On the Entrepreneurship Policy Discourse in Ireland: Between Incentives for Success and Remedies for Failure

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ABSTRACT

This compact study focuses on the three major policy influencing enterprise reports of the last three decades; Telesis 1982, Culliton 1992, O'Driscoll 2004 to determine the policy orientation of the Irish Government over the last 30 years. Expanding on a framework put forward by Dennis to categorise policy orientation of governments, we examine the path of policy making in Ireland and find that Irish policy has a resolute focus on interventions to support successful risk taking and has assiduously avoided considering reducing the effects of failure. From our analysis we also find that there has been no significant directional change in policy making in the O'Driscoll report 2004, in spite of calls from Europe since 2000 for countries to review insolvency legislation and make it easier for honest entrepreneurs to make a 'fresh start'.

INTRODUCTION

In recent years there has been a drive by governments across the world to promote entrepreneurship. This drive has been spurred on by a recognition of the relative importance of small entrepreneurial firms in the development of national economies (Storey, 2003). In the 1960s small scale enterprises were associated with technological backwardness and believed to be of little economic value. Galbraith (1957) pointed out that there was good reason to believe that the economies of scale generated by large scale firms was vastly superior to smaller firms in almost every aspect of economic activity. The origins of this belief can be traced back at least as far as Karl Marx (1912, p.836) who believed that the entire social capital would end up in the hands of one single capitalist or corporation. An alternative view, stemming from the writings of Joseph Schumpeter, put much more emphasis on the important role of small firms in an economy. According to this view small firms are the source of technological change, they create competition and make markets more dynamic, they create new markets and create more new jobs than large firms (Acs and Audretsch, 1993). Furthermore Audretsch (2003, p. 5), goes on to say that entrepreneurship has now “become the engine of economic and social development throughout the world.” In 2000 president of the European Union, Romana Prodi, announced plans to transform Europe into the most entrepreneurial region in the world by 2010, and Stel, Storey, Thurik and Wennekers (2006) note that policy makers in different countries have now also focused more attention on entrepreneurship. In its’ 2003 report, the European Commission (2003, p. 9), stated that "[t]he challenge for the European Union is to identify the key factors for building a climate in which entrepreneurial initiative and business activities can thrive."

In light of this challenge, this compact study examines the interaction between academic research on entrepreneurship and Irish government policy in recent decades. Almost every ten years since 1982 the Government has commissioned a blue sky consideration of business policy in Ireland and the last three have uniformly noted an over-reliance on Foreign Direct Investment and an under-performing indigenous entrepreneurial sector (Telesis,1982; Culliton, 1992; and O'Driscoll, 2007). Recent governments tasked with further improvement have started to focus on stimulating entrepreneurship, with measures including the funding of 62 business incubation centres, offering a range of funding schemes for start-ups, providing entrepreneurship training and offering direct business advice. The question must be asked however whether the correct incentives are being put in place to aid the creation of an entrepreneurial economy?

Rather usefully Dennis (2004) sets out the two main areas that are routinely focused upon by governments as they set about supporting entrepreneurship:

- Lowering barriers to establishment, expansion and growth.
- Providing advice, support and finance from public funds.

According to Dennis, European countries take a very different approach to the USA, which broadly favours the first policy option over the second, whereas until recently, EU countries have in general favoured the second. The European Council in Lisbon in 2000 set out to recast the EU’s approach to entrepreneurship, adopting a more American model. In 2003 these policies were formalised in an EU Green paper (Entrepreneurship in Europe) that is starting to impact on member states legislation. This Green paper took up the call from a number of economists (such as Lundström and Steveson, 2002; Djankov et al., 2002; Armour and Cummings; 2005) to reduce the ‘stigma of failure’ through reducing the severity of bankruptcy regulations.

The paper proceeds as follows. Section 2 presents a brief review of Irish industrial policy from the time of creation of the Irish Free State. This will give context to the research and will also present the reader with an impression of the main trends in the development of enterprise policy since political separation from Great Britain in 1922. Section 3 will follow with an examination of the Telesis (1982), Culliton (1992) and O’Driscoll (2004) reports and categorise the recommendations of each. Section 4 will look at public policy on entrepreneurship and finally section 5 will be a discussion on the findings of the examination and provide comment on any persistent trends or biases in policy decisions.

2. EVOLUTION OF THE IRISH ENTERPRISE POLICY

On the periphery of Europe, without road or rail access to the continental mainland, Ireland, a small agricultural country was a prosperous if inequitable component of the United Kingdom, before eventually seceding in 1922. Establishment of the new Free State was accompanied by a short lived but bitter civil war (1922-23), after which the main political objective of the country was development of economic policies that would support and substantiate Irelands’ independence from Britain (Lee, 1989). The period from the 1930’s to 1950’s was characterised by high tariffs and strict prohibition of foreign ownership of firms operating in Ireland. Justification of these ad hoc protectionist policies was the belief in the merits of self-sufficiency, and was also an attempt to promote import substitution and encourage output and employment in indigenous industry. From a political perspective these policies proved successful and also did moderately well economically in the short term, at least until the end of World War II. From 1932 to 1938 an estimated 1,000 new factories were established and employment in manufacturing increased by over 50,000, up 50% from the beginning of the decade (Review of Irish industrial policy and performance, 2003: 30).

By the 1950's the weaknesses of protectionist policies became apparent, as Ireland underperformed the rest of Western Europe in raising standards of living and in terms of job creation. The post-war era from 1950-1975 is often characterised by economic historians as the "Golden Age" of European growth, as countries devastated by the war, grew faster than at any other period during the twentieth century (Van Ark and Crafts, 1996), however this upsurge was not experienced in Ireland. Mass emigration ensued, with an estimated half a million people leaving Irish shores during the 1950's (Gray, 2004).[1] By the end of the 1950's it was widely accepted that Ireland required a fundamental transformation of economic strategy. Table 1 outlines the main economic policies of the 1950s. After 1958 there is a notable change in focus from protectionist to free trade orientated policies.

