

Enterprise and public policy: a review of Labour government intervention in the United Kingdom

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Abstract. Despite the rapid growth of the small and medium-sized enterprise sector since the 1970s, rates of entrepreneurial activity in the UK remain moderate by international standards. Since its arrival in 1997 the Labour government in the UK has taken steps to tackle barriers to entrepreneurship by addressing economic, political, legal, and cultural issues. Through a review of key literature and policy documents, we seek to shed light on how the Labour government has shaped its entrepreneurship and enterprise-development policy agenda. It is found that, although there has been limited improvement in closing the enterprise gap, the Labour government does appear to have put in place a number of measures that are aimed at harnessing the long-term drivers of future enterprise, particularly catalysing the required cultural changes through the education system. It is suggested that enterprise policy making is diverse and has shifted away from small-business policy into a broader interpretation of entrepreneurship, although there inevitably continues to be significant overlap across the two areas. Furthermore, it is argued that enterprise initiatives are leading to the government taking quite radical routes in shaping its policies, becoming a bigger risk taker, and operating in a quasiprivate sector role. It is concluded that the increasing sophistication and specificity of policy instruments means that further research is required to understand how policies interact with each other.

Introduction

Among major industrialised economies, levels of entrepreneurial activity are positively correlated with levels of per capita gross domestic product (GDP) and the rate of GDP growth (Acs, 2006; Audretsch and Thurik, 2001; OECD, 2001; Reynolds et al, 2000; 2001; 2002). Government intervention within the field of entrepreneurship is inspired by the view that the entrepreneur is the solution to weak economic performance and poor levels of job creation (Audretsch et al, 2007; Birch, 1979; Bridge et al, 2003; Gilbert et al, 2004; Henrekson, 2007; Holtz-Eakin, 2000; Verheul et al, 2001). Despite the rapid growth of the small and medium-sized enterprise (SME) sector since the 1970s, rates of entrepreneurial activity in the UK remain moderate by international standards, particularly when compared with the US (Harding, 2006). In general, the UK faces a persistent inability to further develop the enterprise economy and tackling this issue will continue to be a major challenge (Huggins and Day, 2006). Less than half of the UK's population believe they have the knowledge, skills, and experience required to start up a business, with many young people unsure of their ability to meet the challenges of starting and running a business (HM Treasury, 2006a). This implies that a priority for the UK government is to create an environment that is conducive to stimulating entrepreneurship.

In the UK, government action to support enterprise and small businesses fundamentally began with the Bolton Report (Bolton, 1971), which revealed that numbers of small firms were declining and that significant regulatory burdens were pervasive.

The 1970s saw a period of high inflation and unemployment and consequently there was action to take the messages of the Bolton Report forward. With the election of Margaret Thatcher's Conservative Party in 1979, policy changes began to be ushered in to support entrepreneurship, including the Enterprise Allowance Scheme (EAS), designed to offer financial incentives for unemployed people to establish a business, Training and Enterprise Councils (TECs), which aimed to foster local economic growth by helping businesses to start up and grow, and Business Links, which were established in 1992 to provide a national network of local business-advice centres (Bennett and Robson, 2003).

Since its election in 1997, the Labour government in the UK has taken steps to tackle barriers to enterprise and entrepreneurship by addressing economic, political, legal, and cultural issues, in order to boost rates of entrepreneurial activity (HM Treasury, 2002). As one of the key drivers of productivity, the Labour government argues that enterprise is essential to a dynamic, modern, and growing economy, helping to boost productivity, and to create employment and prosperity (HM Treasury, 2006b). The purpose of this paper is to examine the steps taken by the Labour government to promote entrepreneurship. In recent years, there have been major changes in the way the UK government has sought to support entrepreneurship. This change has been mirrored in numerous nations, and as such the evaluation of these policies has broad significance. Through a review of key literature and policy documents, we seek to shed light on how the government has shaped its entrepreneurship and enterprise-development policy agenda. Whilst understanding the impact of government policy making often takes many years to become evident, it also seeks to make some interpretations and inferences of both realised and future impact.

Entrepreneurship and enterprise

The role and importance of the entrepreneur has witnessed a resurgence in both economic theory and public policy making (Audretsch, 2003; Verheul et al, 2001). In the past, entrepreneurship policies were often developed as a temporary solution to absorb workers displaced by industrial restructuring and downsizing (Storey, 1991), but in more recent years such policies are seen as an essential instrument for encouraging economic growth (Gilbert et al, 2004). Yet the notion of the entrepreneur, and the contribution of entrepreneurship to economic growth, have been widely interpreted (Hébert and Link, 1989), and as such there exists no generally accepted definition (Verheul et al, 2003). Sautet and Kirzner (2006) argue that the concept of entrepreneurship is notoriously difficult to pin down, with economists and policy makers often entirely overlooking it or gravely misunderstanding it. Entrepreneurship has been used to define types of individuals (Say, 1880), types of decisions (Knight, 1921), and forms of behaviour (Schumpeter, 1934). As a discrete concept, entrepreneurship has its origin in the work of Cantillon (1931), and has developed through the neoclassical school's emphasis on equilibrium, which found no place for the entrepreneur as a cause of economic activity (Bridge et al, 2003), to the Austrian school's theoretical challenge that entrepreneurship is crucial to understanding economic growth, leading to Schumpeter's statement that:

"The carrying out of new combinations (of means of production) we call 'enterprise'; and the individuals whose function it is to carry them out we call 'entrepreneurs'" (1934, page 74).

Entrepreneurs drive the market forward toward efficient outcomes by exploiting profit opportunities and moving economies toward equilibrium (Kirzner, 1973). Entrepreneurs also contribute to the market's process of 'creative destruction' with new innovations replacing old technologies (Schumpeter, 1934; Sobel et al, 2007).

Entrepreneurship, therefore, involves the nexus of entrepreneurial opportunities and enterprising individuals, with the ability to identify opportunities as a key part of the entrepreneurial process (Olson, 2007; Shane, 2003). Enterprise and entrepreneurship are now commonly viewed as the process of establishing and growing a business (Bridge et al, 2003). However, this can be seen as a narrow view of enterprise and entrepreneurship, and disregards Schumpeter's (1934) contention that entrepreneurship is a function of change in society and occurs in a variety of circumstances (Pittaway, 2005).

