vast majority of entrepreneurs operate in the formal sector. But for developing countries, where a much higher proportion of entrepreneurs operate in the informal sector running unregistered businesses, this presents a challenge for researchers warranting more attention, in our opinion. When studies aim at studying the link with entrepreneurship of formal institutions such as for instance the number of procedures to start a new business in the formal sector (e.g. Urbano et al., 2020), it is vital to know which share of entrepreneurs operate in the formal sector and which share in the informal sector, and to consider possible interrelationships between the two. Indeed, changes in the strictness of regulations may cause entrepreneurs to shift between the formal and informal sectors of an economy. As long as the formality status of entrepreneurs is not being measured, such shifts would not be noticed at the micro level of entrepreneurial activity but also not in macro-level measures capturing the sum of formal and informal

⁴ This section is inspired by two papers that the second author of the current book chapter wrote with David Storey and others on the country-level determinants of entrepreneurship: Van Stel et al. (2007) —also co-authored by Roy Thurik—, and Laing et al. (2022) — also co-authored by Elaine Laing. An emphasis is placed on institutions. Alongside these, it should be noted that other policy factors, *a priori* determining entrepreneurship and innovative SMEs, can be considered and explicated at the national level. We of course think of anti-trust policy. We can also add the numerous (and classic) levers that can be used by public authorities and which we mention in the following section. The level at which policy instruments are placed (international, national, regional, local) must also be adapted according to the organisation of the political entities (think of the situation of federal States, for example).

entrepreneurs. In this spirit, David Storey and co-authors interpret some counterintuitive findings in their analysis (namely a positive rather than negative relationship between the strictness of business regulations and the rate of necessity entrepreneurship) by stating that: "... these counterintuitive findings imply that many necessity-based entrepreneurs in developing countries escape regulatory regimes by setting up their business in the informal sector" (Van Stel et al., 2007, p. 183). Hence, caution is required when analysing the link between institutions and (GEM-based) entrepreneurship data, especially for developing countries, and especially when necessity entrepreneurs are involved.

In a later analysis (Laing et al., 2022), David Storey and co-authors argue that, when investigating institutional and other macro-level determinants of entrepreneurship, it is important to distinguish between different types of entrepreneurship in terms of formality level, and also between high- and low-income countries. Regarding formality level, Laing et al. (2022) argue that businesses can be classified along a scale of formality which is based on the strictness and extent of compliance requirements with formal regulations.⁵ In short, informal or unregistered businesses have the lowest degree of formality, while incorporated or limited liability companies have the highest level of formality. Unincorporated businesses take a middle position where formal registration with the government authorities is required, but compliance requirements are less strict and extensive as compared to limited liability companies. Acknowledging the different degrees of formality of businesses with different legal forms, the authors investigate the determinants of two distinct entrepreneurship rates from two distinct data bases: first, the young business entrepreneurship rate of the Global Entrepreneurship Monitor, which also includes entrepreneurs of limited liability companies, but where the (vast) majority of the entrepreneurs captured run either an unregistered or an unincorporated business, and second, the rate of new limited liability companies (LLCs) per adult population as measured by the World Bank Group Entrepreneurship Survey (WBGES). The latter measure captures solely entrepreneurial activity with the highest level of formality. Acs et al. (2008) had already shown that these two measures of entrepreneurship are very different, for instance in terms of their relationship with country levels of GDP per capita. Laing et al. (2022) show that also institutional and other macro-level determinants of GEM-based and WBGES-based entrepreneurship measures are very different, and that moreover, results also vary by level of economic development. A research implication of their paper is therefore that when interested in country-level determinants of entrepreneurship, both the type of entrepreneurship (in terms of formality level), and the country's economic development level should be considered. In terms of policy, if policy makers want to stimulate entrepreneurship, they should have a clear idea of which type of entrepreneurship they want to stimulate, as different types have different sets of determinants which moreover vary between high- and low-income level countries.

6 Discussion and Conclusions

What could be the outlines of a "contextualised enterprise policy"? As it appears difficult to identify the "right" type of entrepreneurship at the level of individual firms and entrepreneurs, targeting appears hardly possible. Even if it cannot be excluded in the future considering the development of Big Data, for today and a near tomorrow, it is a matter of identifying the conditions favourable to the emergence and deployment of high-quality entrepreneurship. Feasible enterprise policy is therefore less directly supporting new businesses and SMEs that would have high potential but instead tries to

⁵ As Laing et al. (2022, p. 807) state: "Entrepreneurs come in all shapes and sizes, ranging from informal street market traders on the one hand to formal tech giants in majestic offices on the other."

create a favourable socio-economic environment conducive to productive entrepreneurship and entrepreneurial SMEs.

This very general way of conceiving economic policy is not new. Nor does it appear isolated, but it is “part of a classical distinction”. German terminology refers to “Ordnungspolitik” and “Prozesspolitik” (Hutchison, 1964, pp. 125-127; citing Pütz, 1948). The first notion corresponds to policies aimed at creating an institutional order within which economic processes will designate their objectives and means. The second is used to indicate policies aimed at achieving objectives determined by government authorities through direct manipulation of instrumental economic variables. Practice is often guided by a mix of both approaches.