2.1. Transformation of the Irish Economy: 1960's-1980's

Having lost two elections in 1948 and 1954, when Fianna Fail re-gained control of government in 1957, de Valera realised that it was time to change the path of economic policy making. Although not a proponent of the free market, he was a shrewd politician and appreciated that the old remedies had not been a political or economic success. Sean Lemass, who had been in a long standing battle with Sean MacEntee as to the course Fianna Fail should take in economic policy, was given the scope to reshape economic

[1] This was an estimated one sixth of the total population.

conditions, as he saw fit when MacEntee was relegated from finance in 1957 (Murphy, 1997).

Lemass appointed a young civil servant, T.K. Whitaker to the position of Secretary of the Department of Finance, and in 1958 Whitakers' report on 'Economic Development', "announced the simple fact that Irish capitalism had come to a dead end" (Allen, 1990). Whitaker, who had looked abroad to policy making of other countries, changed the economic landscape of Ireland with his wide ranging plans for economic development and broke away from policies of economic nationalism. Irish economy and industry was transformed under the force of new policy direction which can be summarised under three main areas, (i) a move away from self-sufficiency, towards policies which promoted economic openness, (ii) tax incentives and grants to foreign firms who set up in Ireland; and (iii) abolition of import tariffs and other barriers to international trade flows. These policies resulted in a huge shift away from agriculture to industry in terms of both the contribution to GDP and share of employment. In 1960 exports of merchandise contributed to 27% of GDP, this figure rose to 75% in 2000, by which time Ireland had become one of the most open economies in the OECD (Review of Irish industrial policy and performance, 2003). The new economic strategy implemented from 1958, moved away from over-reliance on native industries and towards attracting FDI. This saw sustained growth in productivity and output over the following two decades. However, certain of defeat in the general elections of 1977, Fianna Fail leaders got together and drew up a manifesto offering the electorate an array of tax breaks and dramatic increases in public spending in an effort to regain popularity.

Table 1

Evolution of Irish Industrial Policy: 1930s-1950s	
	Protectionist Orientation
1932	Large increases in tariffs on a wide range of imported goods.
1932-34	Control of Manufactures Act restricts foreign ownership of Irish firms.
1933	Establishment of Industrial Credit Corporation to provide finance for native industry.
1950	Establishment of Industrial Development Authority to promote industrial development.
1952	Establishment of An Forfas Tionscail to give grants of up to 100% of cost of land & buildings and 30% of cost of machinery to companies setting up in under-developed areas of the country.
1956	Industrial Grants Acts provides that grants of up to 2/3rds of cost of land and buildings can be given for new industry in all parts of the country.
1956	Finance Act gives 50% remission on tax on profits from exports. Finance Act of 1958 increases tax relief to 100%. Finance Act 1960 extends export tax relief for 15 years with tapering relief for a further five years
	Free Trade Orientation
1958	*Economic Development* 1958: 'sooner or later protection will have to go and the challenge of free trade be accepted'.
1958	Easing of restrictions on foreign ownership of industry in Control of Manufactures Acts 1932 & 1934. Acts repealed in 1964.
1959	Shannon Free Airport Development Company (SFADCO) established to promote industrial development in the Shannon area.

Adapted from: Review of Irish industrial policy and performance (2003), by the Department of Enterprise, Trade and Employment

Fianna Fail won a landslide victory which was aided when the incumbents plan at redrawing every constituency in the country backfired. What followed was a return to Keynesian economics which had served the country so poorly in the first half of the century. The economy performed badly as output growth waned and employment in manufacturing fell, with major job losses in Irish owned industry. There were also job losses in foreign owned companies, but these were mostly confined to the low-tech sectors of textiles and engineering. The productivity gap between the Irish workforce and their European counterparts was reduced over the period from the 1970's to the 1990's as the economy shifted towards the production of more high-tech goods like electronics and pharmaceuticals.

The Review of Irish industrial policy, 2003[2], identifies three main reasons for the relatively poor performance of the Irish economy from 1960 up to the 1990's. First, the legacy of protectionist policies left Ireland at a competitive disadvantage in international markets. Second, in comparison to other European countries, the dependency ratio in Ireland – ratio of people outside the workforce to the number in the workforce – increased significantly from the 1970's to 1980's. And finally, a macroeconomic climate that was not conducive to achieving sustained growth. Combined, these factors made doing business in Ireland very difficult. Furthermore, high inflation coupled with large government borrowings led to severe taxation of income; a vicious circle that was difficult to break out of. These difficult economic conditions in the 1970's and 1980's, which were underpinned by a failure to create enough sustainable jobs for a growing workforce, led to searching assessments of enterprise policy. In 1982 Telesis, an American Consultancy group conducted the first review of industrial policy for the National Economic and Social Council[3]. The Telesis Report noted that Irelands "colonial past and the need to focus energies on goals of political independence early in the century, its small size and its relative geographic isolation from the main body of Europe have all been significant hindrances to industrial development". This report was followed in 1992 by the Culliton Report[4] and the O'Driscoll Report 2004[5].

[2] Conducted by the Department of Enterprise, Trade and Employment.

[3] National Economic and Social Council. (1982). Review of Industrial Policy: A Report Prepared by the Telesis Consultancy Group (Dublin: NESC).

[4] A Time for Change: Industrial Policy for the 1990s. (1992) Report of the Industrial Review Group. Published by the Stationary Office, Dublin.

[5] Ahead of the Curve – Ireland's Place in the Global Economy (2004). The Enterprise Strategy Group.

The aim of this investigation is to identify to what extent industrial policy has focused on incentivising and supporting creation of new and existing companies and to what extent it has focused on implementing a complete legislative framework to assist entrepreneurs in failed attempts at success.

The O'Driscoll Report noted that one of the main obstacles blocking the progress in developing a more entrepreneurial society is the "deep-rooted prejudice against failure in business", and that the stigma attached to failure is a deterrent on entrepreneurs' willingness to try again. The European Commission (2003: 12) also commented that insolvency legislation should "be reviewed to reduce barriers to making a fresh start for honest entrepreneurs."

In a further European Commission report, the expert group on 'Restructuring, Bankruptcy and a Fresh Start' (2003), pointed to four main focus areas;

- Early warning
- Legal system
- Fresh start
- Social attitudes

These topics were discussed at a series of five meetings, attended by experts from 22 different countries. Each area was discussed and specific recommendations concerning each topic were made.