While the creation of a new business is an accurate description of one of the many outcomes of entrepreneurial activity, entrepreneurship encompasses far more than business start-ups, and derives from the creative power of the human mind (Sautet and Kirzner, 2006) and is characterised as a behavioral characteristic of individuals expressed through innovative attributes, flexibility, and adaptability to change (Bridge et al, 2003; Swedberg, 2000; Wennekers and Thurik, 1999). In general, enterprise and entrepreneurship are multidimensional concepts, with definitions depending largely on the focus of the research undertaken (Verheul et al, 2001). In this paper we take a broad definition of enterprise, which reflects the development of public policy, encompassing activities ranging from supporting business start-ups to promoting a change in culture.

Enterprise and public policy

Traditionally, enterprise policy has been centred on business start-ups and support for small-business growth (Audretsch et al, 2007; Stevenson and Lundström, 2001). SMEs are seen as wealth and employment creators in need of specific assistance to help them survive and grow (Bridge et al, 2003). The general goal of SME policy, therefore, is to strengthen the existing base of small enterprises by ensuring they are able to compete in the marketplace and are not disadvantaged by their size (Stevenson and Lundström, 2001). Policy making is deemed necessary when smaller businesses are considered to be particularly vulnerable to 'market failures' compared with larger businesses, and when such market failures are likely to be permanent unless steps are taken to address them (Audretsch et al, 2007; Bridge et al, 2003). Despite this traditional emphasis on SMEs and market failure, enterprise policies have developed to become more pervasive, with increasing interest in promoting entrepreneurship in its broader context—that is, not simply in terms of business start-ups or small-business growth. This has meant less interest in imperfections in the market, less interest in specific firms and 'picking winners', and more interest in individuals, rather than in businesses, and in long-term measures such as school-level education (Audretsch et al, 2007; Stevenson and Lundström, 2001).

There are a number of key differences between SME and entrepreneurship policy, which are summarised in table 1. The comparison highlights three major differences in policy: firstly, the focus on individuals rather than firms; secondly, the focus on pre-start-up versus post-start-up support (entrepreneurship development versus business development); and, thirdly, a broad definition of the institutions which impact on entrepreneurship. The impact of a broad set of institutions is key to modern policy making, as attempts to foster a culture of enterprise aim to embrace the education community, the media, and the general population, in addition to regulatory, financial, and business-support institutions (Stevenson and Lundström, 2001; Verheul et al, 2001).

The development of enterprise policy from a focus on business start-ups to a wider approach has given policy makers a broad-ranging remit to promote entrepreneurship. In attempting to summarise the broad approach now taken to policies to promote entrepreneurship, Verheul et al (2001) state that there are now five broad types of policy

Table 1. Differences between small and medium-sized enterprise (SME) and entrepreneurship policy (source: Stevenson and Lundström, 2001).

Feature	Small-business policy	Entrepreneurship policy
Objective	Firm growth, productivity	Motivate more new entrepreneurs
Target	Existing firms, businesses	Nascent entrepreneurs/new business starters, individuals (people)
Targeting	‘Pick winners’ (ie growth sectors, firms)	General population/subsets (ie women, youth)
Client group	Easy to identify ‘existing’	Difficult to identify ‘nascent’
Lever	Direct financial incentives (tax credits, loans, guarantees)	Nonfinancial, business support (networks, education, counselling)
Focus	Favourable business environment (ie tax regime, reduce red tape)	Entrepreneurial culture/climate (ie promote entrepreneurship)
Delivery system	Well established	Lots of new players (need orientation)
Approach	Generally passive	Proactive outreach
Results orientation	More immediate (results in fewer than four years)	More long term (results can take longer)
Consultation	SME associations	Forums do not generally exist

measure used by governments to promote entrepreneurship consisting of demand, supply, resources, value and preferences, and decision making. In general, economic theory holds explicit implications for government intervention to promote entrepreneurship. Schumpeter (1934) views the entrepreneur’s role as causing disequilibrium, while Kirzner (1973) emphasises the role of moving the economy towards equilibrium by being alert to new opportunities in existing circumstances. Both views are important in terms of policy intervention, since if government can influence levels and types of entrepreneurship it is a lever by which to provide economic management. Baumol (1990) proposes that the supply of entrepreneurship is constant, but its distribution across productive, unproductive, and destructive activities is affected by institutional arrangements and the social pay-off structure. Baumol’s theory has further implications for government intervention, since policy making has the possibility of promoting all three activities. A key issue is that policy may promote unproductive activities through incentivised ‘rent seeking’ based on acquiring government grants, resulting in entrepreneurs moving away from previously productive activities, which satisfied consumer desires and led to economic growth. Nevertheless, policies geared towards enhancing entrepreneurship and stimulating enterprise development have become increasingly prevalent across advanced economies (Audretsch et al, 2007; Bridge et al, 2003; Gilbert et al, 2004).

Enterprise and policy in the UK

Government action to support enterprise and small businesses began tentatively in 1969 when the Labour government commissioned an inquiry into the state of the UK’s small-firms sector. The subsequent Bolton Report (Bolton, 1971) revealed that the number of small firms were declining in the UK at a faster rate than in other Western countries, and that small firms were constantly battling against unfair bureaucratic, financial, and administrative burdens. The Bolton Report’s findings heralded a surge of interest in

SMEs and enterprise within government (Kirby, 2004). However, the 1970s saw the emergence of high inflation and high levels of unemployment, which meant little significant action was taken to support enterprise (Greene et al, 2004). It was not until the 1979 election of Margaret Thatcher's Conservative government that policy changes were ushered in to support entrepreneurship, in a desire to combat a perceived 'dependency culture' and to create an 'enterprise culture' (Curran, 2000; Joseph, 1976; Storey, 2005).

Policy began to substantively change in 1981 when unemployment reached 2.5 million, and the pressure to meet these challenges pushed the government to intervene to encourage more individuals, particularly the unemployed, to start their own businesses (Greene, 2002). The most significant single programme introduced was the EAS, which operated between 1983 and 1991 and offered financial inducements for unemployed people by allowing them to draw benefits whilst working to start a business (Curran and Storey, 2002; Gray, 1998). Although almost 700 000 individuals started the EAS, the impacts were negligible, and often merely served to reduce the numbers listed on the unemployment register (Storey and Strange, 1993).

The second significant shift in policy under the Conservatives came at the beginning of the 1990s with the introduction of TECs and subsequently the establishment of the Business Links. TECs were introduced in England and Wales to foster local economic growth and development and to encourage investment by helping businesses to set up and grow, and by funding vocational qualifications and providing training and support for the unemployed (Bridge et al, 2003; Huggins, 1997; 2000). While the information, advice, and business-skills training services provided by TECs generated benefits to those firms they engaged with (DTI, 1995), critics claim that they were inadequately funded, lacked democratic accountability, and were failing to reach the majority of small businesses (Bridge et al, 2003). In 2001 the seventy-two English and four Welsh TECs were disbanded, with a large part of their remit transferred to Learning and Skills Councils in England and the regional offices of Education and Learning in Wales. The Business Links became a single point of access to public support for small enterprises in England (Business Connect in Wales), while Scotland maintained a system of local enterprise companies similar to TECs.

