

# CHAPTER IV

## Entrepreneurship development

**E**conomic growth hinges upon entrepreneurship. A vibrant entrepreneurial climate provides new jobs, increases competitiveness, and produces novel goods and services. It is not surprising, therefore, to learn that policymakers attempt to increase entrepreneurial activity in numerous ways. They may reform the regulatory environment in order to reduce the number of permits and licences required to start a business. They may make more capital available to new firms via loans, subsidies or tax incentives. They may also increase the amount of resources devoted to education in general and business education in particular, in order to create a set of attitudes and skills in the populace that is conducive to entrepreneurship. Indeed, a dearth of entrepreneurial and managerial skills is a major impediment that less-developed economies face.

This chapter first establishes a definition of entrepreneurship and entrepreneurs and briefly considers the institutional context in which these developments take place. It then examines the contribution that entrepreneurial activities make at different stages of economic development. Some of the key factors of success, and the main entry barriers for entrepreneurs are also examined. Creating awareness and knowledge about the potential benefits of entrepreneurship is essential to its development and this chapter highlights the important role that education can play in facilitating this process.

While there are many players in entrepreneurship development, this chapter pays particular attention to the subsectors of women, youth and rural entrepreneurs. Finally, this chapter briefly discusses the value of the emerging trend of social entrepreneurship. It concludes with some key policy considerations.

### A. Entrepreneurship and entrepreneurs: Definitions and concepts

Entrepreneurship generally refers to the rapid growth of new and innovative businesses, based on the ability to recognize business opportunities or combine resources in novel ways. There are a number of accepted definitions of entrepreneurship (and entrepreneurs). It can be understood as “the ability to amass the necessary resources to capitalize on new business opportunities” (Kayne, 1999). Entrepreneurship may also be “the act of creation requiring the ability to recognize an opportunity, shape a goal, and take advantage of a situation” as “[e]ntrepreneurs plan, persuade, raise resources, and give birth to new ventures” (Bodell, Rabbior and Smith, 1991). According to the National Knowledge Commission of India (2008), entrepreneurship is “the professional application of knowledge, skills and competencies or monetizing a new idea, by an individual or a set of people, by launching an enterprise *de novo* or diversifying from an existing one (distinct from seeking self-employment as in a profession or trade), thus to pursue growth while generating wealth, employment and social good”. In academia, a common definition of an entrepreneur is “one who organizes, manages and assumes the risks of a business or enterprise” (Greve and Salaff, 2003). This definition encompasses many types of entrepreneurial

activity, and is therefore more inclusive than the first three definitions.

Many scholars, however, focus on innovation and firm growth as key aspects of entrepreneurship. While an entrepreneur can be a small-business person, all small-business persons need not be entrepreneurs. Entrepreneurial enterprises focus on new and innovative products, services and processes. They are growth-oriented and aggressively strive to capture market share. Entrepreneurial enterprises may begin as small businesses but often grow to be large firms, as they frequently reinvest their earnings to either expand their original enterprise or to create new ventures.

The authors define entrepreneurship as the individual or team process of doing something new or different to add value to society through calculated risk-taking behaviour for future gains. The term “calculated risk” is often associated with danger; however, in the context of entrepreneurship, it can be defined as the entrepreneurial spirit of taking financial and social risk where opportunities have been clearly identified, and where as much control as possible is exercised over the outcome.

Camp (2002) also observed that entrepreneurship was a multifaceted concept with components related to:

- (a) Cognitive mindset – thinking “entrepreneurially”;
- (b) Behavioural process – starting new businesses;
- (c) Economic and sociological events – new firm formation; and
- (d) Approach to general or strategic management – organizational innovation and growth.

Policymakers should recognize from this discussion that there are different categories of entrepreneurship based on their motivations for starting a business and their growth aspirations. GEM uses the designations of “opportunity,” or “improvement,” versus “necessity” entrepreneurship. Opportunity entrepreneurs start businesses because they want to exploit an opportunity, whereas necessity entrepreneurs start firms because they see no better economic alternatives. GEM also characterizes nascent entrepreneurs by the number of jobs they expect to create, the degree of exporting they anticipate, and the level of market expansion and innovation they hope to achieve (GEM, 2007). Entrepreneurs hoping to create 20-plus jobs in five years are labelled “high-growth aspiration,” as are entrepreneurs who expect “significant” or “profound” market expansion.

Entrepreneurial activities do not take place in a vacuum; and it is important to consider the specific institutional context in which they operate. Within the wider social, cultural, and political contexts, GEM’s entrepreneurship model (figure IV.1) highlights the fact that there are basic requirements (e.g., institutions, infrastructure, macroeconomic stability and education), efficiency enhancers (e.g., higher education, technological readiness and market size), and a number of innovation and entrepreneurship conditions that all contribute to firm expansion, entrepreneurship development and,

#### Box IV.1. Think big, start small: The Cathay Pacific story

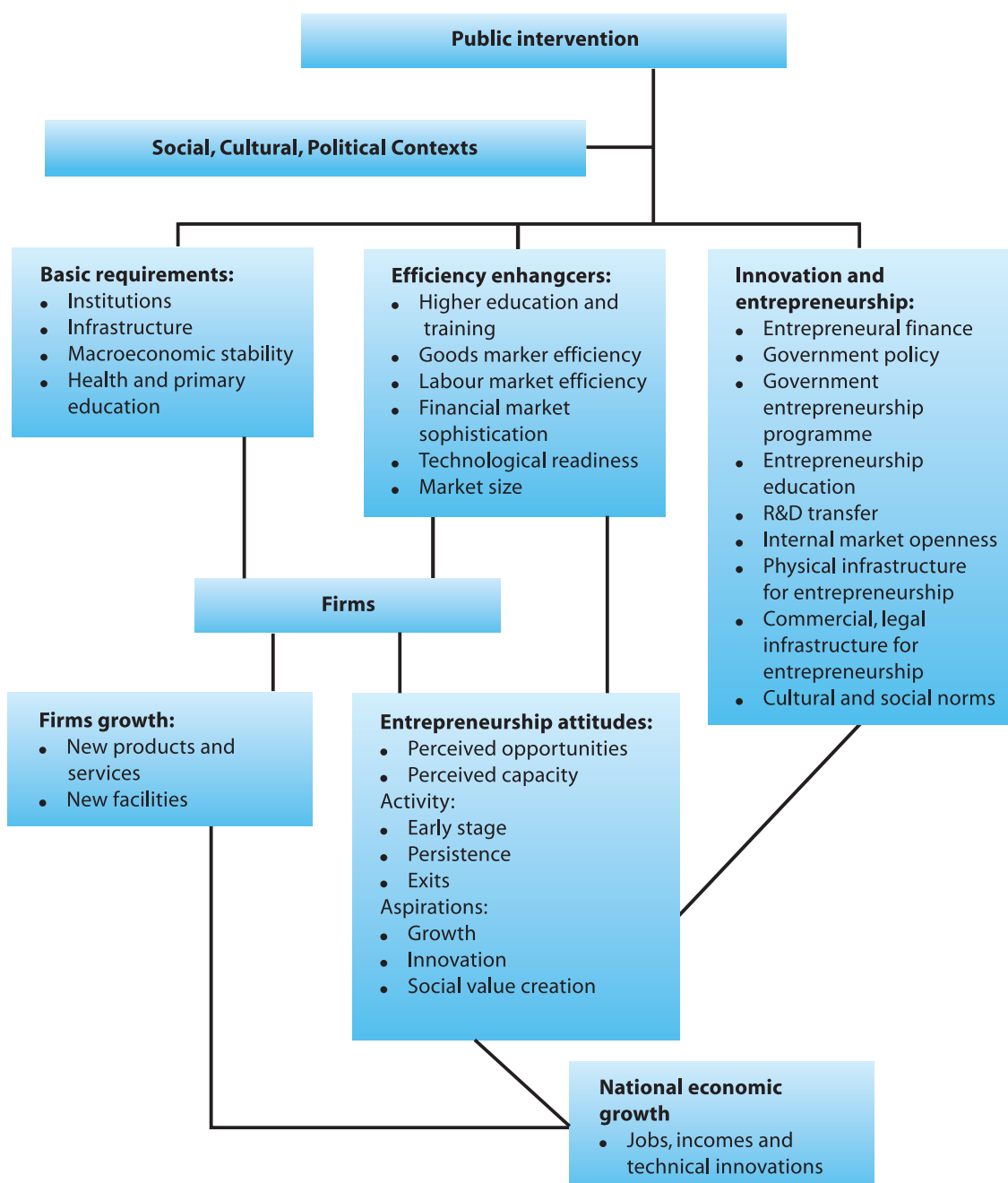
"It all began with the entrepreneurial vision of two former World War II veterans, American Roy Farrell and Australian Sydney de Kantzow. After World War II, Roy and Sydney spotted an opportunity to start passenger and cargo flights out of Shanghai. Early in 1946, they moved their enterprise to Hong Kong and in September of the same year, paid \$HK 1 apiece to register the airline. They named it Cathay Pacific Airways. Cathay, the ancient name of China, and Pacific, because the far-sighted Farrell speculated that one day the airline might fly across the ocean.

The fledging airline consisted of just two United States Army surplus DC3 aircraft, Betsy and Nikki, but Cathay continued to grow. In 1949, the airline acquired its first four-engine aircraft,

a Douglas DC4. The 1970 decision to equip the airline with Boeing 707s opened the door to long-range flights. Cathay Pacific was the world's first airline to take delivery of Rolls-Royce-powered B747-400 in 1989, bringing destinations such as Vancouver, London and Los Angeles within non-stop range. In 2002, the airline introduced its first ultra-long-haul Airbus A340-600 and is currently expanding its fleet with the purchase of 30 Boeing 777-300 ER "Extended Range" aircraft that will form the backbone of its long-haul passenger fleet in the years to come". The rest is history.

Source: Extracted from *Discovery*, the Cathay Pacific in-flight magazine, September 2011, p.108.

Figure IV.1. Institutional context and its relationship to entrepreneurship



Source: Modified from GEM, 2010.

eventually, national economic growth. While these factors also have an impact on established firms, new entrepreneurs are particularly sensitive and the presence of these conditions can have a significant positive impact on their development.

Given this framework, policymakers have to choose suitable policy instruments in order to stimulate positive entrepreneurial attitudes within a society, and encourage entrepreneurs to recognize valuable business opportunities and pursue skills to capitalize on them. Most importantly, governments need to encourage entrepreneurs' aspirations to grow, innovate and help entrench these social values in order to promote sustainable competitiveness. Through the provision of supportive resources and policies, policymakers can help increase entrepreneurship activities for greater national competitiveness and sustained economic growth.