On the subject of legal systems, a conservative legal system towards bankruptcy can act as a deterrent to 'fresh start' entrepreneurs, in two ways. First there are the direct legal consequences of failing, like economic and personal sanctions and secondly there are indirect consequences, which influence societies attitudes to failure, like the stigma caused as a result of losing the family home, having to resign from ones job etc. It is now well accepted that entrepreneurs who fail in business learn from their experiences and the report found that the "legal system should clearly distinguish between fraudulent and non-fraudulent bankruptcies and be more understanding in the latter case". It also called on legislators to be aware of the factors that can lead to this stigma. (Best Project on Restructuring, Bankruptcy and a Fresh Start', 2003: 23).

3. ANALYSING THE THREE MAIN REPORTS ON INDUSTRIAL POLICY IN IRELAND

The method of categorising the recommendations of the reports borrows from the work of Dennis (2004) where he differentiates between the different policy approaches governments can take in terms of promoting entrepreneurship and small businesses. This paper expands on the framework set out by Dennis and thereby allows for further inference regarding the focus of Irish industrial and enterprise policies.

3.1 Dennis's typology of public policy

According to Dennis governments generally follow two different approaches towards small business and or entrepreneurship policy. The first approach is reducing obstacles to entry and growth (Dennis used the term 'impediments'). By taking this approach to entrepreneurship / small business policy, governments aim "to reduce, hold minimal, or eliminate barriers to entry and growth that would not be present were it not for government intervention or business anti-competitive behaviour" (Dennis, 2004: 19). The second approach used by governments is provision of assistance, which includes both financial and non-financial support, for example provision of advice on issues relating to starting a business. By examining the different policy approaches used Dennis has created a typology of general policy environments of a country. This typology is presented in table 2. Impediments or ‘barriers to entry’ are represented on the x-axis. These barriers are labelled as being either high or low, meaning that there are many or few barriers. Direct assistance programmes are represented on the vertical, or y-axis and these are also subdivided into two groups; again either high or low. This framework allows for a simple observation regarding the policy orientations of different governments. Section 4 will deal with this issue in more detail.

Table 2: A Typology of Public Policy toward Small Business

Low Direct Assistance	**(1) LIMITING**	**(2) COMPETING**
High Direct assistance	**(3) COMPENSATING**	**(4) NURTURING**
	High Impediments	Low Impediments

Source: Dennis (2004)

3.1.1 Expanding on Dennis’s framework

Dennis argues that many countries do not follow an entrepreneurship stimulating approach to policy making, but rather have in place, policies to support existing small businesses. To uncover the extent to which this applies to Ireland, we have expanded on Dennis’s categorisation of policy approaches. In this paper we pull apart the first policy approach of removing barriers to entry, expansion and growth, into two separate categories. The two new categories of policy approaches will be, (1) reducing barriers to entry and (2) reducing barriers to expansion and growth. The former fits better with stimulating the creation of new ventures, while the latter is more about supporting existing firms. The third category remains the same; the provision of advice and financial support. A fourth category labelled ‘Insolvency related’ and a fifth category ‘Not directly relevant’ will also be added. Any recommendation that relates to, or mentions insolvency legislation, will fall into the fourth category while any recommendation which does not directly apply to any of the first four categories will be assigned to category five. Addition of these extra categories for classifying recommendations will not alter our ability to place policy orientation into Dennis’s original typology, but it will allow for a discussion on the focus of policy making in Ireland.

This next section will examine the three major policy influencing documents with the aim of identifying the key recommendations arising out of each report. These recommendations will be classified according to the expanded version of Dennis’s framework. This will allow us to place Irish policy making within one of the four quadrants. The first report this paper will look at is, A Review of Industrial Policy, carried out by the Telesis Consultancy Group at the request of the National Economic and Social Council (NESC), which was published in February 1982.

3.2 The Telesis Report 1982

The Telesis Consultancy Group’s report set out to “ensure that the Irish government’s industrial policy is appropriate to the creation of an internationally competitive industrial base in Ireland which will support increased employment and higher standards of living” (p. 3). This review, 242 pages and 10 chapters, is the longest of the three commissioned reports and is broken into three main parts. Section one describes the objectives and justifications for the review. Section two provides an overview of Irish industrial policy of the time, and section three presents an assessment of those policies as well as recommendations on the direction of future policy. Telesis looked at the make up of foreign owned companies in Ireland to identify which sectors performed best, which sectors added most value to the economy and which sectors represented sustainable areas of job creation and retention. Job retention or defensibility was an important concern as there had been a very high turn over of jobs in foreign industries over the period 1960-1980.

Many foreign companies were enticed by the attractive tax breaks and grants, as well as low wage costs in Ireland, and from 1973 to 1982 the number of people employed in foreign owned companies increased by 22,000 to 80,000 people, or 34% of the total manufacturing workforce. However job turnover in these firms was very high, with the report stating that nearly 17,000 jobs had been lost in foreign owned firms from 1973 to 1982.

Looking at electrical engineering companies, Telesis found that for all the high tech firms operating in this sector, most companies had only established basic manufacturing satellites in the country. Very few of the foreign owned companies undertook any significant level of marketing, research and development or integrated manufacturing in Ireland (Exhibit 4.16, p. 375). As most Irish electrical engineering operations did not possess key skills or processes, they would not be indispensible locations, during times of reduced growth. Thus sustaining employment in this industry would be difficult.

The report produced similar findings for mechanical engineering businesses, that is, the majority of employment was of low skilled workers for assembly line work. Additionally, only 6% of all US mechanical engineering firms had a base in Ireland. The main reason for this is that Ireland, as a developing country was not suitable for investment of mechanical engineering firms. These firms are highly interrelated (supply companies for components) and dependent to a large degree on apprenticed labour, which caused them to form in clusters (p.144). The report concluded that the vast number of projects in mechanical engineering industries would not increase the skill profile of the workforce and overcoming this obstacle would be extremely difficult (p. 150). Pharmaceuticals companies represented 56% of total investment by US companies in Ireland at the time of the report, as well as 68% of all income earned by US companies in Ireland. This meant that return on investment from the pharmaceutical industry was higher than any other industry in Ireland. However the report found that "[n]one of the Irish operations could easily operate independently of their parent companies", as very little R&D was performed in Ireland, most raw materials were sourced internationally and that Ireland lacked the scale requirements for process development as well as for capital investment.