The election of a Labour government in 1997 brought in further changes to policy approaches to promoting enterprise, with the overall aim being to improve productivity, to close the enterprise gap with other leading economies, and to enhance social inclusion (HM Treasury, 2002; Mueller et al, 2006). The Labour government established the Small Business Service (SBS) to take over national responsibility for the Business Link network, to act as a voice for small businesses, and to make the UK "the best place in the world to start and grow a business" (DTI, 2004). The introduction of regional development agencies (RDAs) across the UK was also considered to be a catalyst to further drive economic development and to enable regions to improve their relative competitiveness, as well as reducing the imbalance that exists within and between regions. In general, the introduction of RDAs throughout the UK, along with other policy initiatives such as the Local Enterprise Growth Initiative (LEGI), has seen the gradual spatial devolution of policy, much akin to that previously established by the TEC experiment. The government has recently reaffirmed its commitment to supporting entrepreneurship and has stated that the time is right to evaluate enterprise-policy objectives so that challenges of international competitiveness are met (BERR, 2007). Although its report addressing these challenges is titled *Building a New Enterprise Framework* there is little that is new within it, except for a greater emphasis on the importance of high-growth businesses. Figure 1 provides a summary of these political and policy developments.

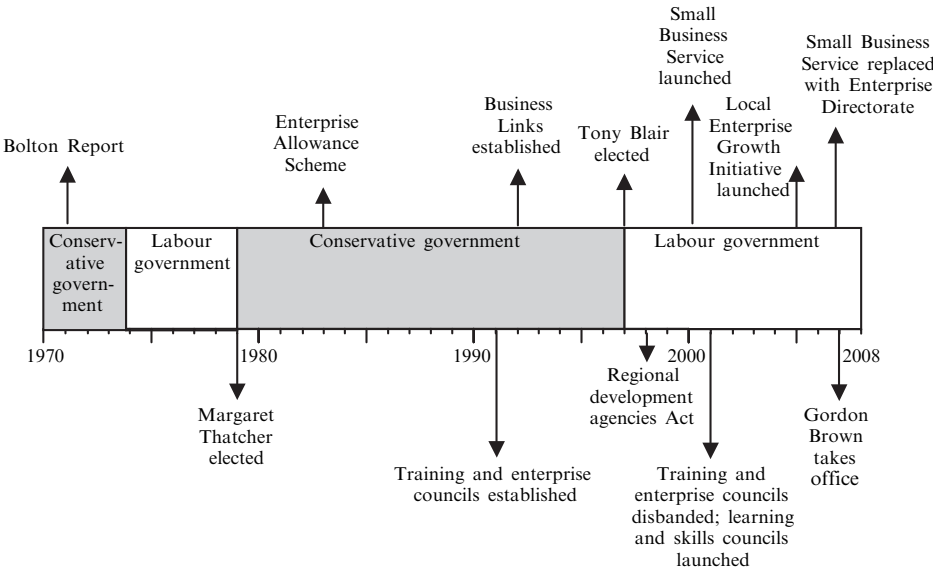


Figure 1. Enterprise policy timeline.

Since the Labour administration came to power in 1997 the total business stock has increased to 4.3 million (equal to 600 000 more businesses than in 2000), and employment has grown by 80 000 (7%) in SMEs over the same period (HM Treasury, 2007a). However, there is little evidence to suggest that the government’s aim of closing the enterprise gap with other leading economies (HM Treasury, 2002) has been achieved. At the international level, the Global Entrepreneurship Monitor measures annual entrepreneurial activity across a number of nations, and table 2 indicates total entrepreneurial activity (ie the proportion of adults of working age who are either setting up or have been running a business for less than forty-two months) across the G8 nations between 2001 and 2006. It shows that the UK’s rate fell from 7.7% in 2001 to 5.8% in 2006. Although many G8 nations saw falls, which can be mainly attributed to the post-2000 economic downturn, such indicators do little to suggest that policy intervention has significantly impacted on enterprise development in the UK. According to the latest World Bank ‘Doing Business’ indicator report, the UK is ranked as the sixth best economy out of 178 measured in terms of the ease of doing business, with entrepreneurs having to go through six steps to launch a business over thirteen days, on average, at a cost that is equal to 0.8% of gross national income per capita (World Bank, 2007). Figure 2 shows the UK position compared with other nations in the G8. While the Doing Business ranking is relatively positive, further improvement is needed if

Table 2. Total entrepreneurial activity in the G8 nations, 2001–06 (%) (source: Harding, 2006).

	2001	2002	2003	2004	2005	2006
Canada	11.0	8.8	8.0	8.9	9.3	7.1
France	7.4	3.2	1.7	6.0	5.4	4.4
Germany	8.0	5.2	5.2	4.5	5.4	4.2
Italy	10.2	5.9	3.2	4.3	4.9	3.5
Japan	5.2	1.8	2.2	1.5	2.2	2.6
Russia	6.9	2.5	2.5	na	na	4.9
UK	7.7	5.4	6.4	6.3	6.2	5.8
US	11.6	10.5	11.9	11.3	12.4	10.0

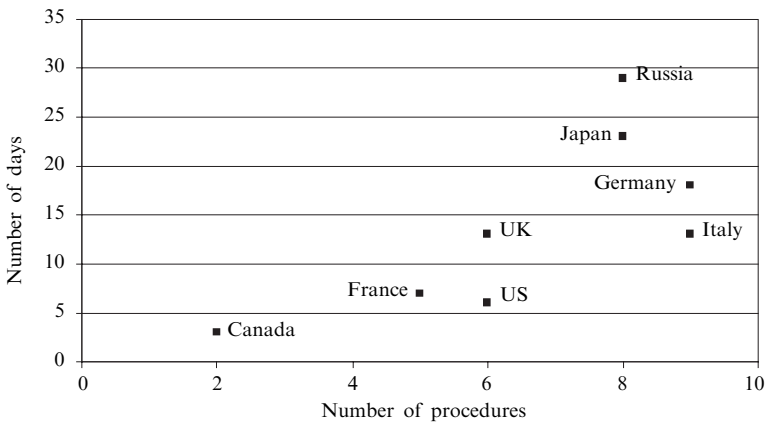


Figure 2. Ease of starting a business among G8 nations—number of days and procedures to start a business (source: World Bank, 2007).

the government is to achieve its intention of making the UK the best place in the world to start and grow a business.