## B. Role of entrepreneurship in different phases of economic development

The World Economic Forum (2011) classifies entrepreneurial activities according to three stages of economic development – factor-driven, efficiency-driven and innovation-driven. Factor-driven economies are largely extractive, whereas efficiency-driven economies and innovation-driven economies add increasing amounts of value in their production of goods and services. The hallmark of efficiency-driven economies is scale, whereas that of innovation-driven economies is creativity. Table IV.1, drawn from GEM (2012),

uses these groupings to present entrepreneurial activities in select Asia-Pacific countries. It is notable that the entrepreneurship percentage is generally higher in the factor-driven economies than in efficiency and innovation economies, not only in the region but on average overall.

Taken together, the numbers in table IV.1 provide a picture of the characteristics of overall entrepreneurial activity for each country. The results indicate large variations among the sample countries due to different economic and social conditions. One of the principal measures is early-stage entrepreneurial activity (TEA), which represents the proportion of people aged 18-64 years who conduct entrepreneurial activity as a nascent entrepreneur or as an owner-manager of a new business. By further disaggregating the data, it can be seen that TEA rates are lowest in innovation-driven economies and fairly similar in factor- and efficiency-driven economies. The rate of established business ownership among the factor-driven economies is relatively low in relation to TEA. Within the group of efficiency-driven economies, Thailand can be considered an outlier, as the ownership rate is far higher than its TEA rate, which is not the case for any of the other economies in this category. As economies move towards higher development levels, the number of businesses that discontinue decreases. This inverse relationship should not be surprising given the higher share of TEA in factor- and efficiency-driven economies. This trend may indicate a more stable environment for businesses in developed than developing nations (GEM, 2011).

**Table IV.1. Entrepreneurial activity in selected Asia-Pacific countries in 2011, by phase of economic development**

	Nascent entrepreneurship rate	New business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of business	Necessity driven (per cent of TEA)	Improvement driven (per cent of TEA)
<b>Factor-driven economies</b>							
Bangladesh	7.1	7.1	12.8	11.6	2.5	27.3	50.0
Iran (Islamic Republic of)	10.8	3.9	14.5	11.2	6.4	53.0	31.5
Pakistan	7.5	1.7	9.1	4.1	1.6	46.9	24.7
<i>Average (unweighted)<sup>a</sup></i>	9.2	4.8	13.4	5.6	5.7	37.0	38.5
<b>Efficiency-driven economies</b>							
China	10.1	14.2	24.0	12.7	5.3	40.6	29.0
Malaysia	2.5	2.5	4.9	5.2	2.6	10.2	71.8
Russian Federation	2.4	2.3	4.6	2.8	1.5	26.9	41.9
Thailand	8.3	12.2	19.5	30.1	4.5	18.9	66.8
Turkey	6.3	6.0	11.9	8.0	3.9	31.6	44.8
<i>Average (unweighted)<sup>b</sup></i>	8.4	5.9	14.1	7.2	4.3	28.2	41.7
<b>Innovation-driven economies</b>							
Australia	6.0	4.7	10.5	9.1	4.3	15.0	73.1
Japan	3.3	2.0	5.2	8.3	0.7	24.9	63.5
Republic of Korea	2.9	5.1	7.8	10.9	3.2	41.5	36.2
Singapore	3.8	2.8	6.6	3.3	2.1	16.2	52.6
Taiwan Province of China	3.6	4.4	7.9	6.3	4.9	17.5	49.8
<i>Average (unweighted)<sup>c</sup></i>	4.0	3.0	6.9	7.2	2.7	17.6	57.0

Source: GEM, 2012.

<sup>a</sup> Average refers to all factor-driven economies covered by the GEM 2011 adult population survey, not only the listed economies from Asia and the Pacific.

<sup>b</sup> Average refers to all the efficiency-driven economies that are covered by the GEM 2011 adult population survey, not only the listed economies from Asia and the Pacific.

<sup>c</sup> Average refers to all the innovation-driven economies that are covered by the GEM 2011 adult population survey, not only the listed economies from Asia and the Pacific.

#### Box IV.2. Realities of entrepreneurship

- People are more likely to start companies in places that are poorer or with high rates of unemployment than in places that are richer and with low rates of unemployment.
- The typical startup is an ordinary, barely innovative, home-based business that starts and stays tiny.
- Entrepreneurs do not select industries because they are good for startups but rather because they know these industries and because it is easy to start businesses in them.
- The typical entrepreneur, who is a middle-aged person, starts a business because they do not like working for someone else and because they are just trying to make a living.
- People are more likely to go into business for themselves if they are unemployed, work part-time, have changed jobs often and make less money.
- Obtaining higher levels of education makes people more likely to start businesses.
- Studying fields or subjects that correspond to occupations in which many people run their own businesses is likely to increase a person's chances of starting a business.
- Most entrepreneurs do not systematically search for, or evaluate, their new business ideas, offering instead the same, or similar, products to the same, or similar, customers as their previous employers. More people even start companies before they have identified a business idea than the other way around.
- The typical business is started by a single person alone and when more than one person is involved in starting a business, it is usually two spouses working together.
- It does not take a large amount of money to start a business; the typical new business established in the United States requires less than \$ 25,000 in initial capital.
- The most common source of capital for a new business is personal savings. Many entrepreneurs borrow personally to finance their new businesses, with personal bank loans being the most important source of personal debt for new businesses. About half of all new businesses are financed with debt and half with equity.
- One of the most overlooked reasons why some entrepreneurs get external financing is simply that they ask for it.

Source: Shane, 2008.

Note: Venture capitalists provide money to less than one-tenth of 1 per cent of all start-ups, and account for less than 2 per cent of all small business financing.

There are also differences in the percentages of necessity-driven or improvement-driven entrepreneurial activities in different phases of economic development. A necessity-driven entrepreneur is one who starts a business due to a lack of job opportunities (GEM 2011). In contrast, improvement-driven opportunity entrepreneurs are those who start businesses because they identify an opportunity to increase income and independence (GEM 2011). The above illustrates that in factor-driven economies there is a balance between necessity and improvement-driven entrepreneurs. As economic development increases there are more improvement-driven entrepreneurs and less necessity-driven entrepreneurs. In innovation-driven economies, nearly two-thirds of participants in the GEM survey indicated that improvement opportunity and not necessity was the key motivating factor for engaging in entrepreneurial activities.

### C. Key factors for success of entrepreneurs

While it is not possible to compose an exhaustive list of all the factors that determine the success of entrepreneurs, it is possible to identify a number of factors that successful entrepreneurs have in common. The main elements include: adequate education; relevant experience; deep market knowledge and professional networks; and a marketable idea. In order to manage the whole business process, successful entrepreneurs should also have solid command of management skills covering marketing, cost control, cash flow management and certain knowledge of legal requirements (e.g., business registration).

Resources are another crucial factor influencing the success of new business ventures, with the most important being financial, technological and human. Entrepreneurs need to guarantee adequate start-up funds from their own capital, family support or external financial supporters, such as “angel

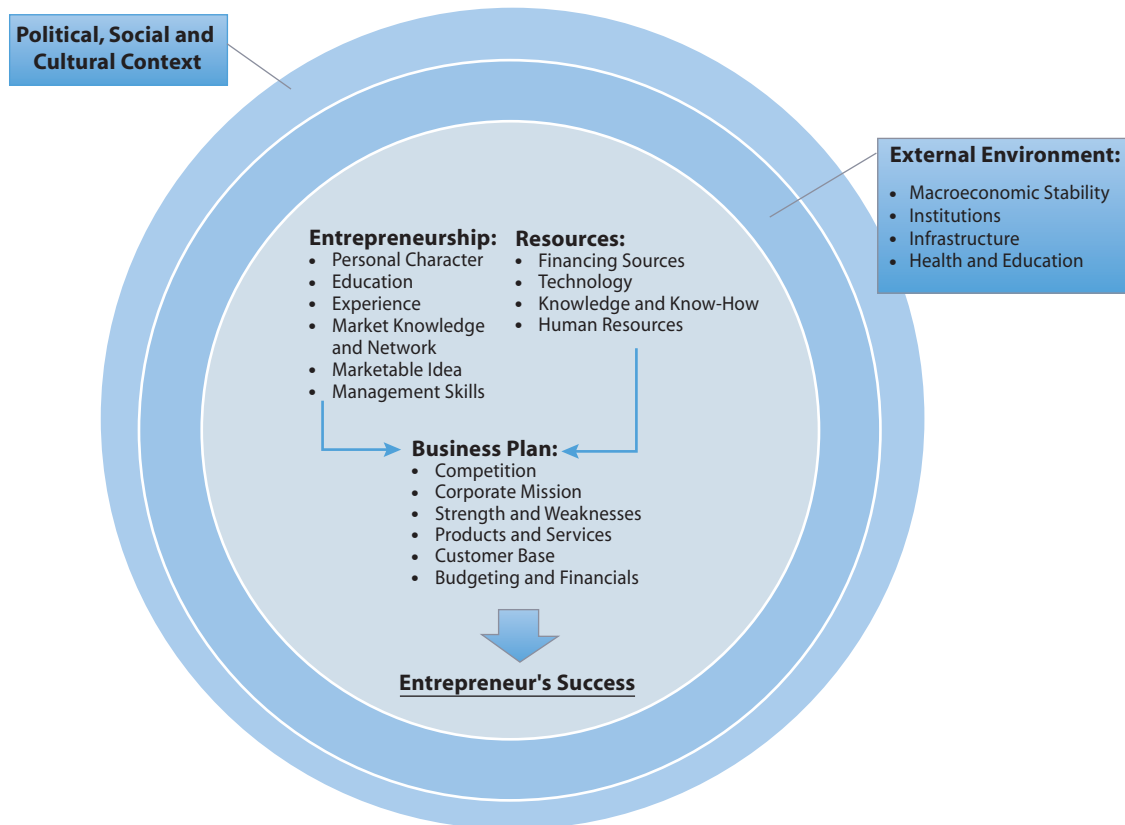
investors”.<sup>60</sup> Among other factors, human resources are the foundation of a successful and well-functioning enterprise while technological expertise is essential to the realization of ideas.

A unique and well-developed business plan is essential in competitive markets as it is an assessment of all factors and coordinates entrepreneurs' strengths and available resources. Successful business plans consist of clearly-defined corporate missions, strengths and weaknesses, and competitive products and services (see annex IV.1 for detailed exercises for business plan development). During the implementation of business plans, successful entrepreneurs should always pay close attention to: (a) the trends of the market and customer needs; (b) policy changes, including public spending and procurement; (c) advancement of technologies; and (d) economic volatilities (boom or decline).

While entrepreneurs can exercise influence on many of the aforementioned factors for success, the external environment in which entrepreneurial activities take place is beyond their control. The external environment includes factors such as the overall macroeconomic stability, the existence and efficiency of institutions and infrastructure as well as appropriate levels of health and education (figure IV.1). A favourable external environment will play a key role in determining the likelihood of entrepreneurial success. Entrepreneurs also benefit from a being highly aware of the specific social, cultural and political context in which they are operating. An adequate understanding of these dimensions helps them obtain market insights and develop context specific products or services. Figure IV.2 illustrates the overall framework of key factors for successful entrepreneurs.