Nearly all foreign owned manufacturing companies in Ireland lacked any real sophistication or strategic importance to the parent companies. The report sums this up by stating that foreign owned companies, "with few exceptions do not embody the key competitive activities of the businesses in which they participate; do not employ significant numbers of skilled workers; and are not significantly integrated into traded and skilled sub-supply industries in Ireland" (p.151); continued investment from these companies could therefore be difficult to sustain. Although the report noted that there was a widespread acknowledgement of these facts, there was a perception that this would change in time, as industrial groups developed strategies to deepen the level of integration and increased efforts to improve the level of highly educated people in the workforce.

It recommended that policies offering attractive grants and tax incentives to foreign owned companies should be revised, as these were the main factors attracting foreign firms to Ireland. A summary of the recommendations of the Telesis Report can be found in Table 3. Included in the summary are the recommendations towards developing indigenous industry in Ireland as well as recommendations to the government on the need for it to assume a more active role in policy making.

3.2.1 Categorising recommendations of the Telesis Report

The next step was to look at each recommendation and place them into one of the five categories i.e. (1) ‘reducing barriers to entry’, (2) ‘reducing barriers to expansion and growth’, (3) ‘support’, or (4) ‘insolvency related’. Some of the recommendations do not fall into any of the three categories and therefore were place in an additional category labelled (5) ‘not directly relevant’. It is also possible that a recommendation could be considered to effect more than one of the categories, like for example recommendation no. 3; *a substantial increase in funds devoted to the development of indigenous export businesses.* This was deemed to fall under ‘provision of support’ as well as having the effect of ‘reducing barriers to expansion and growth’. When the recommendation was considered relevant to a category it was labelled with a ‘1’ otherwise it was given a ‘0’. Placing the recommendations into the different categories was not always clear-cut and depended to a certain degree on the authors understanding of the effect that each recommendation would have. For reliability four other post-graduates were given the list of recommendations and asked to categorise them into any of the five categories.

Table 3

Recommendations of the Telesis Report
Budget levels and Resource Allocation
1. A substantial reduction of average grant levels for many foreign-owned firms locating in Ireland.
2. A sharp reduction of grants given to indigenous companies for non-traded businesses (with the exception of high-skilled sub-supply industries).
3. A substantial increase in funds devoted to the development of indigenous export businesses.
The Development of Indigenous Industry
4. The development effort aimed toward new indigenous industry must be reorganized to emphasize the building of structurally strong Irish companies rather than strong agencies to assist weak companies.
5. The Government should encourage greater participation by the large indigenous financial community in traded and skilled sub-supply businesses in Ireland.
6. The grants available for the indigenous industry should address specific cost penalties and should be directed to the long-term resolution of these penalties.
7. Consideration should be given to further use of loan, loan guarantee, redeemable equity and participative loans, for providing incentives to foreign firms.
8. In order to spur indigenous industry development better advantage should be sought from foreign companies operating in Ireland.
9. New joint ventures should be undertaken to oversee the development of Ireland's resource-based industries.
10. Ireland's industry associations should play a more direct role in assisting the development of their industries.
The Control of Irish Industrial Policy
11. Better means are necessary to measure the progress of Ireland's industrial policy.
12. Government should gain better control of tax-based leasing and Section 84 distributions.
13. The Government departments should reassume a more active policy role.

Of the thirteen recommendations, six were deemed to fall into the category 'not directly relevant' (These were recommendations no. 1, 2, 6, 11, 12 and 13, from Table 3). The results of the codification are presented in Table 4. Along the top of the table are the different categories; while on the side of the table are the specific recommendations. For simplification the recommendations that were categorised as being not relevant, have been excluded from Table 4. The same method was used in analysing the other two reports but because of the large number of recommendations made in the subsequent reports, the tables have not been reproduced.

Only one of the recommendations fell under the category of ‘reducing barriers to entry’, six were aimed at ‘reducing barriers to expansion and growth’, four for ‘provision of advice, support and finance’ while none dealt with the topic of insolvency. Figure 1 gives a graphical representation of the percentage of recommendations (proportional to the total number of recommendations in the report) that fall under each category. This perspective points to a bias towards reducing the barriers to expansion and growth.