In order to further explore the nature and impact of policy in the UK, we have established a broad typology of policy areas related to enterprise development based on a systematic review of the policy literature summarised above (figure 3). The framework provides an overview of the key areas of enterprise policy, illustrates the interplay between relevant economic and social factors influencing economic development, and highlights the central role of culture in fostering entrepreneurship. It also provides a focus for the research by framing the drivers of entrepreneurship and the direction of policy. The framework contains four key components: macroeconomic policy, economic drivers, social drivers, and culture. In general, policies related to the macroeconomic policy and the economic drivers of entrepreneurship are usually ‘top-down’ in nature, with strategies and interventions formulated at a national and central government level (although implementation may be regional or local).

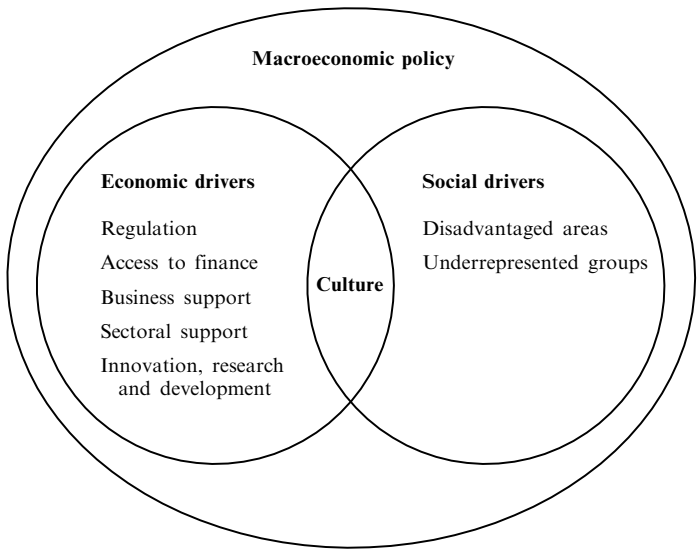


Figure 3. A framework for analysing enterprise policy in the UK.

At the highest level, one of the main priorities for any government wishing to promote entrepreneurship is a stable macroeconomic environment, with fiscal and monetary policies driving this stability. Stable economic growth acts as a signal to entrepreneurs and increases the aggregate level of entrepreneurial opportunity exploitation. Despite the overarching importance of the macroeconomy, it is important that policy development avoids a simplistic macroapproach (Gibb, 1993). As such, the framework highlights the interlinking, and often overlapping, variables which influence entrepreneurship and policy prescriptions to support enterprise. Within the overall macroeconomic environment, there are a range of economic and social drivers which the government can specifically target to attempt to promote enterprise. The economic drivers are targeted at improving levels of business growth by reducing the burdens of regulation, improving access to finance, providing appropriate support, including to specific industries that are deemed to be valuable, and encouraging innovation and investment.

Somewhat converse to the top-down interventions associated with economic drivers, social drivers are associated with 'bottom-up' activities seeking to evolve societal values and norms within particular communities. Social drivers are targeted at improving enterprise rates in disadvantaged areas which have low rates of entrepreneurship, and groups that are underrepresented in terms of business ownership, and represent key aspects of government aims to enhance social inclusion through entrepreneurship. While issues concerning culture clearly relate to these social drivers, cultural factors and economic drivers are also potentially interdependent since without a culture receptive to entrepreneurship the impacts of economically driven intentions are likely to be constrained. Culture shapes what individuals perceive as opportunities, and therefore entrepreneurial alertness is linked to judgment, creativity, and interpretation (Hofstede, 1991; Lavoie, 1991; Sautet and Kirzner, 2006; Verheul et al, 2001). Government enterprise policy from Margaret Thatcher to Gordon Brown has placed cultural change at its centre.

Macroeconomic policy

Economic conditions, such as stable growth, low inflation, low interest rates, and a steady exchange rate, act as signals to entrepreneurs and increase the level of entrepreneurial opportunity exploitation (Bridge et al, 2003; Shane, 2003). While the UK's macroeconomic performance has been relatively strong since the late 1990s, inflationary pressures have led to rising interest rates, which may impact on the propensity of entrepreneurs to borrow start-up finance (Harding, 2006). Taxation affects entrepreneurial incentives by reducing the size of profit opportunities and therefore decreases the level of entrepreneurial opportunity exploitation (Shane, 2003). Under the Labour government, net taxes and national-insurance contributions have risen from 34.8% of national income in 1996/97 to 36.3% in 2004/05, and according to Treasury projections will rise to 38.5% of national income in 2008/09, which would be the highest level of taxation since 1984/85 (Emmerson et al, 2005).

Since 1997 the government has pledged to improve the incentives for work. However, economic incentives have weakened in the last decade due to increased taxation, public spending, and regulation (Adam et al, 2006; Bosanquet et al, 2007). Reducing the rate of corporation tax paid by limited companies on their profits has been a key tool used by governments in recent years to encourage enterprise and investment. In comparison with many other advanced nations, however, the UK's headline corporation tax has remained relatively unchanged since the mid-1990s (CBI, 2007). Response to concern regarding the level of taxation on business was partly tackled in the 2007 Budget, which announced a reduction in the headline

corporation tax to 28% in April 2008, but the impact of this is yet to become clear (HM Treasury, 2007b). In terms of employment, the UK has become more dependent on the public sector since 1997, and consequently public spending has been rising (CEBR, 2006; Huggins and Day, 2005), which potentially can weaken the entrepreneurial culture by making public sector work more attractive than private sector activity (Bosanquet et al, 2006).

Overall, the UK has experienced generally positive economic growth since the Labour government came to power in 1997. However, this period has also seen increases in public spending, taxation, and public sector employment, all of which can be seen to weaken the entrepreneurial environment as they affect incentives to engage in productive entrepreneurship.

Regulation

Regulation has become an important discourse of public debate among academics, politicians, the media, lobby groups, and practitioners (Kitching, 2006). Policy makers need to pay attention to the extent and predictability of regulation if entrepreneurship is to be fostered (Kirzner, 1997; Sautet and Kirzner, 2006). While it may encourage entrepreneurs to take particular (observable) actions in response, it can also lead them to *avoid* taking other (unobservable) actions that are socially valuable, such as employing more workers (Parker, 2007). Failure to understand how regulation affects business performance means that policy interventions are likely to produce unintended and unwanted consequences (Kitching, 2006). Regulation (its volume, complexity, rate of change, and interpretation), is consistently cited by small businesses as a barrier or burden to growth and can lead to distorted business behaviour, whereby business owners operate at lower levels of activity to avoid regulatory obligations (Chittenden and Sloan, 2006; Chittenden et al, 2000; 2002; 2005). While a certain level of regulation is clearly needed to ensure minimum standards of health and safety, employment rights, as well as preserving the environment and ensuring competition, etc, excessive business regulation, often referred to as 'red tape', has been recognised by government as stifling enterprise by removing incentives, and imposing costs, delays, and uncertainties on businesses (DTI, 2004; 2006a).