<sup>60</sup> An “angel investor” is an affluent individual who funds business start-ups in exchange for ownership equity or future repayment of loans. For more details see chapter V.

**Figure IV.2. Key success factors of entrepreneurs**



Source: Authors' compilation with elements from the Entrepreneurship Model (GEM, 2011).

## D. Entry barriers to entrepreneurship

The 'fear of failure' is the paramount entry barrier to entrepreneurship in the Asia-Pacific context. In a number of nations, for instance, any kind of failure carries strong stigma (GEM, 2009). The "fear of failure" is not simply an internal mindset; it is influenced by the following socioeconomic and cultural factors:

- (a) Negative peer pressures (e.g., parents, relatives and friends);
- (b) No respectable exit route without economic punishment;
- (c) Social stigma;
- (d) Lack of confidence due to inadequate skills and knowledge; and
- (e) Low aspirations.

In addition, cumbersome procedures as well as high monetary costs and poor market access often prevent potential entrepreneurs from either starting their businesses or from registering them formally. Research on the differential regulatory burden faced by entrepreneurs would be useful, both in understanding which procedures impose particular costs on entrepreneurs and the best way to mitigate those costs (World Bank, 2012a). The Asia-Pacific region is home to some of the best business environments (e.g., Singapore, the Republic of Korea and Hong Kong, China) as well as some of the most difficult. According to the most recent World Bank Doing Business "starting a business" indicators, Cambodia (171 out of 183 countries) is the lowest ranked of all countries in the region. The nine required procedures take an average of 85 days to complete and cost 109.7 per cent of the

economy's income per capita (World Bank, 2012a). India (166) also has a low ranking for starting a business, as does the Philippines (158), Timor-Leste (157), Indonesia (155) and China (151). All of these countries, with the exception of India and Indonesia, dropped in the "starting a business" rankings in the past year (World Bank, 2012a).

## E. Cultural aspects and their impacts on entrepreneurship

Culture is another important factor that explains cross-country differences in SME development as entrepreneurs' decision-making is influenced by their cultural backgrounds. The term "culture", as discussed here, is defined as "the collective programming of the mind that distinguishes the members of one group or category of people from another" (Hofstede, 1991). On the basis of this definition, Hofstede (1980 and 2001) proposed a five-dimensional model for analysing national cultures (table IV.3).

Abundant empirical literature has demonstrated the relationship between entrepreneurial activities and cultural dimensions, and has found similar results. In general, low power distance, individualism, low uncertainty avoidance, and long-term orientation are associated with entrepreneurial activities and innovation (Shane, 1993, 1995; Thomas and Mueller, 2000; and Jones and Davis, 2000). Collectivism can be a good support to subsequent implementation after invention (Nakata and Sivakumar, 1996). Masculine cultures emphasize the value of performance, competition and success, while feminine countries may be more successful in the service sector due to the strong focus on relationships (Luczak and Mohan-Neill, 2009).



### Box IV.3. Entry barriers to entrepreneurship for youth in the Greater Mekong Subregion

In 2009, the Entrepreneurship Development Institute of India conducted a research survey of the entry barriers to entrepreneurship in the Greater Mekong Subregion (GMS), which comprises of Cambodia, the Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam as well as two southern provinces of China (Yunnan and Guangxi). The objective of the study was to understand the perception of students and young employees regarding entrepreneurship as a career option in the GMS. The study particularly delineated the factors that influence career choices of youth, which helped in identifying barriers to entrepreneurship.

The selection of all the respondents (254 students and 253 employees) from the GMS countries was based on the convenient sampling method. The coverage of respondents, the sample size and inclusion of regional variations lend validity to the findings. In order of the greatest to the least influential factor, the following four entry barriers were identified:

- (a) Attitudinal (no interest in owning one's own business; preference for employment over self-employment);
- (b) Lack of confidence in business;

- (c) Disapproval of family or friends; and
- (d) Desire to wait for some more time.

It is necessary to sustain the morale and motivation of those who are willing to venture into self-employment and entrepreneurship, and it is useful to know whether they do so immediately after completing studies or after a few years of working as an employee. Although nearly 63 per cent of the sample employees in the study were not very keen to take up entrepreneurship, it is heartening to note that 41 per cent of them might consider entrepreneurship, provided the right kind of encouragement, environment, support and motivation are available. This is an opportunity for action by policymakers concerned with entrepreneurship development in the GMS. However, this interest may decline as employees take up other opportunities; and so requires the timely attention of policymakers.

Table IV.2 proposes a framework for dealing with these barriers. This framework is not all-inclusive; rather, it suggests possible areas of focus to policymakers. The point is to stimulate thoughts about necessary policies to overcome the identified hurdles to entrepreneurship in the GMS.

**Table IV.2. Minimizing the barriers: A suggested framework**

Entry barrier	Reasons for not starting the venture	Measures to cross the entry barrier
Lack of self-confidence	<ul style="list-style-type: none"> <li>To gain experience.</li> <li>To arrange for finance.</li> <li>To seek social security by working first.</li> </ul>	<ul style="list-style-type: none"> <li>Managerial skills and vocational training.</li> <li>Ensuring timely access to finance.</li> <li>Changing the mindset.</li> </ul>
Resistance from peers and conflicting social values	<ul style="list-style-type: none"> <li>Lack of connections to the business community.</li> <li>No family business experience.</li> <li>Bad experiences from founding firms in the past.</li> <li>Limited capacity of the family to bear the risks.</li> </ul>	<ul style="list-style-type: none"> <li>Counselling for confidence-building.</li> <li>Demonstration of cases of successful first-generation entrepreneurs.</li> <li>Provision for social security and fellowship for those opting for an entrepreneurial career.</li> </ul>
Lack of expertise, weak will to compete and inadequate knowledge and information.	<ul style="list-style-type: none"> <li>Lack of knowledge of business opportunity.</li> <li>No institutional linkages.</li> <li>Lack of knowledge about the procedures and formality involved in launching an enterprise.</li> </ul>	<ul style="list-style-type: none"> <li>Business opportunity guidance and entrepreneurship education.</li> <li>Information on organizations, procedures, and sources of assistance.</li> <li>Behavioural training.</li> <li>Business incubation programmes.</li> </ul>
Attitudinal – no interest in setting up own business; distinct preference for employment or salaried job.	<ul style="list-style-type: none"> <li>Satisfied with current position.</li> <li>Lack of business aptitude.</li> <li>Desire to have a secure job.</li> <li>Unwillingness to risk loss of money and social stigma.</li> </ul>	<ul style="list-style-type: none"> <li>Inculcating entrepreneurial values and behavioural training.</li> <li>Skills training and counselling.</li> <li>Facilitate risk management; loss insurance.</li> </ul>

Source: Authors' compilation.

**Table IV.3. Five dimensions of national culture**

Dimension	Definition
Power distance	The degree of inequality among people that the population of a country considers as normal.
Individualism versus collectivism	The extent to which people feel they are supposed to take care of, or to be cared for by, themselves, their families or organizations to which they belong.
Uncertainty avoidance	The degree to which people prefer structured over unstructured situations.
Masculinity versus femininity	The extent to which a culture is conducive to dominance, assertiveness and acquisition of things versus a culture that is more conducive to people, feelings and the quality of life.
Long-term versus short-term orientation	Values to concentrate on the future and focus on long-term relationships, such as saving and persistence versus values oriented towards the past and present, such as fulfilling social obligations and transaction-based relationships.

Source: Hofstede, 1980 and 2001.

According to Didero and others (2008), the Asia-Pacific region is generally characterized by high-power distance, high collectivism and long-term orientation. Some countries (e.g., Japan) are marked as masculine with high uncertainty avoidance, while the others (e.g., Thailand) are associated with femininity and low uncertainty avoidance. This conclusion implies that Asia-Pacific countries may lack certain

cultural elements for entrepreneurial activities and innovation, even though they do have some positive cultural dimensions to support the development and maintenance of business. Table IV.4 summarizes the results of the national culture survey by Hofstede (2001), which was conducted in 53 countries.

**Table IV.4. Values of Hofstede's cultural dimensions**

Region	Country/area	Dimensions				
		Power distance <sup>1</sup>	Uncertainty avoidance <sup>2</sup>	Individualism <sup>3</sup>	Masculinity <sup>4</sup>	Long-/short-term orientation <sup>5</sup>
Asia-Pacific	Australia	36	51	90	61	31
	Hong Kong, China	68	29	25	57	96
	India	77	40	48	56	61
	Indonesia	78	48	14	46	n.a.
	Iran (Islamic Republic of)	58	59	41	43	n.a.
	Israel	13	81	54	47	n.a.
	Japan	54	92	46	95	80
	Malaysia	104	36	26	50	n.a.
	New Zealand	22	49	79	58	30
	Pakistan	55	70	14	50	0
	Philippines	94	44	32	64	19
	Singapore	74	8	20	48	48
	Republic of Korea	60	85	18	39	75
	Taiwan Province of China	58	69	17	45	87
	Thailand	64	64	20	34	56
	Turkey	66	85	37	45	n.a.
Arabia	Arabic countries	80	68	38	53	n.a.
Africa	East African countries	64	52	27	41	25
	South Africa	49	49	65	63	n.a.
	West African countries	77	54	20	46	16
Europe	Austria	11	70	55	79	31
	Belgium	65	94	75	54	38
	Denmark	18	23	74	16	46
	Finland	33	59	63	26	41
	France	68	86	71	43	39
	Germany (former West Germany)	35	65	67	66	31
	Greece	60	112	35	57	n.a.
	Ireland	28	35	70	68	43
	Italy	50	75	76	70	34
	Netherlands	38	53	80	14	44
	Norway	31	50	69	8	44
	Portugal	63	104	27	31	30
	Spain	57	86	51	42	19
	Sweden	31	29	71	5	33
	Switzerland	34	58	68	70	40
	United Kingdom	35	35	89	66	25
	Yugoslavia	76	88	27	21	0
North America	Canada	39	48	80	52	23
	United States	40	46	91	62	29
Latin America	Argentina	49	86	46	56	n.a.
	Brazil	69	76	38	49	65
	Chile	63	86	23	28	n.a.
	Colombia	67	80	13	64	n.a.
	Costa Rica	35	86	15	21	n.a.
	Ecuador	78	67	8	63	n.a.
	Guatemala	96	101	6	37	n.a.
	Jamaica	45	13	39	68	n.a.
	Mexico	81	82	30	69	n.a.

**Table IV.4. (continued)**

Region	Country/area	Dimensions				
		Power distance <sup>1</sup>	Uncertainty avoidance <sup>2</sup>	Individualism <sup>3</sup>	Masculinity <sup>4</sup>	Long-/short-term orientation <sup>5</sup>
	Panama	95	86	11	44	n.a.
	Peru	64	87	16	42	n.a.
	Salvador	66	94	19	40	n.a.
	Uruguay	61	100	36	38	n.a.
	Venezuela	81	76	12	73	n.a.