Figure 1

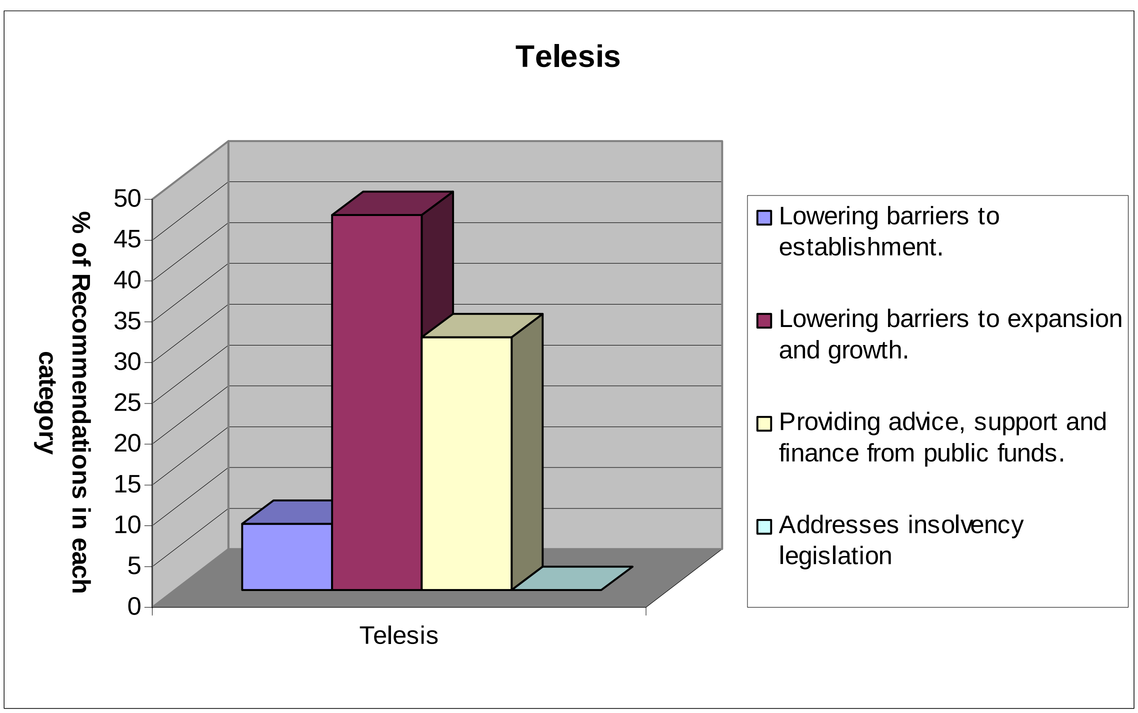


Table 4

TELESIS (1982)	**Reducing barriers to entry.**	**Reducing barriers to expansion and growth.**	**Providing advice, support and finance from public funds.**	**Addresses insolvency legislation**
Budget levels and Resource Allocation				
A substantial increase in funds devoted to the development of indigenous export businesses.	**0**	**1**	**1**	**0**
The Development of Indigenous Industry				
The development effort aimed toward new indigenous industry must be reorganized to emphasize the building of structurally strong Irish companies rather than strong agencies to assist weak companies.	**0**	**1**	**0**	**0**
The Government should encourage greater participation by large indigenous financial community in traded and skilled sub-supply businesses in Ireland.	**0**	**1**	**1**	**0**
Consideration should be given to further use of loan, loan guarantee, redeemable equity and participative loans, for providing incentives to foreign firms.	**1**	**1**	**1**	**0**
In order to spur indigenous industry development better advantage should be sought from foreign companies operating in Ireland.	**0**	**1**	**0**	**0**
New joint ventures should be undertaken to oversee the development of Ireland's resource-based industries.	**0**	**1**	**0**	**0**
Ireland's industry associations should play a more direct role in assisting the development of their industries.	**0**	**0**	**1**	**0**

3.3 The Culliton Report 1992

"Until more people are prepared to undertake the risks associated with business we will continue to experience only modest progress"

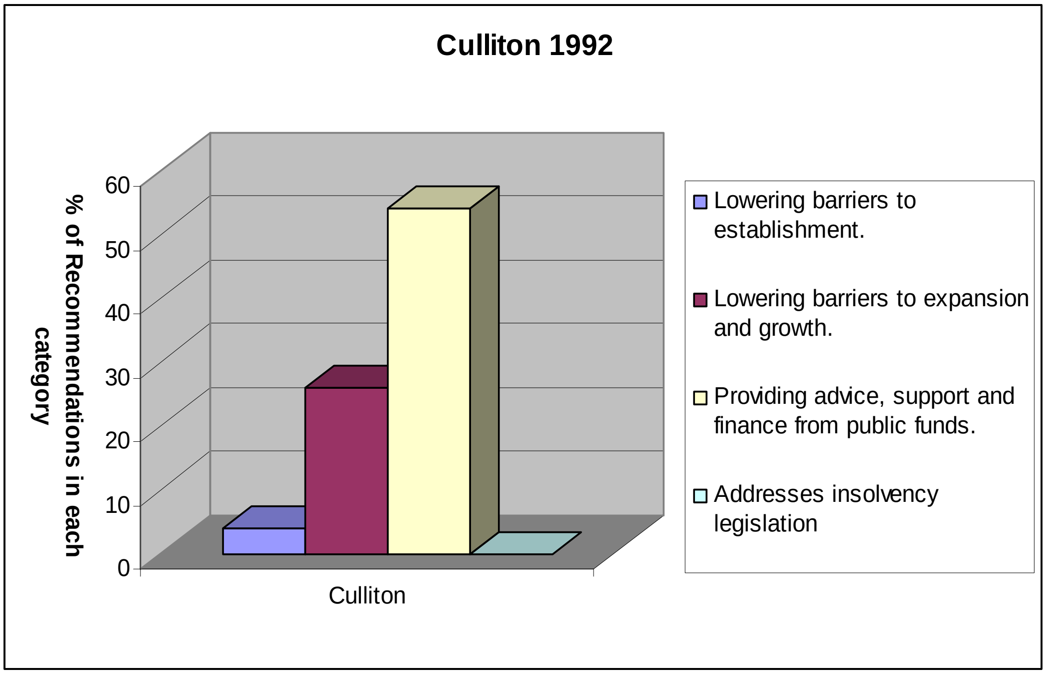
Entitled "A Time for Change: Industrial Policy for the 1990s", this report was submitted to the Minister for Industry and Commerce by the Industrial Policy Review Group (chaired by Jim Culliton). Two major problems were set out at the beginning of the report as being of primary importance; "the shocking level of unemployment" and the "crippling level of government indebtedness". The report also pointed towards a comparative weakness of Irish indigenous industry compared to foreign-owned companies and called for greater commitment to developing Irish indigenous industry. It also sought a broader approach to policy formulation for industry and made recommendations on a range of relevant public policy areas, including, taxation, infrastructure, education, enterprise and technology, direct support for industry, institutional strengthening and the food industry. It also recommended reducing reliance on industrial grants, as well as promoting the development of industrial clusters focused on niches of national competitive advantage. This follows on from observations made in the Telesis report, stating that many US mechanical engineering firms did not locate in Ireland because of the high degree of interrelatedness within the industry (supply companies for components) and because the degree of dependence on apprenticed labour caused them to form in clusters (A Review of Industrial Policy, p.144).

Regarding taxation the report stated that foreign owned firms benefited more from low corporation tax than indigenous firms and that it has led to complex tax avoidance schemes which has had the affect of channelling the benefits of the low tax rate away from manufacturing. Reform in this area, according to the report “should help to refocus the entrepreneurial effort” and it concluded that negative attitudes towards enterprise and business failure were the main obstacles to developing an entrepreneurial economy (A Time for Change, p. 22).

