



# Part 4



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## 4.2 Policy brief 5

### Developing a Strategic Policy Framework (SPF) using the 17 Sustainable Enterprises Policy Pillars

## ENTREPRENEURIAL CULTURE

Creating the conditions conducive to enterprise development, fostering entrepreneurship, and policies to encourage investment are three complimentary elements in terms of national economic, social, and political development. But the relationship between economic development and entrepreneurial activities is in many ways symbiotic. Entrepreneurial activity breeds innovation, injects competitive pressures and develops opportunities in economies. It is the foundation in many respects for broader economic development.<sup>1</sup>

Successful entrepreneurial activity should by nature be 'demand-driven' as it is a reaction to a given market demand.<sup>2</sup> It is providing a choice. Its key characteristics include:<sup>3</sup>

- Risk taking, *(with its positive or negative outcomes; for instance, a willingness to undertake risks and face uncertainty but also to reap the rewards of such risks).*
  - Opportunity, *seeking and seizing opportunities.*
  - Innovativeness, *developing new ideas or approaches (although this may not always be a necessary condition for something to be entrepreneurial e.g., joining an expanding market or competing more efficiently than existing providers).*
- Entrepreneurship is a key mechanism for economic development at every phase of economic development. Entrepreneurial spirit is the main source of innovations in nearly all industries, leading to the birth of new enterprises and the growth and renewal of established organizations.

<sup>1</sup> "Approaches and policies to foster entrepreneurship a guide for employers' organizations", IOE 2005.

<sup>2</sup> Countries with the lowest GDP have the highest levels of necessity-driven entrepreneurs (i.e individuals are pushed into entrepreneurship because all other options for work are either absent or unsatisfactory).

<sup>3</sup> The World Economic Forum's Global Competitiveness Report defines three stages of entrepreneurship: Factor-driven, efficiency-driven and innovation-driven. This classification in phases of economic development is based on the level of GDP per capita and the extent to which countries are factor driven in terms of the shares of exports of primary goods in total exports. Factor-driven economies are primarily extractive in nature, while efficiency-driven economies exhibit scale-intensity as a major driver of development. At the innovation-driven stage of development, economies are characterized by their production of new and unique goods and services that are created via sophisticated, and often pioneering, methods. As countries develop economically, they tend to shift from one phase to the next.

- ❑ Innovation is the crucial element in generating endogenous growth, the chain reaction that leads to virtuous circles of growth by utilizing new technologies, which in turn leads to increases in productivity, thus expanding further existing market opportunities and in turn leads back to incentives to innovate.
- ❑ Entrepreneurs drive and shape innovation, they speed up structural changes in the economy, and they introduce new competition, thereby contributing to productivity. Social entrepreneurs perform a similar function in the social economy, filling gaps in social needs that are left unfilled or poorly addressed by both business and governments.<sup>4</sup>
- ❑ Entrepreneurial activity can have an immediate and diverse impact on levels of poverty as once an entrepreneur has achieved financial viability this usually means he or she can start to grow the entity, thus employing more people directly or indirectly through suppliers.
- ❑ Through the ongoing process of innovation that accompanies growing financial viability, the entrepreneur can be able to provide to more of his/her customers more appropriate and affordable services. In certain instances these are indispensable services, such as health care or education.
- ❑ Innovation and entrepreneurship are closely connected. Whether entrepreneurs succeed by introducing new product-market combinations or whether their innovations are copied by incumbents, the effect is the same, which is higher productivity and economic growth.<sup>5</sup>
- ❑ Microfinance can make a powerful contribution to entrepreneurial activity.
- ❑ In both the developed and developing world barriers exist that limit the potential of entrepreneurs to develop and expand their businesses. Women and young people in particular can face barriers. Additionally, there can be social and cultural attitudes that can discourage women from entering into business.
- ❑ Weak bankruptcy laws can act as a significant barrier to start-up in the first place as would-be entrepreneurs will be deterred by the lack of protection in the event of enterprise failure.
- ❑ Entrepreneurial activity can be a conduit to job creation, easing social pressures in society, providing opportunities to other enterprises as suppliers; increasing choice; enabling greater economic integration; fostering trade and investment relationships (which can also lead to increased regional stability).

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<sup>4</sup> Global Entrepreneurship Monitor 2009 Report (Page 8)

<sup>5</sup> Ibid.