In addition to the difficulty of identifying high-potential businesses ex-ante, we can add, following Van Witteloostuijn et al. (2015), that entrepreneurial experience is strongly marked by heterogeneity (Nooteboom, 1994; Audretsch, 2008). The heterogeneity of entrepreneurial experience stems from a wide variety of motivations (beyond the distinction between “necessity entrepreneurship” and “opportunity entrepreneurship”; let us cite empowerment and the possibility of organising one’s work differently, the self-exploitation of a rare talent, the search for an alternative lifestyle or even the rejection of salaried employment and subordination...) and aspirations, projects and contexts. Moreover, entrepreneurial success is often described as idiosyncratic and even random (Storey, 2011; Coad et al., 2013). In any case, it is very difficult to discern mechanisms that create a set of common entrepreneurial experiences. Heterogeneity, idiosyncrasy and even randomness are not conducive to the design and implementation of targeted policies. There is indeed a high risk that a specifically targeted policy will miss its objectives or be of limited use. Moreover, a specifically targeted policy comes at a price such as greater uncertainty, and higher search costs for entrepreneurs who might feel trapped in a web of specific regulations (Van Witteloostuijn et al., 2015).

Rather, it is a matter of defining productive and innovation-oriented policies, geared towards the search for an appropriate, highly flexible institutional framework; towards making human and non-human resources available, and towards connecting players (at individual and, probably more so, organisational level) in a context inclined to develop relations of cooptation, more than simple competition.

Following Van Witteloostuijn et al. (2015), the above-mentioned heterogeneity, and even more so variety, can themselves be considered to contribute to a healthy ecosystem (Sternberg, 2007; Wong et al., 2005). A policy that wishes to stimulate productive entrepreneurship and entrepreneurial SMEs will be attentive to this. But it is not yet enough. In addition to respecting existing diversity, enterprise policy must also respect dynamic diversity. This means ensuring that emerging activities find their place, and even compete for resources and markets with existing activities. Of course, Joseph Schumpeter's concept of creative destruction is worth mentioning here. Particularly from a regional development perspective, we must also mention creative construction, i.e. when a new good or service does not render the existing one obsolete, but adds to a range, extending economies of scope and potentially having favourable spillover effects (Agarwal et al., 2007; Bosma et al., 2011).

Creating and arranging a favourable context for the full development of start-ups and entrepreneurial SMEs is far from an easy task. Some favourable factors are characterised by strong inertia and can be linked to specific historical and natural elements (we can mention local entrepreneurial culture, the spatial concentration of activities forming the source of agglomeration economies, cumulative processes forging unique qualifications, etc.). Defining a policy aimed at bringing together and developing these elements in economies that lack them seems to be a task compromised from the start, or a very long-term one (Fritsch and Wyrwich, 2019). Regarding the factors that can be more

easily moved or fostered by policy (investment in R&D, in human capital, in networking, in public infrastructure; inclusion of entrepreneurial minorities, etc.), there are many reasons to nevertheless doubt the full capacity of policies to act on, while avoiding opportunistic behaviours. Scepticism was a trait of David Storey. Probably one way to address this scepticism was in his view to link policy to a serious evaluation of its effectiveness and a complementary diagnosis, both being necessary to feed the policy learning curve (Storey, 2002).

As we have previously mentioned, enterprise policy is increasingly being called upon to involve itself in sustainable economic development. It consistently targets emerging businesses and SMEs. Its aim is to stimulate their contribution to development while enhancing their environmental sustainability. A proposal that appears reasonable given the arguments that have been developed in this chapter would be the following. Establish a regulatory framework favourable to the development of start-ups and entrepreneurial SMEs integrating environmental and climate issues (*Ordnungspolitik*). The urgency of these latest issues leaves space, despite the difficulties, to design a more interventionist policy (*Prozesspolitik*). The stakes are enormous and public resources are limited. There is a need to ensure the relative effectiveness of public policies through serious evaluations. The scale of the task aimed at transforming the economy (and our societies) towards environmental sustainability cannot ignore the enormous lever that constitutes the contribution of the private sector.

Ecological transformation requires a renewal of activities to bring the economy to be more sustainable. Acceleration in compliance with environmental standards certainly involves significant transformations requiring renewal in ways of producing, emphasizing circularity, renewable energy use and overall efficiency. As was already recognized with regard to technological progress which was incorporated into investment in productive capital, considerable investments respecting environmental standards and objectives will contribute to these transformations. They will be carried out by new companies but also by existing companies, whatever their size. The classic arsenal of public levers, i.e. market regulation (including norms and possible bans), direct public intervention, public procurements, Public-Private Partnerships, subsidies, and taxes can therefore help; as well as a policy of awareness, training and individualised support, without forgetting ethical nudge policy. We can also mention public strategic development planning, labeling and the organisation of rewarded competitions for the search for solutions.

David Storey touched upon a lot of contemporaneous thinking about enterprise policy very early on.⁶ Let us conclude this chapter by an enlightening excerpt of his works (Storey 1983, p. 18): “The type of entrepreneur most likely to create jobs is one with high levels of education, with managerial experience, access to capital and who has worked in a small firm and whose product will be sold in a buoyant (initially local) market. Hence he is more likely to live in the most prosperous areas and be relatively wealthy.” If we accept this statement as a starting point for defining the right type of entrepreneur that an enterprise policy will seek to develop, and we analyse its contents to try and distinguish factors to act upon (education, managerial experience, access to capital, work experience in a small firm, product sold in a buoyant market, location in a prosperous area, relative wealth), we realise how difficult it will be for policy makers to provide support for the establishment and strengthening of the constituent elements of the productive entrepreneur. And this is even without taking into account the difficulties linked to the handicaps that the less prosperous countries and regions may have, and the challenges posed by environmental sustainability. And this without yet mentioning feedback and unintended side effects that *a priori* any policy can bring in (Parker, 2007).

⁶ Those who know him for his immense contribution to the research on SMEs and entrepreneurship may not know that at the very beginning of his career, David was interested in policies to prevent water pollution (see e.g. Storey, 1979). We did not know that either. The research work for writing this chapter led us to discover this.

However, can the difficulties thus posed divert us from trying to define and implement such a policy, and from improving it gradually with the help of policy evaluation? Can we not bet on success? Can we even do otherwise?

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