3.3.1 Categorising the recommendations of the Culliton Report

Fifty two recommendations were made in the report; recommendations were broken into six main categories, (1) taxation, (2) infrastructure, (3) education, enterprise and technology, (4) direct support for industry, (5) institutional strengthening and (6) the food industry. These recommendations and their effect on the different categories of benefit topology were very clearly identifiable, for example the recommendations on infrastructure were deemed to have very little effect on any of the categories and therefore mainly fell into the category of not directly relevant. Under the heading *institutional strengthening* all of the recommendations were considered to fall under the category of providing advice and financial assistance. There is a significant difference in the effects that the recommendations in the Telesis report and those from the Culliton report have on the different categories of Dennis's framework. In Culliton fewer of the recommendations made were considered to affect either of the first two categories of Dennis’s expanded policy approach framework, i.e. either reduce the barriers to entry or reduce the barriers to expansion and growth. However there are significantly more recommendations in Culliton which fall under the category of providing advice and financial assistance to entrepreneurial firms and SMEs. The recommendations have been graphically represented in figure 2.

Figure 2



3.4 The O'Driscoll Report 2004

Ahead of the Curve – *Ireland's Place in the Global Economy*

This report, produced by the Enterprise Strategy Group and chaired by Mr. Eoin O'Driscoll, was submitted to Ms Mary Harney, Minister for Enterprise, Trade and Employment. Mr. O'Driscoll was praising of the two preceding reports and commented in particular on the focus in developing a more selective approach to attracting Foreign Direct Investment. The Telesis Report of 1982 pointed to the fact that most foreign owned firms in Ireland "were generally manufacturing satellites". As a result the White Paper on Industrial Policy (1984) was published and this led to the reorganisation of the

Industrial Development Authority giving separate divisional responsibility to foreign and indigenous firms (O'Driscoll, 2004: 5).

The Culliton Report of 1992 mentioned the importance of creating a competitive business environment to the development of enterprise and O'Driscoll noted that there had been a huge improvement in the enterprise environment in the period 1993-2003. Indeed the Irish economy performed exceptionally well in the preceding decade, with the number of people in employment increasing from 1.2 million to 1.8 million[6], unemployment falling from over 15% to less than 5%[7] and the value of exports increasing from €28.5 billion to €109.3 billion.

Table 5: Factors Influencing Economic Improvement

External Factors	Domestic Factors
• Positive effects of trade and global trade and the expansion of the US economy. • Growth of FDI globally in 1990's and in Europe under impetus of single European market. • Favourable exchange rate trends up to 2002.	• Strategic policy decisions to improve human capital and encourage FDI from the 1960's. • Enhancement of enterprise environment created by reform of public finances, reductions in taxation and wage moderation under national partnership agreements. • Demographic trends that ensured labour supply did not limit growth potential.

Source: Ahead of the Curve 2004

[6] Central Statistics Office (CSO), Quarterly National Household Survey, Quarter 4, 2003.
[7] Department of Finance, Budgetary and Economic Statistics, 2004.

The reasons for this success were summarised in the Department of Enterprise, Trade and Employment's *Review of Industrial Performance and Policy 2003.* A range of external and internal factors were given and these are presented in the table below. However the 2004 report also pointed out a source of potential problems for the future when it stated that:

> *"Until now, Ireland's principal enterprise strengths have been in the operational aspects of manufacturing and services, rather than in markets and product development. This is particularly true of the foreign-owned sector, which accounts for most of our exports and which, for the most part, produces goods that were designed elsewhere, to satisfy market requirements that were specified elsewhere, and sold by other people to customers with whom the Irish operation has little contact and over whom it has little influence".*

Furthermore it also noted that while the majority of foreign owned companies in Ireland were operating in high value sectors such as pharmaceuticals and IT, most companies by global standards are situated at a relatively low point in the value chain. The activities which underpin the competitive strength of parent companies such as R&D and Sales/Marketing are not located within Irish operations. With increasing labour cost and emulation of low rates of corporation tax by other countries, this puts Ireland at a disadvantage in attracting and indeed retaining FDI in Ireland. Given the proportion of exports that come from foreign owned companies a change in the level of FDI would have a significant impact on the Irish economy.

3.4.1 Categorising the recommendations of the O'Driscoll Report

The O'Driscoll report of 2004 contained in total 64 different recommendations, which fell under three main headings (1) Building Competitive Advantage, (2) Essential Conditions and (3) The Role of The Enterprise Development Agencies. The headings and subheadings are presented in Table 6, but the recommendations have been excluded because of the bulkiness of the text.

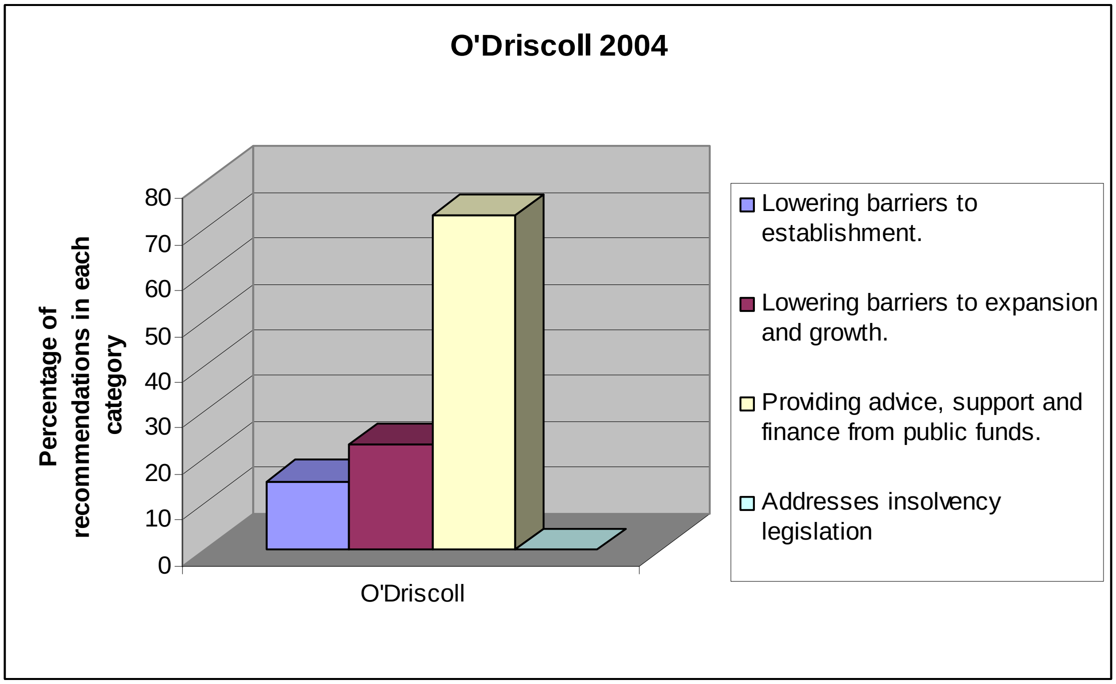
In the 2004 report 15% of recommendations were focused on lowering barriers to establishing a new enterprise.