In the UK it has estimated that the burden on businesses has increased to £56 billion, with seventy-seven separate groups of regulations in existence that have a significant impact on business (British Chambers of Commerce, 2006). In order to reduce this burden, the overall approach by the government has been to promote 'better' regulation, which is seen as regulating only where necessary, and doing so in a proportionate and targeted way, and reducing bureaucracy wherever possible. The Cabinet Office promotes the use of regulatory impact assessments to assist policy makers to analyse the costs and benefits of proposed actions (Kitching, 2006). However, while these are intended to provide a cost–benefit analysis of proposed regulation, the costs and benefits are often ignored or are not quantified (Ambler et al, 2005; 2006). The 2006 Budget made a commitment to reducing the burdens on business, including examining the existing stock of regulation to ensure that outdated and outmoded regulations are removed from the statute book (HM Treasury, 2006c).

While further evidence is required before definitive conclusions can be made about the impacts of regulation on entrepreneurship (Parker, 2007), it appears that slow and doubtful progress is being made to meet targets to reduce the regulatory burden.

Access to finance

Appropriate access to finance is crucial to ensuring business growth (Bolton, 1971; Bridge et al, 2003; DTI, 2006a). It facilitates business start-ups, ensures that business is able to finance investments and meet demand, provides funds for innovation, allocates resources to their most productive use, and creates employment and wealth (CBI, 2006a). While some consider that financial constraints in meeting business objectives have declined in importance since the early 1990s (Cosh and Hughes, 2003), improving access to finance remains a policy priority (DTI, 2004). Public policy has taken steps to actively improve access to finance for small businesses as a means of promoting enterprise and growth, to combat perceived market failure, and to attempt to close perceived equity gaps faced by small businesses (Bank of England, 2001; Bergstrom, 2000; Chittenden et al, 1996; HM Treasury, 2002). A key UK initiative in recent years has been the Small Firms Loan Guarantee (SFLG) scheme, originally introduced more than twenty years ago. Following a review in 2004, the scheme was changed to cover only start-ups and early-stage businesses (HM Treasury, 2004a). However, the Cruickshank Review, which was commissioned to examine access to finance among SMEs, found that the SFLG scheme did not address market imperfections of gaining appropriate finance (Bank of England, 2001).

Other initiatives include Enterprise Capital Funds (ECFs), which are also a response to the perceived equity gap, this time between £500 000 and £3 million. The ECF model is based on the US small business investment company model, which has stimulated investment and benefited household names such as Apple, Federal Express, and AOL (CBI, 2006a; HM Treasury, 2003a). There has also been increasing venture-capital intervention through the establishment of regional venture-capital funds and other related seed funds. The government has committed £74 million to regional venture-capital funds, which are designed to facilitate equity investments of a maximum of £250 000, with each RDA having sponsored a fund manager to deliver the funds. Despite this commitment, Mason and Harrison (2003) found there to be a lack of venture-capital skills to enable effective fund management. Recent evidence further indicates that there is still a bias against the type of seed, early-stage, and other finance required by new ventures if they are to become commercially viable and sustainable (Huggins, 2008; Wright et al, 2006).

There has been significant public policy activity and intervention in the area of entrepreneurial finance provision, which has the potential to be beneficial to both new and existing entrepreneurs. However, providing appropriate access to finance through publicly funded streams is problematic as it requires specific skills and management techniques to manage risk finance. Public sector actors must do more to learn from and engage with private sector financiers.

Business support

External business advice has become increasingly important to businesses over the last two decades (Bennett and Robson, 2004a). The market for business advice and information is often stated to be imperfect, prompting policy makers to put resources into providing and/or funding free or subsidised advice services (Johnson et al, 2007). The 1997 Labour Party manifesto announced that it would assess the performance of Business Links, which were established in 1995 to provide one-stop advice for small firms but which were criticised for the variation in quality of service (Labour Party, 1997). Following this, the SBS was established in 2000 to take over national responsibility for the Business Link network and to act as a voice for small businesses (Bennett and Robson, 2003). Curran and Storey (2002, page 176) have described this as a 'third

bite at the cherry' after the TEC and Business Link experiments to produce support for enterprise, entrepreneurship, and an enterprise economy.

Providing support is also costly. Currently, the government spends approximately £2.5 billion a year on services aimed at SMEs (DTI, 2005a). This has led to questions being raised about their value, with current business-support mechanisms lacking the required effectiveness to increase start-ups and the survival rates of businesses (Bridge et al, 2003) or the judgment to use resources efficiently to support businesses with genuine growth potential (Atherton, 2006). While measuring the impact of business-support activities can be problematic (Curran and Storey, 2002; Gibb, 1992), the Confederation of Business Industry has been critical of the achievements made against the SBS targets, stating that, while some progress has been made, a number of targets have been missed (CBI, 2005). The Business Link service has been shown to vary greatly in quality (Bennett and Robson, 2004b) and, while most SMEs use some form of business support, the vast majority find such support through the private sector (Bennett, 2006). As a result of the criticism of public sector business support, in particular Business Links, the government plans to reduce the number of business-support services from approximately 3000 to no more than 100 by 2010, with the operation of Business Links being handed to the RDAs (DTI, 2006b).

The system of grant giving by the business-support network has also been criticised, with it estimated that there are around 1300 different grants available to businesses (CBI, 2006b), which instead of promoting entrepreneurship induce 'grantpreneurship', whereby businesses are incentivised by government grants rather than by customer demand (Baumol, 1990; Bridge et al, 2003). Nevertheless, publicly funded support for businesses is set to continue. With the control of the Business Link network coming under the RDAs remit, and with RDAs being made more accountable (HM Treasury, 2007a), there is an opportunity to revitalise and renew services. Each support service must be evaluated on a cost–benefit basis, with unsuccessful programmes discarded. This may help ensure that the maximum possible benefit is being realised, and that public sector intervention does not distort the market for business advice and consultancy (Bannock, 2005).

In general, the business-support network in the UK is yet again placed within a period of renewal. Positive developments include a reduction in the number of overlapping business-support services, although providing cost-effective support remains problematic. In the future, the RDA's business-support networks must move away from the bureaucratic one-stop shops of the past, and provide more flexible support which fosters networks between entrepreneurs and relevant agencies, such as government, universities, and private sector business-support providers.