Source: Hofstede, 2001.

Notes: Arabic countries include Egypt, Iraq, Kuwait, Lebanon, Libya, Saudi Arabia, United Arab Emirates; East African countries include Ethiopia, Kenya, Tanzania and Zambia; West African countries include Ghana, Nigeria and Sierra Leone.

<sup>1</sup> Power Distance: higher number = large power distance

<sup>2</sup> Uncertainty Avoidance: higher number = higher uncertainty avoidance

<sup>3</sup> Individualism: higher number = individualist

<sup>4</sup> Masculinity: higher number = masculine

<sup>5</sup> Long-/short-term orientation: higher number = longer-term orientation

To address cultural impacts on entrepreneurship, the interrelationships among culture, policy, and entrepreneurial development must first be considered. As illustrated in figure IV.3, there will be changes in policy results, based on different combinations of policy and culture. If both variables favour the development of entrepreneurship, the yield will be a virtuous circle for entrepreneurial activities (quadrant Entrepreneurial). If the opposite happens, the result will be few entrepreneurs and little entrepreneurship (quadrant Stagnant). The two remaining quadrants are more complex because they involve mismatches between the two variables. A favourable policy with an unfavourable culture produces the "Led" quadrant: a government leads the public to greater acceptance of, and support for entrepreneurship, thereby towards more entrepreneurial behaviour and outcomes. The opposite quadrant, "Repressed", represents the scenario in which a government attempts to resist public inclinations for more supportive entrepreneurial environment (Dennis, 2005).

**Figure IV.3. Relationships among culture, policy and entrepreneurship**

		Policy	
		Favourable	Unfavourable
Culture	Favourable	Entrepreneurial	Repressed (bottom up)
	Unfavourable	Led (top down)	Stagnant

Source: Dennis, 2005.

This model highlights the changeable nature of entrepreneurial activities in a geographical area as well as the impact of both culture and policy on this issue. To promote entrepreneurship, a favourable culture needs to be shaped, even though progress may be slow. In addition, cultural differences within the country concerned should also be taken into consideration during the policymaking process.

Because the specific groups or geographical areas may start at different points, the effects of the same policy may also vary. For example, in Malaysia, the Chinese Malays and, to some extent, the Indian-Muslims have long had a tradition of entrepreneurship, while the Bumiputra community did not have a similar tradition. As a result, the same SME policies did not lead to significant improvement of Bumiputra entrepreneurship despite the prosperity of other groups. Consequently more targeted government initiatives have been needed (Agensi Inovasi Malaysia, 2011).

The above analysis indicates that the policy objective of shaping culture is not to overtake it but to capitalize on the positive sides and to introduce the missing elements for entrepreneurship and innovation. To foster such a culture, the OECD (2007b) provided some general measures including:

- Increase awareness of entrepreneurial opportunities;
- Intensify enterprise education and awareness campaigns;
- Create identifiable role models and champions;
- Establish mentor and patron relationships;
- Incentives and support for business succession;
- Create incentives for SMEs to train apprentices; and
- Enhance entrepreneurship within existing businesses.

## F. Creation of entrepreneurship awareness

Governments and their agencies can promote awareness about the importance and role of entrepreneurship through a variety of programmes. Before embarking on such programmes, policymakers must recognize the social and cultural values and norms, including family traditions, which might inhibit entrepreneurial awareness. As reviewed in the previous section, the "fear of failure" needs to be addressed. Utilizing educational networks, mass media, confidence-building programmes that include easy and non-punitive exit-route legislation as well as financial assistance schemes for rehabilitation or closing failed ventures, are all worthy tactics. These measures would promote an entrepreneurial culture in an economy.



While a number of Asia-Pacific economies have initiated awareness creation programmes, it has not yet become a region-wide practice. According to a study by APO (2007), countries with successful awareness creation programmes include Bangladesh, India, Indonesia, Malaysia, Nepal, Pakistan, the Philippines and Viet Nam. With the changing needs of society, countries that are already operating the programmes may need to revisit the contents and make adjustments accordingly. Ongoing programmes in India and Pakistan exemplify government efforts in creating entrepreneurship and offer ideas about how countries should design programmes that can keep pace with social, economic and cultural development.

Entrepreneurship awareness creation has been integrated into India's educational training programmes since the establishment of the Entrepreneurship Awareness Camps in 1982. The three-day camps are conducted by specialized institutions with the aim to create awareness among students about entrepreneurship as an alternative career option. More than 100,000 students have been provided with in-depth knowledge about entrepreneurship, especially in the areas of science and technology. In addition, entrepreneurship is now offered as a postgraduate subject in major Indian institutes, such as the Indian Institute of Management, as well as the commerce departments of some universities (APO, 2007).

Past entrepreneurship awareness programmes run by the Government of Pakistan were not comprehensively designed and had limited impacts on promoting entrepreneurship among educated Pakistani youth. With a new direction to create awareness and to provide support, the Small and Medium Enterprise Development Authority offers training on business development and new business start-ups to potential young entrepreneurs and students aged between 18 years and 32 years (APO, 2007).

### G. Education and training for entrepreneurship development

Generating a critical mass of entrepreneurs oriented towards high levels of growth depends on the quality of education and training provided as well as the presence of an environment fostering innovation. The three interconnected areas – education and training (especially quality vocational training and skills development), innovation (generating commercial value through new and creative ideas) and entrepreneurship – provide possibilities for mutually beneficial synergies through the flow of ideas and wealth. Education and training are indispensable for skills development, while the ability to innovate and generate commercially valuable new products and processes can only take place in environments that encourage experimentation and value addition.

According to the Global Entrepreneurship Monitor Report (GEM, 2011), primary education is a basic requirement for enabling entrepreneurship in factor-driven economies and thus should be given priority. Beyond primary education, policymakers should devote attention to entrepreneurial instruction, i.e., cultivation of people's ability to recognize opportunities and to exploit them. Such an education would deliver the knowledge necessary to identify and capitalize on opportunities that offer economic advantages. It would equip

the entrepreneur with an ability to apply knowledge to maximize gains, useful business skills, leadership qualities and, above all, the self-confidence required to execute all these actions.

Organizations such as ILO and SDC offer examples of success stories in this regard. They have supported a number of countries in the Asian and Pacific region in their endeavours to train their youth for entrepreneurship, not only by introducing the *Know about Business (KAB)* curriculum in the education system but also by capacity-building through the establishment of educational institutions.<sup>61</sup> Countries such as China, Indonesia, the Lao People's Democratic Republic, Papua New Guinea, the Philippines, Sri Lanka and Viet Nam have either introduced or are in the process of introducing entrepreneurship education at secondary, post-secondary, vocational and technical schools, and in higher education. For example, entrepreneurship education within all educational institutions has been a high-level priority in Indonesia as reflected in that country's medium-term development plans (Ministry of National Development Planning, 2010).

Education and training for entrepreneurship development also should be geared towards both youth and women in the population. Training, motivation and guidance of youth and women towards entrepreneurship and self-employment provide the best solution for controlling unemployment and fostering growth. The issue of women, in particular, is considered in greater detail later in this chapter.

### H. Main players in entrepreneurship development

Several economies in the Asia-Pacific region have designed and put into operation entrepreneurship development programmes. The main players are government, academia, the private sector and the media.

Most of the policy programmes for SME development conducted by governments feature entrepreneurship development as an important component. Various agencies have placed SME and entrepreneurship development at the centre of their agendas and oversee these programmes at the national level.

Several institutions, universities and R&D centres across Asia and the Pacific are designating entrepreneurship development as their core function. Over the years, many of these agencies have emerged as centres of excellence. The private sector as well as NGOs play a vital role in promoting entrepreneurship in various countries.

In this context, the role of the media assumes great importance. The media provides a powerful means of creating an entrepreneurial culture in society, particularly through its influence on collective and individual perceptions and attitudes. The media educates and enhances entrepreneurship by conveying positive messages and knowledge that are crucial in building supportive social attitudes (and even systems) towards generating entrepreneurial activity (Hang and van Weezel, 2007).

<sup>61</sup> For more details, visit the website of ILO's International Training Centre at <http://kab.itcilo.org/en>.

#### Box IV.4. Technical and vocational education and training

Technical and vocational education and training (TVET) is concerned with the acquisition of knowledge and skills for employment. It aims to impart specific job-relevant skills that can make the worker suitable for a given job. TVET includes at least two major forms: vocational and technical education in formal education systems (lower and senior secondary schools, post-senior secondary but less than college level institutions like polytechnics, and colleges at tertiary level), and training outside formal system of education (pre-employment training and on-the-job-training). The latter form also includes apprenticeship-training systems, non-formal training centres, enterprise based training, etc.

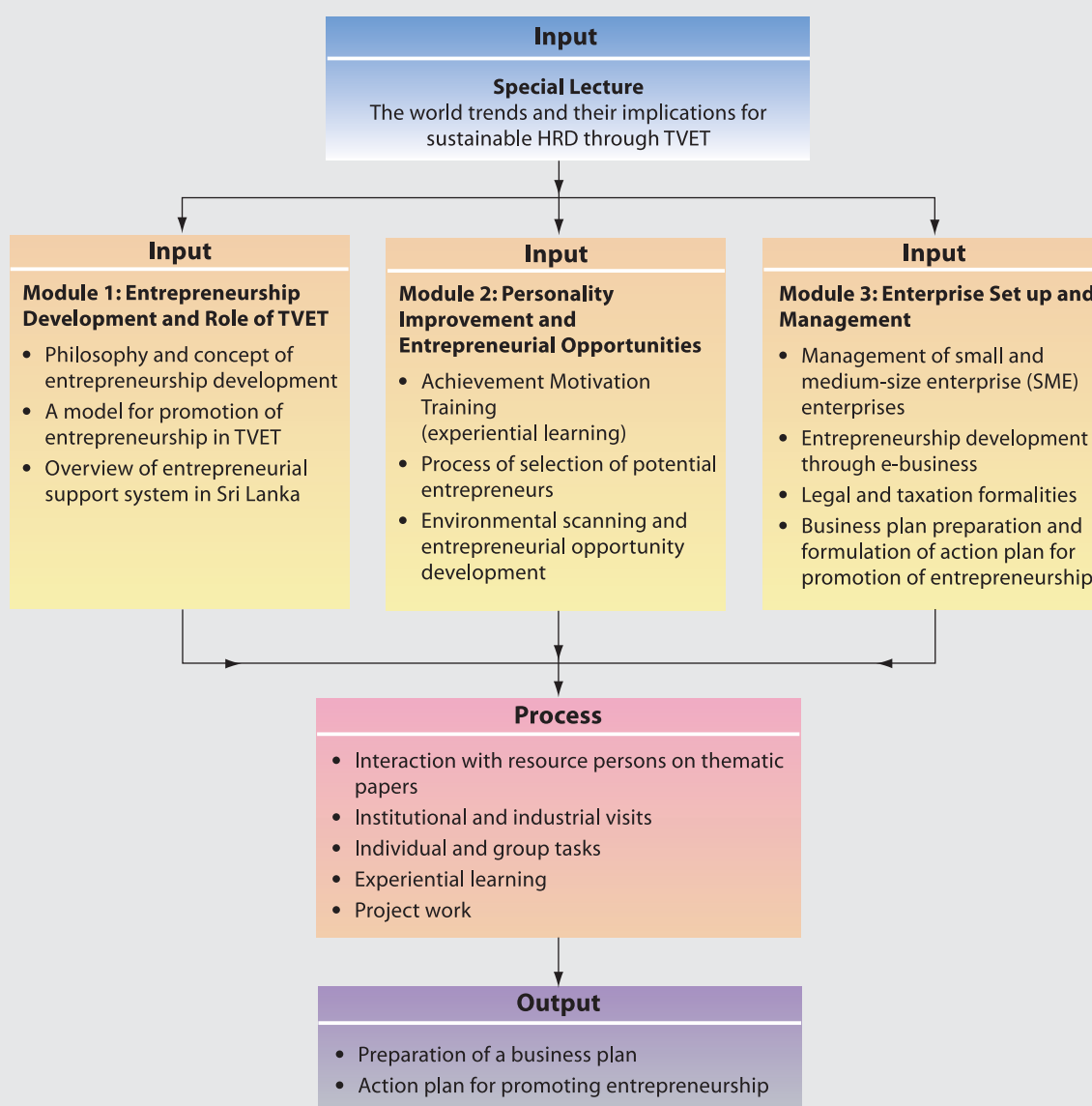
In addition to basic and occupational skill development, TVET can be a channel to deliver entrepreneurship education by adding relevant elements. Awareness of entrepreneurship should be integrated into the whole training process to encourage students to see self-employment as a valuable career