Table 6: Main Headings From Ahead of The Curve (2004)
Building Competitive Advantage
Market Expertise
Expertise in Technology -Product and Service Development
Business Networks
Skills, Education and Training
Up-skilling the Existing Workforce and Raising Education Levels
Augmenting the Skills Base
Taxation
Effective, Agile Government
Essential Conditions
Cost Competitiveness
Infrastructural Requirements
Innovation and Entrepreneurship
Management Capability
The Role of the Enterprise Development Agencies
Meeting Future Needs
Skills Required in the Enterprise Development Agencies
Source: Ahead of the Curve, Ireland's Place in the Global Economy (2004)

This figure is significantly higher that the previous two reports. 23% of recommendations were considered to come under the category of lowering barriers to growth, 73% in the category of providing advice support and finance and 12% were regarded as being not relevant to any of the set out categories. Once again none of the recommendations referred to or related in any way to insolvency legislation or insolvency frameworks.

The recommendations are presented graphically in figure 3 and interestingly what stands out is the dramatic increase in the number of recommendations which were related to providing advice and support from public finance.

Figure 3



4. PUBLIC POLICY TOWARDS ENTREPRENEURSHIP AND SMES

In recent years governments have devoted increasingly larger amounts of tax payer's money to nurture the development and growth of Small and Medium-sized Enterprises (SMEs). Policy makers have also come to recognise the importance of this as a major source of job creation, innovation and competitiveness (Stel, Storey, Thurik, Wennekers, 2006). The general goal of such policies has been to strengthen the existing base of small enterprises by ensuring that they are not disadvantaged because of their small size and by enabling them to survive in competitive markets (Lundstrom and Stevenson, 2002). Internationally there have been many different approaches to SME / entrepreneurship policy, with governments often alternating between supports or direct assistance. Provision of finance; directly or indirectly, provision of guidance and access to advice on a wide range of issues. Governments have also tried to positively influence the start-up rate of new businesses by means of grants, tax relief and educational programmes[8]. In addition to providing direct assistance to entrepreneurs and SMEs, governments can also focus on lowering 'burdens' to entrepreneurial activity. Compliance with regulation or the levels of bureaucratic red tape in the operating environment are some of the examples of the burdens faced by entrepreneurs. As already mentioned in section 3, Dennis (2004) usefully distinguishes between the different policy approaches chosen by governments; (1) the provision of assistance and (2) the reduction of burdens[9], and has created a typology of general policy environments of a country using these distinctions. Of the four policy environments described by Dennis (2004) and presented in table 2, there are two main policy approaches that are routinely focused on by governments: (1) Lowering barriers to establishment, expansion and growth and (2) Providing advice, support and finance from public funds. Developing countries have high barriers to entry coupled with very little direct assistance in the form of financial or advisory services.

Therefore developing countries would come under the first quadrant, labelled ‘Limiting’. Table 7 is the same as table 2 but includes examples of countries which have varying entrepreneurship / SME policy environments. The USA according to Dennis falls into the

[8] Examples of these policies are provided by Storey (2003).

[9] Instead of ‘burdens’ the term ‘impediments’ is used by Dennis (2004). According to Stel, Storey, Thurik, Wennekers, (2006) the term ‘impediments’ has obvious negative connotations, implying that entrepreneurs are prevented in some way from starting a business.

quadrant labelled ‘Competing’ compared to the rest of the developed world, as it has few barriers to entry and growth and low direct assistance. Additionally, Dennis notes that lowering barriers to entry and growth has been the primary American policy effecting entrepreneurs in the USA since the early 1970s. Most European countries would lie in the quadrant labelled ‘Compensating’. Countries in this quadrant are characterised as having many barriers to entry and growth on one hand, and to compensate for this heavy regulation there are many forms of support programmes which offer financial and non-financial support. Reasons for having many barriers to entry and expansion or in other words, heavily regulated markets, are both numerous and contentious. Protection of consumers is an obvious reason. There must of course be regulations preventing non-qualified persons from practicing as medical doctors. On the other hand some authors have argued that politicians extort rent in heavily regulated markets and therefore consumer protection is not the primary goal of regulation[10]. In an effort to emulate the success of the USA in creating wealth and new jobs since the 1970s the European Council in Lisbon 2000 set out to recast the EU’s approach to entrepreneurship, adopting a more American model.

[10] See Dennis (2004) for a more complete discussion on competition and regulation.