Sector support

Providing support for key industries has long been a facet of government economic policy, either through nationalisation or by providing support and funding through the public purse. In terms of the promotion of enterprise and innovation, much of the recent policy effort has been on cluster strategy (DTI, 2002a), consisting of active public investment in key business sectors in an attempt to accelerate economic growth and to encourage higher-value-added businesses. The UK government has adopted such policies through its RDAs (DTI, 2002a), with each RDA having a set of clusters (ie key sectors) identified as drivers of economic growth in their region. While the RDAs have made significant financial and strategic investment in assisting clusters, the role of public policy in cluster development has been questioned (Huggins and Izushi, 2007; Martin and Sunley, 2003; Tully and Townsend, 2002).

Some suggest that RDA cluster policy is simplistic and a more sophisticated and locally concerned manner of visualising clusters and business behaviour is required, rather than emphasis being largely placed on employment numbers (Experian, 2005; Tully and Townsend, 2002). Indeed, there are a large number of variables that need to be considered, such as horizontal and vertical linkages, to determine which types of firm are or are not included in policy-created clusters. As Ketels (2003) states, cluster creation can be a very long and a costly process, the impacts of which can only be examined in the long term. However, from an enterprise perspective there are as yet very few signs of success. Most regional cluster policies are targeted at high-value-added knowledge-based sectors, and in recent years there has been little improvement in the proportion of knowledge-based businesses across most UK regions, with the proportion actually falling across the UK between 2003 and 2004 (Huggins and Day, 2006).

While enterprise policy has generally moved away from notions of 'picking winners', support for specific sectors, particularly through the RDAs, has maintained an overly simplistic approach to supporting industries perceived to be of long-term value to a region or locality. From an enterprise-policy perspective, future approaches must allow for policy differentiation, thereby ensuring that entrepreneurial opportunities are not overlooked as a result of regional specialisation policies.

Innovation and research and development

Supporting innovation and promoting research and development (R&D) has been identified as a key driver of productivity, with economic success increasingly considered to depend on the ability to create new knowledge and to translate it into innovative goods and services (HM Treasury, 2004b). In order to meet this challenge the government has brought in a range of measures to support high-technology businesses, and used specific policy prescriptions to encourage innovation, including the Science and Innovation Investment Framework, the 'science city' agenda, alongside the continuance of the Small Firms Merit Award for Research and Technology and the Enterprise Management Incentive. Most significantly, perhaps, corporation tax relief has been given on investment by corporate venturers in small higher-risk trading companies, with tax credits for SMEs based on the total cost of their R&D expenditure (Bank of England, 2001; Bridge et al, 2003). While the importance of encouraging innovation is reflected in the plethora and range of programmes outlined above, providing suitable support for high-technology businesses is challenging (Smallbone et al, 2002).

One example of these challenges are government policies to develop six science cities in York, Manchester, Newcastle, Birmingham, Nottingham, and Bristol (HM Treasury, 2004c; 2004d). Science cities are considered to be locations with strong science-based assets, such as a major university or centre of research excellence, which have particular potential to use these assets as the basis for generating business success. A key challenge for the new science cities is to attract investors away from already successful scientific centres, such as Cambridge, to the newly designated science cities. This challenge has been identified in research undertaken by Nottingham Science City, which stresses the need to challenge existing preconceptions and to market the city as an alternative destination for investors and for the skilled workers required to help the scientific base grow (Nottingham Science City, 2006).

Innovation policy in the UK is becoming increasingly decentralised to regional and local levels, which is beginning to provide more distinct platforms for creating tailored policy solutions. However, a lack of investment and capital continues to restrict innovation and entrepreneurship in certain regions and localities. Supporting innovation and R&D is,

by nature of its uncertainty, difficult through active policies, and future strategies to foster innovation should concentrate on developing a climate in which risk is viewed positively across regions and cities.

Disadvantaged areas

Government-enterprise strategies in the UK are based on the premise that entrepreneurship can be fostered to benefit even the most economically disadvantaged areas, and the government has declared its intention to ensure that there are 'no no-go areas' for enterprise in any part of Britain (Henry et al, 2003; HM Treasury, 1999; 2005a). Gibb (1993) has highlighted the significance of a decentralised political base which allows differentiation in policies. Initial Labour government programmes included the Phoenix Development Fund, which was launched in 1999 to support innovative projects in disadvantaged areas and within underrepresented groups. The fund was initially worth £30 million but then trebled in the 2000 budget. Other initiatives include enterprise areas, which consist of support for the most deprived 15% of wards or areas in England and Scotland, and the most deprived 42% of wards in Wales and Northern Ireland (HM Treasury, 2003b). The areas provide fast-track planning, community investment tax relief, the abolition of stamp duty, and the prospect of enhanced capital allowances for renovating business premises. The Phoenix Development Fund came to an end in 2006, and while the government announced its ongoing commitment to enterprise areas (HM Treasury, 2005b), the key strategy for tackling enterprise and economic inclusion in disadvantaged areas in the coming years will be the LEGI, announced in 2005. The LEGI aims to provide flexible and devolved investment in deprived areas to support locally developed and owned proposals to pursue new or proven ways of stimulating economic activity and productivity through enterprise development (HM Treasury, 2005a).

In addition to the LEGI, the government also considers the promotion of social enterprise—enterprises which are independent of the state and which provide services, goods, and trade for a social purpose and are nonprofit distributing—as a way of tackling disadvantage and promoting further participation in the labour market and greater levels of entrepreneurship (HM Treasury, 1999). Renewed public policy attention on social enterprise is manifested by the establishment of the Office of the Third Sector in 2006 and the desire to see the sector operating at the 'heart of society' (HM Treasury, 2006d). Social enterprises face many of the same issues as mainstream businesses, but are particularly challenged by sustainability, with a reliance on grants and specialist support. Engaging in the delivery of public services and/or building an asset base are typical routes to address this, (DTI, 2002b) and further financial aid has also been announced in the form of additional funding to RDAs to improve Business Link's capacity to broker business support for social enterprises (Cabinet Office, 2006). However, while the social-enterprise sector is perceived by government to have grown in recent years (Cabinet Office, 2006), evidence to confirm this perception is limited (Henry et al, 2005). Furthermore, the benefits of the social economy, or Third Sector, can be questioned, with a common criticism being that the jobs that they provide are of 'low quality' (Bridge et al, 2003).