path. The specific skills needed for successful entrepreneurship such as business plan drafting, accounting and marketing skills, knowledge of commercial laws, and the administrative procedures for starting a business should be covered by the courses.

Some countries in Asia-Pacific have taken steps in this direction. For example, in collaboration with the Colombo Plan Staff College for Technician Education, the Ministry of Vocational Education and Training Government of Sri Lanka has developed a TVET programme to promote entrepreneurship. Figure IV.4 illustrates the course structure, training process, and expected outcomes of this programme, which provide a comprehensive framework of knowledge and skills needed in entrepreneurial activities.

Source: Colombo Plan Staff College for Technician Education, 2007.

Figure IV.4. Overview of the TVET programme for entrepreneurship in Sri Lanka



Source: Tilak, 2002; European Commission, 2009b; and the Colombo Plan Staff College for Technician Education, 2007.

## I. Women entrepreneurs

Empirical studies of economic development consistently demonstrate a strong positive correlation between the degree of women's participation in the economy and economic growth (Tansel, 2001). Women entrepreneurs, as a group, have demonstrated impressive business acumen over the years. They have emerged as reliable borrowers (e.g., microfinancing) and contributors to family income and the national economy at large. They are particularly active in the agricultural, food processing, light manufacturing, service and entertainment sectors.

A study by the Kauffman Foundation (Cohoon and Mitchell, 2010), based on data collected during 2008-2009 from 549 respondent business women (about 40 per cent of the female founders from randomly selected high-tech companies), identified the five top factors that motivate women to become entrepreneurs (Cohoon and Mitchell, 2010):

- (a) A desire to build wealth;
- (b) Wish to capitalize on the business ideas;
- (c) The appeal of start-up culture;
- (d) A desire to have their own company; and
- (e) Working for someone else does not appeal to them.

these issues will not only increase economic productivity, it will also improve the general social status of women.

Given the above points, policymakers should pay attention to empowering women in business. To do so, the financial instrument of micro lending has gained worldwide attention. Popularized by Dr. Muhammad Yunus, the 2006 Nobel Laureate and founder of the Grameen Bank in Bangladesh, micro-lending enables women to start their own modest firms, in order to support their families. Micro-lending targets women not only with the objective of empowering them but also for a practical reason as women are considered to be a better credit risk than men. The rate of interest on micro-loans, while high by developed country standards, is generally much lower than what an entrepreneur could obtain from a loan shark, the typical source of credit in a rural village. For all of these benefits, however, it must be noted that few large-scale empirical analyses of the efficacy of micro-lending have been undertaken. Much of the evidence of the benefits of micro-lending is anecdotal (Morduch, 2002).

## J. Rural entrepreneurship

Rural development is closely linked to entrepreneurship as individuals and institutions that promote rural development have to stress the need to create and grow rural enterprises. Rural entrepreneurship is viewed as the central force of local

### Box IV.5. Women entrepreneurs in the food-processing industry

Women have traditionally played a vital role in the agricultural and light manufacturing sectors in the developing countries of Asia and the Pacific. They dominate various subsectors – for example: (a) textiles, clothing and leather; (b) food, beverages and tobacco; and (c) wood and wood processing – making up more than 80 per cent, 75 per cent and 60 per cent of employees, respectively (UNIDO, 1995). Due to their greater participation in the above subsectors, women entrepreneurs are at an advantage when starting businesses. In fact, it is common for women to act as microentrepreneurs and traders of agricultural products in rural areas in many Asian and Pacific countries.

Food processing is particularly popular among home-based women workers and self-employed women entrepreneurs, as it is an extension of their domestic duties. For example, Laoganma Special Flavour Foodstuffs Co., Ltd. is famous for its product brand "Laoganma" chilli sauce and the story of its female founder Huabi Tao in China. Tao was a street vendor selling home-made noodles when she noticed that it was her own, specially formulated chilli sauce seasoning that kept customers coming back for more. With her business acumen, she founded Laoganma in 1989. Today, over 1,000 Laoganma staff and workers produce 430,000 jars of chilli foods per day, achieving an annual turnover of \$ 50 million. The products have been exported to 30 countries and regions, and Tao has become one of the most successful women entrepreneurs in China.<sup>62</sup>

When given a level playing field, women have displayed entrepreneurship skills and achieved success. The study observed that "successful men and women entrepreneurs share similar motivations, view the reasons for their success in largely the same way, secure funding from the same types of sources, and face many of the same challenges". Thus, both men and women can be equally successful entrepreneurs under the same conditions (Cohoon and Mitchell, 2010).

Until recently, policymakers have not taken into consideration the particular obstacles that women may face in starting a business. These include cultural attitudes that limit women's involvement in business, laws prohibiting female ownership of property, lack of capital or information due to membership in social networks that are not as robust as those of men, and generally inferior education. Many governments still need to address these issues, fill the gaps and remove the operational roadblocks confronting women entrepreneurs. Addressing

economic growth with enormous employment potential, particularly for youth. It utilizes local and regional raw materials and resources, and decreases vulnerability of the rural economy to financial shocks. Farmers welcome it as an instrument for improving agricultural earnings. It also provides home-based jobs for women. Rural entrepreneurship develops the countryside economically, socially and environmentally (Petrin, 1994).

To strengthen rural entrepreneurship, policymakers should start by identifying local and regional assets and resources. Officials can advertise them to attract entrepreneurs who will, in turn, convert entrepreneurial activities into actual economic benefits. For this conversion to be successful a number of conditions must be present, including: adequate

<sup>62</sup> For more details, visit the company's website at [www.laoganma.com.cn/english/e\\_index.jsp](http://www.laoganma.com.cn/english/e_index.jsp).

local infrastructure, an organized and supportive rural community, and systems that ensure the cultivated rural entrepreneurs remain in their communities (OECD, 2011b).

At the beginning of the 1980s, a good example occurred in China of how effective rural entrepreneurship can be. At that time China was starting the transition from a centrally-planned economy to a market economy. In the interest of not shocking the economy with too many reforms at once, but also to gain the most benefit for the greatest number of people possible, the Government of China instituted reforms in the agricultural sector (CIA World Factbook, 2011). Local government officials encouraged farmers to sell surplus produce at market prices, and also supported the establishment of new firms known as township-village enterprises. After an initial decline in agricultural output, the amount of farm production skyrocketed in 1984 (ITC, 2011). From 1978-1984, the number of rural enterprises increased fourfold in China, as did the value of gross output. The average annual growth rate of rural industrial output was about 27 per cent, nearly three times that of national GDP, while the average asset scale of township-village enterprises boomed tenfold with an average annual growth rate of 25 per cent (Zou, 2003).

## K. Social entrepreneurship and social enterprises

The development and recognition of social entrepreneurship and social enterprises has gained momentum during the past few years. While both have the objective of addressing salient socioeconomic as well as environmental issues in a society, it is worth clarifying the two terms. With regard to social entrepreneurship, Boschee (2009) from the Social Enterprise Alliance emphasized the individual, who as a social entrepreneur seeks to solve a social problem. Bornstein (2004) described social entrepreneurs as a transformative force for social change with bold ideas, who seek to inspire and move people at large. Contrasting business entrepreneurs and social entrepreneurs, the former are as important to the economy as the latter ones are to social value creation and change (Bornstein, 2004). The social entrepreneur can pursue this goal within a not-for-profit organization (NPO); however, social entrepreneurs and, by extension, social entrepreneurship can also be located within conventional businesses and government organizations where they take on the role of a change-seeking entrepreneur (Boschee, 2009).

Having recognized that organizational forms such as NPOs and philanthropic foundations have their limitations in addressing social and environmental challenges, an increasing number of social entrepreneurs are searching for a more suitable organizational type. Therefore, the social enterprise model may offer a viable alternative (Boschee, 2009). A plethora of definitions of social enterprises exist. Although there is not one universally agreed-upon definition, numerous studies mention several salient characteristics.<sup>63</sup> Ming and Shahnaz (2009) assessed both the contexts of, and opportunities for, social enterprises in Asia and the Pacific as follows:

- (a) A specific positive social impact is the primary reason for the entity's existence (versus ancillary

or secondary development such as a company's CSR programme);

- (b) The business model reflects responsible entrepreneurship and growth for all stakeholders: staff and overseers, beneficiaries, customers, the overall community and the environment;
- (c) The enterprise has a market orientation; and
- (d) It embraces for-profit as well as not-for-profit approaches.

While this definition captures the essence of a social enterprise, the impact of social enterprises can be broad, embracing positive social, environmental and cultural purposes. Social enterprises create positive change by applying business methods in various fields, ranging from education, health and environment to enterprise development.

In order to shed further light on this emerging trend and to profile the people behind social enterprises around the world, the GEM published a special report on social entrepreneurship in 2009. The GEM report applies a broad definition of social entrepreneurship, referring to individuals or organizations engaged in entrepreneurial activities with a social goal. Among the 49 nations participating in the survey, an average 1.8 per cent of the adult population was involved in early-stage social entrepreneurial activity (with a range of 0.1 per cent – 4.3 per cent). While more men than women start social enterprises, there is a relatively high prevalence of female social entrepreneurs in the age bracket of 25-34 years with a diverse educational and work background. Figure IV.5 shows social entrepreneurial activity by country, including some Asia-Pacific economies.