A Typology of Public Policy toward Small Business

Direct Assistance		
Low	(1) **LIMITING** **[Developing Countries]**	(2) **COMPETING** **[USA]**
High	(3) **COMPENSATING** **[Ireland / EU]**	(4) **NURTURING** **[US Minority]**
	High	Low

Impediments

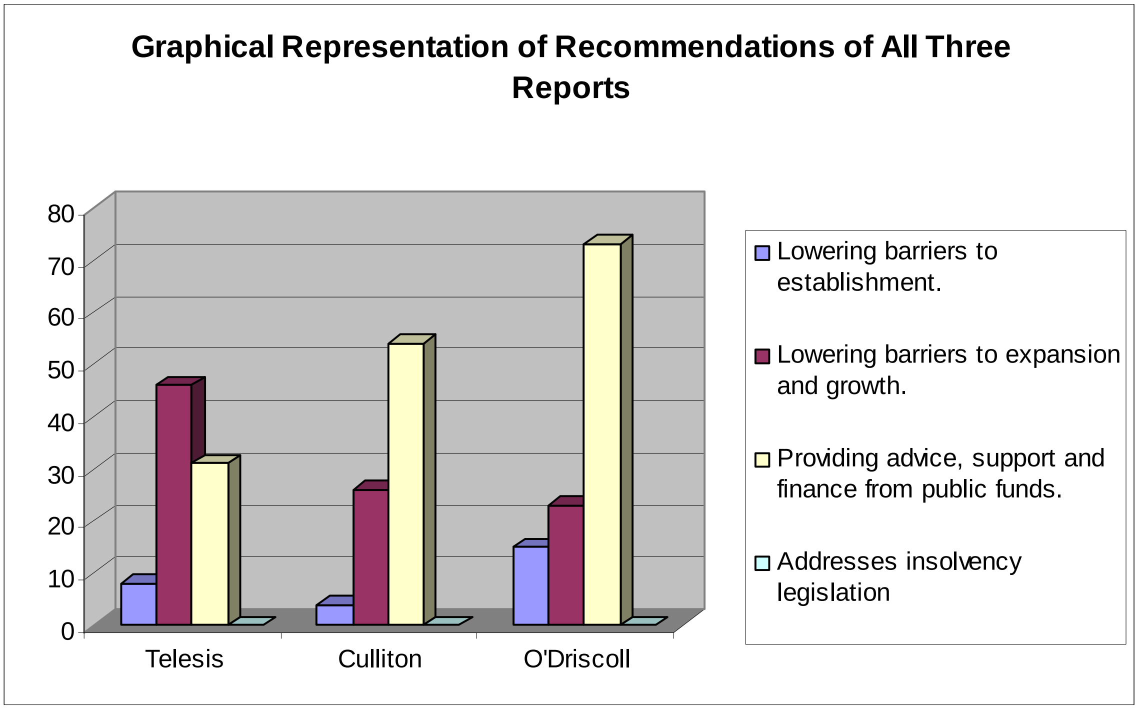
Source: Dennis (2004)

5. Findings and discussion

Both the Telesis and Culliton reports of 1982 and 1992 point at the comparative weakness of Irish indigenous industry compared to foreign owned companies. They both emphasise the importance of developing native firms' capacities to compete in international markets in order to achieve economies of scale in manufacturing. However analysis included in the O'Driscoll report (2004) highlights the fact that there has been almost no growth in the exports of indigenous Irish industry since the publication of the Telesis report in 1982. This is in spite of the recommendations of that report which outlined the importance of building strong Irish companies which were export oriented. When we look at a graphical representation of the recommendations of the three reports in figure 4, something interesting appears to be happening regarding the recommendations relating to the reduction of barriers to entry and those relating to the reduction of barriers to expansion and growth. Every decade there has been a declining proportion of recommendations aimed at reducing the barriers to expansion and growth, while there has been a slight increase in the proportion recommending reducing the barriers to entry. And in O'Driscoll (2004) the relative difference in the proportion of recommendations addressing these first two policy approaches is smaller than in the preceding reports. However, while this would suggest a lean towards a more entrepreneurship stimulating approach, the proportion of recommendations which relate to the provision of financial support and advisory services are significantly greater in the 2004 report than in the either of the first two. In fact we find that over 70% of the recommendations in O'Driscoll (2004) relate to the provision of advice and financial support, up from around 60% in Culliton (1992) and 30% in Telesis (1982). Considering the increase in the support framework available to entrepreneurs it's possible to infer that there are still significant barriers to starting and running a business in Ireland. From this perspective, the policy environment in Ireland according to Dennis's categorization would have to be described as 'Compensating', i.e. 'high impediments' coupled with 'high direct assistance'.

This observation signifies a continued move towards policies which attempt to incentivise entrepreneurs by offering them a range of different assistance schemes. Furthermore, the reports point to a growing appreciation of the stigma associated with failure, the Culliton Report of 1992 for example mentioned the "deep rooted prejudice against failure in business". In spite of this awareness we can identify no attempt in any of the three reports to make recommendations about improving the frameworks that affect the risk reward calculations of entrepreneurs.

Figure 4



Conclusion

If Ireland is to become a truly entrepreneurial nation and fulfil its role in helping Europe to become one the most entrepreneurial areas in the world by 2010, there has to be a clear understanding of the factors which will create such an outcome.

Our analysis supports the contention that Irish policy has a resolute focus on interventions to support successful risk taking, and has assiduously avoided considering reducing the consequences of failure. This conclusion has obvious implications for government policy on entrepreneurship and insolvency, as well as contributing to the academic discourses on these themes. It also leads to the question of the suitability of the current Irish legislative framework on the stated desire to create an entrepreneurial society.

Insolvency legislation in Ireland has remained largely unchanged since its Victorian origins; the business environment however is changing at an ever increasing pace. The legislation for dealing with insolvent companies is wholly unsuitable for the service based industry which is rapidly evolving in Ireland and which is too expensive and unwieldy for the vast majority of SMEs in operation here. This sentiment is not only the opinion of the authors of this paper, but it is one which is shared by the vast majority of insolvency practitioners in Ireland. Reducing the consequences and stigma of failing in business in Ireland is a topic that needs to be addressed as a matter of urgency. Differentiating between fraudulent and honest bankrupts would go along towards reducing the stigma of failure experienced by entrepreneurs and would also enable for a more just approach to imposing penalties on debtors, opposed to the blanket approach offered under the current system.

An efficient mechanism to allow creditors and debtors to interact with each other and reach settlement needs to be created. This mechanism should also take into account the welfare of the company, its employees and society at large.

Many countries have taken significant steps to reform the policies affecting small businesses and entrepreneurs since the Lisbon Agenda in 2000 and the reports which followed. Irish policy makers need to examine the direction of enterprise policy in this country over the last 30 years and decide whether we are taking the necessary steps to create and foster an entrepreneurial society or whether we are unwittingly creating a society which is not conducive to the achievement of this goal.

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