Public sector funding for entrepreneurial action in disadvantaged communities has risen substantially in recent years. Support for disadvantaged areas, particularly from the LEGI, provides an important opportunity to develop differentiated and bottom-up strategies and activities designed to reflect the particular requirements of local areas. However, in order to realise enterprise policy goals in disadvantaged areas, localised and flexible programmes such as the LEGI will need long-term support and commitment.

Underrepresented groups

In order to ensure that the potential economic and social benefits of enterprise are realised as fully possible, the government has stated that it is vital the opportunity to participate in enterprise should be open to anybody with the talent and potential to do so, and that appropriate conditions should be in place for individuals to start and grow a successful business (HM Treasury, 2002). Three key groups the government considers to be 'underrepresented' in terms of enterprise are females, ethnic minorities, and those living in rural areas. While female entrepreneurship is an increasingly important part of the economic profile of any country, a significant and systematic gap still exists between the entrepreneurial activity and business ownership of women and men (Allen et al, 2007; Brush et al, 2003; Carter and Rosa, 1998; HM Treasury, 2002; Rouse and Kitching, 2006; Wilson et al, 2004). In order to close the gap, the government has set itself the objective of increasing the numbers of women starting and growing businesses in the UK to proportionately match or exceed the level achieved in the US (DTI, 2003), with which there has traditionally been a significant gap. However, the government missed its target of increasing the proportion of businesses that are majority women owned from 15% to 18–20% by 2006 (DTI, 2003), with evidence showing that between 12.3% and 16.5% of UK businesses are either wholly or majority female owned (Carter and Shaw, 2006). However, this short-term target may be considered unrealistic, since it has been forecast that, while female self-employment is expected to grow by 250 000 by 2020, the gap between male and females will widen significantly as male self-employment continues to grow at a far higher rate (CBI, 2006b). Despite this, the 2005 Household Survey of Entrepreneurship found small statistically significant increases in the proportions of female entrepreneurs when comparing the 2001 and 2003 surveys (DTI, 2007). Carter and Shaw (2006) argue that the US's continued growth in women's enterprise is as a result of continuous commitment over a thirty-year period.

There are more than a quarter of a million ethnic-minority enterprises in the UK, which contribute around £13 billion a year to the national economy (DTI, 2005b). The government has taken steps to support greater levels of business start-ups and more growth of ethnic-minority-owned businesses, a key facet of which is the Ethnic Minority Business Forum, established by the Department of Trade and Industry in 2000 as an independent, strategic, body to represent the views of ethnic-minority businesses. While cultural differences can play a role in determining the effectiveness of business support (Ram and Smallbone, 2002), identifying ethnic-minority groups as a distinct category for tailored business support is problematic since ethnic-minority groups are often considered to be more entrepreneurial than their white British counterparts (Harding, 2006), and in addition there is substantial variation in entrepreneurial activity across different minority groups as a whole (Harding et al, 2005; HM Treasury, 2002). In general, there is a low take-up of publicly funded business support among ethnic-minority groups as a whole (Deakins et al, 2003). On the demand side this can be due to language difficulties, the perception that agencies are only interested in helping larger firms, the perception that service providers racially stereotype ethnic groups, as well as an overall reluctance to seek help (Deakins et al, 2003; Fadahunsi et al, 2000). On the supply side, problems can arise from providers having a lack of appropriate information regarding ethnic entrepreneurs and a lack of clarity of the rationale for intervention (Deakins et al, 2003; Ram, 1994). Both supply and demand issues appear to be restricting the formation of new ethnic-minority-owned businesses. Whilst self-employment rates among ethnic-minority groups were higher than nonethnic groups in 2000, this trend was reversed by 2005, and is set to widen further by 2020. The future impact of the LEGI is important in this respect, since 70% of the

ethnic-minority population live in the UK's most deprived districts, which, as stated above, are the focus of this intervention (Cabinet Office, 2001).

Support for rural areas has been a part of enterprise policy throughout the 1990s and has become an increasingly important policy area in the aftermath of the foot-and-mouth crisis. In the mid-1990s responsibility for enterprise support in English rural areas moved away from the Rural Development Commission to Business Links, a change which represented a shift from providing specialist support delivered through specialist rural advisors, to more generic support provided by the Business Link network (Smallbone et al, 2003). Owing to the variable nature of the rural economy, public policy designed to stimulate rural enterprise can be problematic. Indeed, many commentators have been cautious when using the word 'rural', with some stating that it is unhelpful to use it at all (Hoggart, 1990). Storey (1994) states that 'accessible' rural areas have generally been amongst the most prosperous parts of the United Kingdom and argues that many arts-and-craft-based businesses located in these areas are started by relatively highly educated people who are in-migrants seeking a better quality of life. However, a two-part definition of 'remote' and 'accessible' appears simplistic, as the dimensions of rural enterprise are multifaceted (Atherton and McElwee, 2007). Additionally, while returning migrants have been targeted by RDAs as part of their strategy for promoting rural enterprise, the economic contribution of returning migrants to rural areas can be questioned as they often move back during retirement for quality-of-life reasons or to establish traditional businesses rather than to undertake innovative projects (Stockdale, 2006).

While enterprise policy aimed at underrepresented groups has continued to develop, rates of enterprise development across such groups remain persistently difficult to stimulate, with, for example, there continuing to be major differences in entrepreneurial activity across ethnic-minority groups. Policy progress is still relatively embryonic and further efforts must focus on establishing the highly nuanced approach required in such a sensitive area of intervention. Once again, the LEGI programme provides an opportunity to more flexibly tackle barriers to enterprise among underrepresented groups at the local level, as well as to improve the level of information available to support providers.

Culture

Culture plays a central role in cultivating entrepreneurship (Boettke, 2001, 2003; Hofstede, 1991; North, 1994; Verheul et al, 2001). Culture shapes what individuals perceive as opportunities and therefore entrepreneurial alertness is linked to capabilities of judgment, creativity, and interpretation (Lavoie, 1991; Sautet and Kirzner, 2006). Culture matters at the national, regional, firm, and individual level (Beugelsdijk and Nooderhaven, 2002; Verheul et al, 2001). The culture of European societies has been identified as one of the key reasons for the gap in Europe's entrepreneurial activity compared with the US (Audretsch et al, 2007; Grilo and Irigoyen, 2006). The UK government has made clear its intention to develop the UK's enterprise culture and numerous actions have been undertaken to promote a more entrepreneurial culture (HM Treasury, 2002). For example, the Enterprise Act of 2002 reformed competition and insolvency law and attempted to remove some of the stigma attached to business failure. The 'Enterprising Britain competition' further highlights enterprise achievement by recognising towns, cities, and places which are successfully driving forward their enterprise performance (HM Treasury, 2005a). While these programmes have raised the profile of entrepreneurship, by far the biggest focus of government attempts to create a culture of enterprise has been the education system, which was first discussed in policy circles in the 1970s and has been resurrected under the Labour

government (Gibb, 2000). The Davies Review, commissioned by the Department for Education and Skills (DfES), found that schools play a key role in developing attitudes towards careers and identified that providing enterprise education as part of the curriculum can turn positive attitudes into action and develop young people's capability and skills to be an entrepreneur, recommending that the DfES provides guidance to schools to support the development of 'enterprise capability' (DfES, 2002).