Governments have noticed the emergence of social entrepreneurship. For example, the Government of the United Kingdom has been particularly accommodating and progressive with its policies towards social enterprises. In February 2011, the Government released a vision and strategy for expanding the social investment market (Cabinet Office, 2011a). The centrepiece of this vision is Big Society Capital (formerly Big Society Bank), a financial institution that aims to provide greater access to financial resources and technical advice particularly to social enterprises, charities and voluntary organizations (Cabinet Office, 2011b).

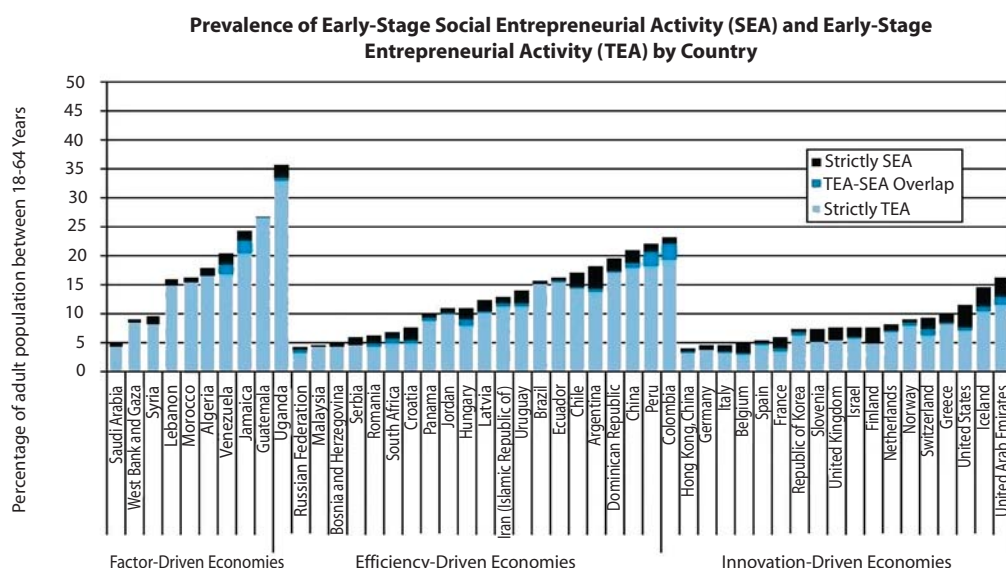
Governments in Asia and the Pacific have also started to recognize the value and importance of social entrepreneurship and are implementing their own policy programming. The Government of Thailand, for example, installed the national committee of social enterprise development in 2010 and later transformed the committee into the permanent Thai Social Enterprise Office in 2011. The Government empowered the office to design specific criteria to assess social enterprises for their eligibility to receive tax and other benefits (Social Enterprise Network Asia, 2010).

In Singapore, the Government is also trying to foster the development of its social enterprise sector. In 2006, the Minister of Community Development, Youth and Sports requested the formation of the social enterprise committee with the objective of analysing possible growth strategies. A specific example of the Government's interest in social enterprises is its support for an organization called Impact

<sup>63</sup> For a clarification between social enterprise and social entrepreneurship, see Boschee, 2009.



**Figure IV.5. Social entrepreneurial activity by country**



Source: GEM, 2009.

Investment Shujog. While Impact Investment Shujog provides capacity-building services for social enterprises, its sister company Impact Investment Exchange Asia is building the region's first social stock exchange focused exclusively on the financial needs of social enterprises. Together, they seek to expand the sector, which was established as one of the goals of the Government of Singapore.<sup>64</sup>

It is no coincidence that many of the policies targeting social enterprises resemble those focusing on SMEs. Social enterprises commonly fall into the category of SMEs, measured either by turnover, number of employees or capital investments. Many of the frequently cited main obstacles faced by SMEs (see chapter II) are of relevance to social enterprises.<sup>65</sup> Social enterprises are mostly SMEs facing very similar challenges, but they have the additional expectation of solving a social, environmental or cultural problem while operating in a financially sustainable way. Referring to the previously mentioned feature of a social enterprise – the specific positive social impact is the primary reason for an entity's existence – policymakers who choose to support SME development would be well-advised to pay close attention to the specific needs of social enterprises, as they are similar but not necessarily identical to those of SMEs.

## L. General recommendations

### 1. Offering 'single window' assistance

State policies and financial support schemes should be more entrepreneur-friendly. The "single window" concept is aimed at helping entrepreneurs to obtain all approvals as well as related documents and information from governments at one focal point, and financial assistance, both long term and short term, if possible from one financial institution. This initiative not only expedites administrative procedures but also reduces the chance of corruption. In the Asia-Pacific context,

single-window assistance is operated in Malaysia; Singapore; China; Hong Kong, China; India; Japan, and others. These and further case studies on the single window are available at the online UN/CEFACT Single Window Repository website, [www.unece.org/cefact](http://www.unece.org/cefact).

### 2. Reformation of business registration process

Many countries have undertaken business registration reforms, often as part of a larger regulatory reform programme. This has resulted in greater firm satisfaction and savings, and more registered businesses, financial resources and job opportunities. A number of studies (see, for example, Barseghyan and DiCecio, 2009, and World Bank, 2006b) have shown that economies with higher entry costs are associated with a larger informal sector and a smaller number of legally registered firms. For example, in Egypt the reduction of the minimum capital requirement in 2007 and 2008 led to a more than 30 per cent increase in the number of limited liability companies (World Bank, 2011b). More streamlined business registration regulations also lead to greater tax revenues in government coffers.

### 3. Facilitating access to seed capital

As mentioned above, one of the biggest obstacles to starting up a business is a lack of initial capital. A financial gap exists between entrepreneurs' financial needs and formal financing to support them. Public sector interventions could be effective in narrowing this gap. One technical issue for term loans is how to meet commercial banks collateral requirements. Based on proper risk evaluation, and in cooperation with commercial banks and business associations, developing public credit guarantee schemes and seed capital funds could be considered.

### 4. Ensuring formal property rights

In many cases, banks request property as collateral against loans. Without assigning property rights correctly, the potential borrower is not able to prove his creditworthiness

<sup>64</sup> For more details visit the website at <http://shujog.org> and <http://www.asiaii.com>.

<sup>65</sup> For a comparison, see ESCAP, 2003.

and will be denied access to finance. This is one of the reasons why ensuring formal property rights are of utmost importance (World Bank, 2011b).

Within the area of property rights management, effective administration of land is particularly important. If the modalities of transferring formal property are overly complex and expensive, there might be a risk that formal titles will turn informal again. In the past six years, 105 economies have undertaken 146 reforms to make it easier to transfer property. Globally, the time required to transfer property fell by 38 per cent and the cost fell by 10 per cent during that period. The most popular feature of property registration reform, implemented in 52 economies, was lowering transfer taxes and government fees (World Bank, 2011b). Accurate recording of property titles can increase property tax revenues, and can also improve the development and liquidity of capital markets (De Soto, 2000).

### 5. Simplification of tax collection procedures

Simplified tax codes encourage entrepreneurs to stay in the formal economy. It has been observed that more efficient filing and payment methods (e.g., online systems) have a positive effect on the number of payments made (IFC and PricewaterhouseCoopers, 2011) and at the same time, facilitating the public sector's formal assistance to those entrepreneurs and SMEs. Such a system can have a positive impact on businesses by reducing transaction costs. For example, Colombia introduced a new electronic system for social security and labour taxes in 2006, and by 2008 the social security contributions collected from SMEs had risen by 42 per cent (IFC and PricewaterhouseCoopers, 2011).

### 6. Provision of credit information systems

Accurate, current credit information is important in helping entrepreneurs gain access to credit. It also assists credit providers to assess potential borrowers and reduce risk. China created a national online registry for pledges of receivables. From January to May 2010, China's Credit Information Centre reported more than 57,000 registrations, representing loans with an estimated value of about \$ 1.5 trillion. More than 30,000 SMEs benefited by being able to access credit and secure their loans against account receivables (World Bank, 2011c).

### 7. Stronger investor protection

Stronger investor protection matters with regard to the ability of companies to raise the capital needed to expand, innovate, diversify and compete. This is crucial in times of financial crisis when entrepreneurs must navigate difficult environments to finance their activities. For example, Indonesia has consistently and extensively improved its investor protection laws since the start of this millennium and the payoff has been striking.

### 8. Provision of exit channels

Another obstacle to entrepreneurship is a strong "fear of failure" among potential entrepreneurs, which is generally influenced by national culture and social norms. One solution is to offer a respectable exit channel for failed entrepreneurs and firms by minimizing financial punishment. A well-

developed bankruptcy law as well as its proper enforcement is necessary.

## 9. Creation of positive attitudes towards entrepreneurship

One of the most serious entry barriers to entrepreneurship is disinterest in an entrepreneurial career. Knowledge about the attitudes towards the desirability of such a career can help policymakers address this issue. As mentioned above, the "fear of failure" inhibits people who see opportunities for, and are suited to, starting a business (GEM, 2010). Policymakers could address this by prioritizing the introduction of entrepreneurship courses on the benefits of self-employment. The curriculum to achieve these objectives could consist of inculcation of entrepreneurial values through success stories of achievers from different walks of life and discussions about business achievers. In addition, creating awareness and knowledge about the potential benefits of entrepreneurship would be useful, perhaps through cooperation with the mass media.

## 10. Institutionalization of entrepreneurial education and skills development

As previously highlighted, education and training for entrepreneurship is of critical importance in stimulating and expanding entrepreneurial activities. Policymakers should carefully develop a well-structured and holistic approach to entrepreneurial education and skills development. Schools, technical and vocational training and education institutions as well as universities would be well-advised to incorporate entrepreneurship-focused courses in their respective curricula (OECD, 2010a). Having recognized the benefits of such policies for students, numerous European countries have already designed specific policies to further entrepreneurship education. By including entrepreneurship at all its educational levels, the Government of Norway aims to equip students with the necessary knowledge and skills for entrepreneurship, nurture their self-confidence and competencies in self-employment, and promote entrepreneurial values and culture (OECD, 2010a). Moreover, as strong growth potential and scalability are among the most desirable characteristics of new enterprises, entrepreneurial education should ensure the development of a specific skill set that will enable entrepreneurs to navigate through growth-related challenges.<sup>66</sup> Such skills include:

- (a) Opportunity identification;
- (b) Risk-taking;
- (c) Strategy-making;
- (d) Leadership;
- (e) Negotiation;
- (f) Networking;
- (g) Building strategic alliances; and
- (h) Intellectual property protection.