Following the Davies Review, the government committed additional funding to schools and developed guidance on standardising enterprise education (HM Treasury, 2002). In 2005 it was announced that all school pupils would receive at least five days of enterprise activity (HM Treasury, 2004e), and in the 2007 Budget £60 million per year was committed to enterprise education up to 2011 (HM Treasury, 2007b). The Budget also laid out activities aimed at promoting good practice in enterprise education, including a guide to the most enterprising schools (entitled 'Enterprising Heads, Enterprising Schools'), support for Young Chambers of Commerce, and a quality assurance scheme for the National Education Business Partnership network, which fosters relationships between schools and businesses (HM Treasury, 2007). In addition to school-level teaching, the European Commission (2000) has stated that enterprise needs to be taught effectively at the higher-education stage if levels of entrepreneurship are to increase. While graduate entrepreneurship in the UK has increased markedly over the last twenty years, it is still limited to a small proportion of graduates, with only 4% going on to become entrepreneurs (Greene and Saridakis, 2007). In recognition of the fact that levels of graduate entrepreneurship in the UK are low, particularly in comparison with the US, as well as the perceived need to encourage stronger links between academia and business (Hannon, 2004), the government has established the National Council for Graduate Entrepreneurship to promote a culture of entrepreneurship within higher education through research, education, and facilitation.

Creating a culture within which entrepreneurship is seen to be equivalent to, or more attractive than, wage employment is a key aspect in fostering greater levels of enterprise, and at the root of this is embedding entrepreneurship within educational and work environments (Gibb, 1993). Clearly, establishing a more entrepreneurial culture through policy intervention is no easy matter, and is very much a long-term process. In the UK, government appears to have put in place the foundations, primarily within the education system, to facilitate such change.

Conclusions

We have analysed the recent evolution of public policy in the field of entrepreneurship and enterprise development in the UK. We have provided an analytical framework to undertake a synthesised policy review allowing conclusions regarding policy direction to be drawn. It is clear that enterprise policy developments occur across a diverse range of areas of intervention, from the economic to the social, with some policies and initiatives being directly targeted to stimulate development, while others, such as macroeconomic and regulatory policies, more indirectly impact on entrepreneurial processes. Enterprise-development policy is extensive in its aims and potential reach, and has moved away from small-business policy into a broader interpretation of entrepreneurship. Nevertheless, while policy making has sought to become more distinct from mainstream business-support policies, there inevitably continues to be significant overlap.

After more than ten years in government the Labour Party is still seeking to grapple with the diversity of enterprise policy, and to identify which activities will represent cost-effective interventions. The general output of this has been an explosion in the number of new and often uncoordinated initiatives, each seeking its own

segment of the policy playing field. This has meant that joined-up thinking across enterprise-policy areas has been significantly neglected, and which the government has only recently sought to redress. The substantive outcome is that there is still some way to go to close the enterprise gap with other leading economies and to make the UK 'the best place in the world to start and grow a business'.

Enterprise-development policy tends to operate at two differing speeds, with social drivers being the subject of long-term policy influences, and policies concerning economic drivers more likely to impact in the shorter term. The Labour government has been more active in seeking to promote the development of long-term social drivers than in the effective implementation and management of shorter-term economic drivers. However, in order to bring socially driven developments to successful fruition will require sustained investment in high-level grassroots policy implementation competences. In many ways culture is at the heart of enterprise policy and in this regard progress is slowly being made with the foundations being put in place, particularly through education, to facilitate change. Fostering a more entrepreneurial culture is a long-term process and assessing success and failure in this area will be a key area of enterprise-policy research in the coming years.

The scope of policy making related to enterprise development results from government thinking dually conscious and unconscious of its impact on enterprise development. This is an area requiring attention, and which the government is seeking to address by assessing how its policies as a whole potentially impact on enterprise development. A key facet in ensuring that greater levels of entrepreneurship are fostered is the ability of policies and strategies to be flexible so that (changing) local conditions are truly considered. Too often, national policy directives are transplanted into regions and localities with little consideration of the area's particular needs. Policy making must move away from top-down approaches to a decentralised bottom-up policy base which allows for differentiation. In this regard, the LEGI programme has the ability to move policy making in the right direction by emphasising the need to create local solutions which tackle low levels of entrepreneurship in disadvantaged areas. However, the fact that the LEGI programme represents progress in terms of devolved policy making also raises a key issue with regards to enterprise-policy development. To an extent, the LEGI is a return to the local approach of the TEC framework, which the Labour government rapidly dismantled upon their accession to power. This is symptomatic of a circular tendency in policy making in which old interventions are recycled and regurgitated. This implies that there is more work to be done not only to understand what does and does not work, so that ineffective interventions are discarded, and that mistakes of the past are not repeated, but also to understand how policies interact with each other.

It is clear from the analysis that entrepreneurship policy is an area of significant contention, whereby policies to alleviate perceived market failure potentially have the capacity to do more damage than good. For instance, there is the potential for 'Baumolian unproductive entrepreneurship', whereby new entrepreneurs are incentivised by public funding rather than by consumer demand, or for a 'Kirznerian superfluous discovery process', whereby the discoveries of entrepreneurs supported by government intervention are superfluous in the sense that they do not reflect consumer demand or are based on false profit expectations. This is an almost irreconcilable feature of forms of policy intervention that seek to make adjustments to an apparently failing market. In the UK and many other nations, one of the most visible manifestations of this in the recent years is the role of government as a financier and venture capitalist through the provision of start-up capital for new entrepreneurs. This highlights how enterprise initiatives are leading governments to take quite radical and new routes in shaping their policies, becoming

bigger risk takers, and operating in a quasiprivate sector role. Such a role is potentially controversial and accentuates arguments that government is not in a position to 'pick winners'. However, as has been shown, such approaches are embedded in enterprise-related policies, such as cluster development and innovation support. It is our consideration that there is a requirement for a judicious balance between these forms of intervention and those based on fostering the more long-term development of an enterprise culture.

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