Also, while mastering traditional business management skills (such as managing cash flow and developing a business plan) remains important, entrepreneurs will greatly benefit from

<sup>66</sup> Several examples of modules for entrepreneurship training are provided in annex IV.2.



learning how to manage cross-functional problems, as these are the types of challenges they will have to face in practice (OECD, 2010a). By sowing the seeds of entrepreneurship at an early stage and ingraining it into the various levels of education, a more conducive environment for new firm formation and an increasing number of successful entrepreneurs will be the result. In order to pursue such a policy change, more resources need to be allocated for example, to the training of trainers and the development of entrepreneurship teaching materials. Possible modules for entrepreneurship training are also given in annex IV.2.

### 11. Pay special attention to innovative and growth-oriented entrepreneurs

One of the key policy options related to entrepreneurship is to foster more innovative and growth-oriented entrepreneurs who have the potential to be the future business leaders as well as expand their enterprises into large companies. Such innovative companies would also have high potential to be exporters, and they would be important partners to large enterprises and TNCs. Specific technical assistance from policymakers would be useful here.

### 12. Encourage female, youth and rural entrepreneurs

The positive correlation between female participation in the economy and economic growth has been highlighted. Policymakers can support women entrepreneurs in many ways in addition to their interventions to encourage the development of youth and rural entrepreneurship. One area is property rights. Officials should break down barriers to women owning property, whether these barriers exist in the laws or the customs of a society. Another area is capital. Policymakers can provide subsidies or promote microfinance for nascent female-owned enterprises until they become self-sufficient. Young entrepreneurs require adequate education and training. Furthermore rural entrepreneurship can contribute significantly to overall economic growth.

## M. Summary

This chapter began with a discussion of the definitions and concepts of entrepreneurs and entrepreneurship. Entrepreneurs are creative and innovative, and recognize opportunities where others do not. They create value where none previously existed by recombining inputs in novel ways. The most common expression of this creativity is new firm formation. Policymakers need to understand that entrepreneurship occurs in different ways owing to the different motivations of new business owners.

Next, key factors for entrepreneurial success as well as entry barriers were considered. Given the discussion on infrastructure and the regulatory environment in chapter III, the focus in this chapter has been on some of the “soft” elements of BEE, i.e., the attitudes, traits and norms that can help or hinder an entrepreneurial culture. Lack of self-confidence, stigma associated with failure and general disinterest in owning businesses are all common problems in the Asia-Pacific region.

A key theme of this chapter is education and training in entrepreneurship. Often, people shy away from entrepreneurship because they feel ill-equipped to run a business, or perhaps the idea of running a business has never been suggested to them. The example of TVET schools in Sri Lanka has been highlighted, and examples of modules for entrepreneurship training are provided in annex IV.2. In the case of primary and secondary education, policymakers need to incorporate the idea of entrepreneurship as a viable career, and to formulate plans for practical study at the secondary and tertiary levels.

Given the varieties of entrepreneurs, there are subsets of particular importance. As pointed out in chapter III, women entrepreneurs are one such group. This issue has been further considered in this chapter by highlighting the fact that, with proper training and lower social barriers, women can create jobs and wealth. Rural entrepreneurship is another special area, especially for developing nations. China is an excellent example of how fostering entrepreneurship in the countryside can spur national growth and development.

Social entrepreneurship is a recent phenomenon that is rapidly gaining importance. Together with the notion of corporate social responsibility (see box II.5), attempts to harness the profit motive to the furtherance of the common good – be it the environment, public health, education or enlightened labour practices – will be essential. The Government of Thailand is providing incentives to social enterprises in the form of tax concessions and other benefits via the Thai Social Enterprise Office. This is a useful model for other nations in the Asia-Pacific region to consider.

The chapter concluded with a list of general recommendations. Many of those leading the list focus upon the formal aspects of BEE: permits, property rights, regulations, investor protection and access to credit. The final few recommendations, which focus on education, attitudes, and women entrepreneurs, are less tangible and more difficult to achieve. Policymakers will need to cater to the needs and interests of a wide range of stakeholders in order to improve attitudes and perceptions about entrepreneurship.

# Annex IV.1

## Business plan development

Writing an effective business plan is an integral part of starting or expanding a business. One of the objectives of a business plan is to help the entrepreneur transform a business idea into executable actions. It provides an overall map about the whole business including sales, supply chain and financial plans.

To create a business plan, the “Plan-Do-See” exercise is recommended. An initial business plan is developed first (“Plan”) and business activities are conducted following the plan (“Do”). The business plan also needs to be evaluated and improved according to the operating environment and the market reaction during implementation (“See”) to ensure its feasibility and the competitiveness of the business.

As a business plan may have various users, the specific needs of those users should be considered in the development process. Entrepreneurs use business plans to refine their business ideas. They require their plans to be clear-cut and executable. A business plan is also important for employees and suppliers who need to define a clear corporate direction. For the public and commercial financial institutions, a business plan can be also be used as a supporting document for grants or loans in order to evaluate their feasibility for funding consideration.

While there are many obstacles to gaining access to institutional finance, entrepreneurs can help themselves by preparing a competent business plan before approaching the financial sector for assistance. Financial institutions must see a “feasible and viable” business plan that projects a pattern of cash flow sufficient to service the loan (known as debt: service ratio) after meeting all the liabilities by the borrower. The plan also needs to demonstrate that the entrepreneur has basic general and financial management skills, including cash flow management, book-keeping and accounting.

Annex table IV.1 details the basic components of a business plan. To create a comprehensive plan, entrepreneurs need to consider each of the components listed in annex table IV.1. Among all these components, the sales forecast could be a difficult part, especially for the startups. In this part, uncertainty and seasonal factors along with the characteristics of the market and the product or the service should be carefully considered, and ideally, the sales forecast should be developed with three scenarios, namely conservative, most likely, and ambitious. In the funding plan, it is also necessary to note that the funds needed and fund raising must be balanced.

**Annex table IV.1. Basic components of a business plan**

Basic components	Details
Business idea	Idea creation is the art of business Review available resources Identify unrealized needs Get a novel idea through knowledge and experience Copying and modifying something marketable
Marketing plan	To whom: customers What: products and services How: channels and distributions; Internet; price schedule and sales terms; volumes Where: country, city, area, and shop By whom: employees, agents, franchisees, etc. When: business hours
Sales forecast	Three scenarios of revenue (ideally): (a) Conservative; (b) Most likely; (c) Ambitious. Different methods by sector: (a) Retailer – expected sales amount per square metre (b) Services – sales per customer x number of seats x turnover rate (e.g., restaurants, barbers and beauty shops) (c) Labour-intensive sector – sales amount per labour x number of employees (e.g., auto sales, cosmetics and building cleaning) (d) Asset intensive sector – capacity of assets x number of facility utilization (e.g., manufacturing, printing and transportation)
Procurement plan	What: materials, components, labour and services Where: suppliers and supply markets When: lead time How: price and payment terms How much: volume, quantity and duration

**Annex table IV.1. (continued)**

Basic components	Details
Production plan (if needed)	What: products and services Where: factories and warehouses When: lead time How: methods, technology, machinery and equipment How much: volume, quantity
Funding plan	Funds needed for a start-up: <ul style="list-style-type: none"> <li>(a) Facilities and equipment (factories, warehouses, shops, machinery, goods and automobiles)</li> <li>(b) Operating costs (supplies, salaries, rents and interest) – at least for an initial two to three months after launching the business</li> </ul> Fund raising: <ul style="list-style-type: none"> <li>(a) Own capital (ideally, more than 50 per cent of total funds)</li> <li>(b) Support from family, relatives, friends and others</li> <li>(c) Public grants</li> <li>(d) Public loans (normally collateral is required)</li> <li>(e) Commercial loans (collateral required)</li> </ul>

Source: Authors' compilation.

Note: Funds needed and funds raised must be equal.

Annex figure IV.1 provides an example of a simplified business plan that is widely used in Japan.<sup>67</sup> This two-page plan consists of two parts: (a) a business proposal and (b) financial planning. The business proposal provides a concise but comprehensive business analysis that includes company information, products and services, market, business process and competitiveness analysis. The financial planning contains capital requirements, funding plan and income forecast, describing the source of funding and the profitability of the business.

There are several criteria to be considered in evaluating the feasibility of the business plan and the sustainability of the business. First, the two parts of the business plan (business proposal and financial plan) should be consistent (e.g.,

activities versus funding requirements). Furthermore, the funding plan needs to support both the initial asset investment and operating expenses (at least for the initial two to three months). Generally, the start-up business should plan to be in the black after the first year. Entrepreneurs need to plan carefully to ensure they have made adequate provision for loan installments or something similar.

In addition to the example provided here, the International Finance Corporation (IFC) and Small Business Administration (SBA) of the United States have also developed models of business plans,<sup>68</sup> which could be useful starting points for SMEs. Both of these models provide a computer-based learning exercise, explain how to generate business plan electronically and cover basic financial forecasting.

#### Annex box IV.1. Checkpoints for start-ups

The following are examples of some pertinent checkpoints that can help a potential entrepreneur think about the range of requirements for achieving success. While this can be an informal process, and the answers need not be specific and executable strategies, at minimum they should trigger consideration. It is also recommended that entrepreneurs refer to this checklist at various stages to ensure nothing is overlooked.

##### 1. Entrepreneurship

- Do you really want to run a business? Why?
- Are you confident you will be successful? How?

##### 2. Management skills

- Do you have any business experience? If yes, describe it.
- Have you forecasted sales, costs and profits? If yes, describe it.

##### 3. Resources

- Will your family support your plan? How?
- Have you secured adequate start-up funds, What are your sources? How much?
- Have you hired adequate and quality employees? How many? What are their roles?

##### 4. Business plan

- Do you know customers and the market well? Who are the customers?
- Can you provide competitive products or services? What are they?
- Have you decided where you will run the business? Describe.
- Have you completed a business plan?

<sup>67</sup> A Japanese language version is available at the Japan Finance Corporation website [www.jfc.go.jp/k/pfcj/pdf/kaigyuu00\\_110401.pdf](http://www.jfc.go.jp/k/pfcj/pdf/kaigyuu00_110401.pdf).

<sup>68</sup> IFC's tool kit is available at [www.smetoolkit.org/smetoolkit/en](http://www.smetoolkit.org/smetoolkit/en) while the SBA template can be found at <http://web.sba.gov/busplantemplate/GenRpt.cfm#>.

Annex figure IV.1. Simplified business plan

Business plan

Date: \_\_\_\_\_  
Company name: \_\_\_\_\_

A. Business proposal

Line of business		Expected date of start-up		Location of business	
Objectives and opportunities					
Business experience	<input type="checkbox"/> I have no experience running a business. <input type="checkbox"/> I established a firm before, and I still manage it. <input type="checkbox"/> I ran a business before, but I already closed it. If so, when did you close it? ( )				
Relevant experience, education, certificates and personal background					
Detailed products and/or services					
Strengths					
Challenges and weaknesses					

Customers (including channels and distribution)	Suppliers
Executives and employees	

**B. Required funds and fund-raising**

Required funds		Amount (US\$)	Fund-raising	Amount (US\$)
Assets purchase/leasing	Shops, factories, machinery, equipment and automobiles (details)		Own capital	
			Loans from family, relatives and friends (Details and loan terms)	
			Public grants (Details and conditions)	
Operational funds	Materials, supplies, salaries, rents, miscellaneous for at least an initial three months. (Details)		Loans from commercial banks and/or other financial institutions (Details and loan terms)	
Total (A)			Total (B)	

Note: Totals (A) and (B) must be equal.

**Income forecast (monthly average)**

		Start-up (US\$)	One year later (US\$)	Details of revenue, costs of products, and operational expenses
Revenue (1)				
Costs of products (2)				
Operational expenses	Salaries			
	Rent			
	Interest/installments			
	Others			
	Sub-total (3)			
Income before tax (1) – (2) – (3)				

Source: Modified from Japan Finance Corporation, 2012.

## Annex box IV.2. Creating business ideas

To be successful, entrepreneurs have to come up with business ideas that fulfill unmet market needs. They have to create ideas of something marketable by analysing market intelligence using their knowledge, experience and network. Five tools and techniques are introduced below to facilitate the development of business ideas (as well as a business plan) for entrepreneurs to make their new businesses sustainable.

### A. Three critical factors

Three factors are particularly critical for entrepreneurs to decide on their business, including the line of business, products or services, target customers, location etc. The factors are: (a) personal interest or desire; (b) capabilities; and (c) market needs (see below). Before moving on (e.g., business plan development), it is highly recommended that entrepreneurs evaluate the three factors.



### B. SWOT analysis

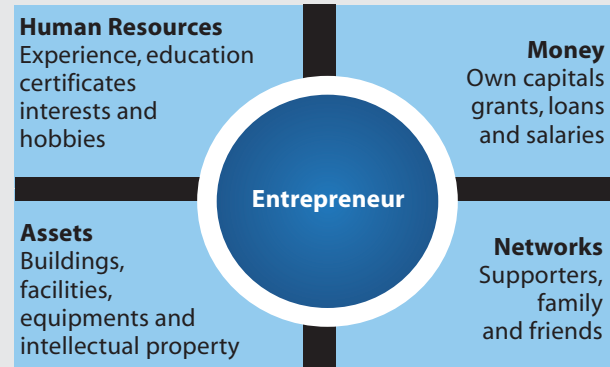
This analysis has probably been the most popular technique under modern corporate management. It facilitates deep analysis of external environment, internal capabilities, available resources and requirements. The framework of the SWOT analysis is simple, requiring an entrepreneur to evaluate four critical factors around their business: (a) strength; (b) weakness; (c) opportunity; and (d) threat (SWOT). All four components are included in the simplified business plan template introduced in this annex.

	Positive	Negative
Internal	<b>(Strength)</b> 	<b>(Weakness)</b> 
External	<b>(Opportunity)</b> 	<b>(Threat)</b> 

### C. Reviewing available resources

This is a supply-side technique. It encourages entrepreneurs to evaluate various resources that are available to them, such as

human resources, capital, tangible and intangible assets, and personal networks such as customers and suppliers. Their knowledge, experience, education and training can also be considered as resources.



### D. Negative keyword method

This is an unconventional method for identifying a new idea by identifying market needs that are unmet by existing products or services. In particular, it uses negative keywords for such needs identification. The negative keywords could include:

- (a) Expensive/poor;
- (b) Inconvenient;
- (c) Lacking/inadequate;
- (d) Late/slow;
- (e) Old/outdated;
- (f) Unstylish;
- (g) Complicated; and
- (h) Unreliable.

This technique may be able to identify some business ideas rather quickly, particularly adaptable to the services sector.

### E. Who-what-how method

This is a conventional method for identifying business ideas. It is a market-driven approach starting from targeting potential customers, then planning the right product or service for the segmented customers, and development of a plan or way to reach the segment.

Who		What		How
Customers	X	Products/Services	X	Channels and Distributions
<b>Examples</b>				
Female professionals	X	Stylish dresses	X	High-end specialized shop at a prestigious location
Middle aged citizens	X	Healthy foods	X	Restaurant with low calorie dishes
Pre-school children	X	Conversational English	X	Bilingual kindergarten

Sources: JFC, 2008; and Sagamihara City Hall Economy Department, 2008.



# Annex IV.2

## Modules of entrepreneurship training

### A. Babson College

As one of the pioneers of entrepreneurship education, Babson College has provided experience-based learning courses. The college focuses on the following eight key issues in its entrepreneurship education:

- (a) Women's leadership;
- (b) Family enterprising;
- (c) Corporate entrepreneurship;
- (d) New venture creation;
- (e) Social entrepreneurship;<sup>69</sup>
- (f) Entrepreneurial finance;
- (g) Technology; and
- (h) Public policy.

An example of Babson's entrepreneurship courses is an intensive ten-week programme entitled "Entrepreneurs Develop Businesses". The programme offers an environment that supports the startups including:

- (a) Open workspace which allows teams to network, assist one another and share resources;
- (b) Dormitories where many teams live so they can work around-the-clock to refine their ventures;
- (c) In-house counselling from the programme director and meetings with entrepreneur-mentors at least once a week;

<sup>69</sup> Babson College (2011) defines social entrepreneurship as "[t]he process of identifying opportunities, organizing resources and providing leadership to solve 'people and planet' problems while generating societal and economic values."

- (d) Idea-sharing among teams through meetings, presentations and feedback; and
- (e) Brown-bag luncheons with featured professors and business guest speakers.

The programme concludes with each team's presentation of its business plan in front of professional investors and the Babson community.

Source: Babson College, 2011.

### B. 'Know about Business'

The International Labour Organization has developed the "Know about Business" (KAB) package, a set of training materials for entrepreneurship education. One of the objectives of the package is to create awareness of entrepreneurship and self-employment as a career option for students in secondary education as well as for trainees in vocational and technical training institutions. The trainees are from secondary, vocational, technical training and higher education institutions, and are taught about business practices and procedures, business opportunities and challenges, and skills needed for entrepreneurship. KAB has reached youths in more than 55 countries, and has helped to shape their attitudes toward entrepreneurship, and has increased their skills and employability.

Below is an excerpt from the curriculum of the "Know about Business: Entrepreneurship Education in School and Technical Vocational Training Institutions, 2005 edition." There are nine modules, totalling 134 hours.

#### Annex box IV.3. Curriculum of the Know about Business package

##### Module 1: What is enterprise? (9 hours)

- (a) Meaning and scope of enterprise
- (b) Different forms of enterprises
- (c) Roles people play in enterprises
- (d) Small enterprises

##### Module 2: Why entrepreneurship? (11 hours)

- (a) Entrepreneurship defined
- (b) Reasons for entrepreneurship in business
- (c) Importance of entrepreneurship in society
- (d) Self-employment

##### Module 3: Who are entrepreneurs? (22 hours)

- (a) Assessing entrepreneurial potential
- (b) Identifying entrepreneurial characteristics
- (c) Entrepreneurs as leadership
- (d) Entrepreneurial decision-making
- (e) Risk-taking

##### Module 4: How do I become an entrepreneur? (13 hours)

- (a) Competencies for successful entrepreneurship
- (b) Key success factors in setting up a small business
- (c) Entrepreneurial decision
- (d) Being involved in an enterprise

##### Module 5: How do I find a good business idea? (7 hours)

- (a) Generating ideas
- (b) Identifying and assessing business opportunities

##### Module 6: How do I organize an enterprise? (19 hours)

- (a) Selecting a suitable market
- (b) Selecting a business location

- (c) Legal forms of business ownership
- (d) Money needed to start an enterprise
- (e) Ways of getting into business

##### Module 7: How do I operate the enterprise? (22 hours)

- (a) Hiring and managing people
- (b) Managing time
- (c) Managing sales
- (d) Selecting suppliers
- (e) Using technology in small business
- (f) Knowing the costs of an enterprise
- (g) Managing money
- (h) Using financial statements

##### Module 8: What are the next steps to becoming an entrepreneur? (22 hours)

- (a) Sources of information and assistance
- (b) Preparing a business plan
- (c) Maintaining an entrepreneurial outlook
- (d) Evaluating factors in starting an enterprise
- (e) Beyond this package

##### Module 9: How to elaborate one's own business plan (9 hours)

- (a) Standard business plan
- (b) How to elaborate the business plan
- (c) How to interpret the findings of the business plan

Source: ILO, 2005.

### C. Japanese SME Agency

The Organization for Small and Medium Enterprises and Regional Innovation, Japan (SMRJ), which implements national SME support policies and activities, has established nine regional SME universities throughout Japan since the early 1960s. The SME universities offer a variety of training programmes to develop capable entrepreneurs and SME managers.

The ten-month, full-time university entrepreneurship training course covers the following topics:

- (a) Business environment;
- (b) Overview of management skills;
- (c) Entrepreneurship;
- (d) Strategic management;
- (e) Marketing;
- (f) Finance and accounting;
- (g) Human resource management;
- (h) Organizational behaviour;
- (i) Information and communication systems;
- (j) International business; and
- (k) Business law.

The training course is conducted by using various teaching methods, including case studies, group activities, management games and simulations as well as internships. Thesis writing is required at the end of the course. The size of a class is limited to 20 young business persons, providing a networking opportunity, and is particularly popular among the successors of SME owners for brushing up their managerial skills. A state agency provides grants to encourage SME participation in the training course.

Source: [www.smrj.go.jp/english/index.html](http://www.smrj.go.jp/english/index.html).

### D. SMEs management and development by the Galilee International Management Institute

The Galilee International Management Institute is a public, international management-training institution. Its programme

is aimed at providing participants with strategic thinking skills and administrative techniques for appropriately allocating public resources in order to stimulate local entrepreneurs to invest in, and manage, new businesses and industries that will efficiently compete in national and international markets. The programme is specifically designed for decision-makers in local and national governments, economic development corporations and banks.

The programme comprises the following subjects:

- (a) Supply chain for business;
- (b) Access to financing – microfinance;
- (c) Assessment criteria for the servicing of SMEs and microfinance Institutions;
- (d) Human resource development and management;
- (e) Project management:
  - (i) Concept development;
  - (ii) Planning and budgeting;
  - (iii) Financial analysis and evaluation;
  - (iv) ICT applications;
- (f) ISO 9000;
- (g) Total quality management;
- (h) Business plan development;
- (i) Forecasting;
- (j) Production planning and industrial engineering techniques;
- (k) Marketing research and marketing strategy;
- (l) Small businesses in tourism; and
- (m) Globalization of the world economy.

The programme is based on both experiential and participatory activities. Lectures will be supplemented by study tours, case study analyses, small group discussions, games and simulations facilitated by faculty and guest lecturers.

Source: [www.galilcol.ac.il/](http://www.galilcol.ac.il/).