

## A Conceptual Framework of Entrepreneurship Policy

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**Abstract:** Entrepreneurship has been growing rapidly in the past 20 years. It was strengthened by the increasing number of young generation who choose to be an entrepreneur instead of working on other people or companies. Mostly, they do not consider entrepreneurship as the only option to earn income and generate money but more than that entrepreneurship is also regarded as one of the way to uphold their values such as beneficial to society, freedom to manage time and finances and freedom to define and execute what they want. The role of entrepreneurship in economic growth are about job and wealth creation. Considering the role, it is important to develop entrepreneurship. In this stage, government policy has a big influence, there are to establish environment and create infrastructure that support entrepreneurship. However when it comes to entrepreneurship policy, one size does not fit all, governments can only provide an underlying conducive environment to the emergence of productive entrepreneurship rather than unproductive entrepreneurship.

**Key words:** Entrepreneurship policy, entrepreneurship, conceptual framework, freedom, environment

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### INTRODUCTION

Entrepreneurship has been growing rapidly in the past 20 years. It was showed by the increasing number of schools in various levels of education whether regular or vocational, offering entrepreneurship courses. In addition, the number of educated entrepreneurs also increases (around 20%). It indicates the changing of young generation's orientation. They tend to be self-employee, instead of working on other people or companies. However, coordinating minister for economic affairs said that the number of entrepreneurs in Indonesia was still small, about 0.18% of the population.

In developing entrepreneurship, government policy has a big influence in order to establish environment and create infrastructure that support entrepreneurship (Minniti, 2008). Entrepreneurship has emerged as a focus of public policy in this situation government should be alert, observant and precise to the issue of conducive and productive policy. It is also clear that when it comes to entrepreneurship policy, one size does not fit all and in the long run, governments can only provide an underlying conducive environment to the emergence of productive entrepreneurship rather than unproductive entrepreneurship (Minniti, 2008).

The impact of entrepreneurship has been acknowledged and supported by existing research. Previous research showed that entrepreneurship is a

catalyst for economic growth and national competitiveness. Audretsch and Thurik (2001) mentioned that the essential contributions of new firms are employment growth and economic renewal in job creation, innovation, productivity and economic growth. Carree and Thurik (2003) stated in their research that the increasing of entrepreneurial activities will result to economic growth. Those research point to and reinforce the critical contribution of new firms to job creation, innovation, productivity and economic growth in economy.

According to Luetkenhorst (2004), the contribution of entrepreneurship is generating employment because they tend to use more labor than large enterprises; boosting employment and leading to more equitable income distribution; providing livelihood opportunities through the activities of value adding process; nurturing entrepreneurship and supporting the building up of systemic productive capacities and the creation of resilient economic systems, through linkages between small and large enterprises.

Recently, government opened the celebration of "Gerakan Kewirausahaan Nasional" (GKN) 2013 at Gelora Bung Karno, Jakarta. The theme of this year's celebration is "Global Entrepreneurship Spirit". Government identifies the increasing number of Indonesia's youth who choose to be entrepreneurs. Furthermore, government committed that they will develop

policies and programs that are pro-entrepreneur, small medium enterprises and cooperatives (Deskinfo, 2013).

Some of existing policies related to entrepreneurship are mostly in the stage of start-ups business intervention and aiming to increase the number of entrepreneurs for examples, the easiness process for business administration, business competition, entrepreneurship education (creating entrepreneurship motivation, skill and mindset) and financial funding for business for instance, GKN (Gerakan Kewirausahaan Nasional). Though, the government has been providing supporting programs and incentives for the start-ups, persistent problem often occur after start-ups process, so that the government interventions at this stage are also required. This stage is very crucial to determine whether the business grow or eventually fail.

There is a rising tendency to transfer policies across nations and sub-national economies that seem to contribute to economic development at one place but may not have any impact on another place due to historical, cultural and institutional peculiarities which might differ greatly from one another or there is an increased risk that existent strategies favorable to the nation-states are interchangeably used at the national and local levels and that the meaning and differences that lie behind them are not understood thoroughly. This explained why some regions take the lead while others lag behind. Clearly, there is no one-size-fits-all-solution. Each place a nation, region or city have to develop their own policies priority.

Different region need a different policy priority, good policies which were already running in another country or area do not mean to be successful if developed and implemented in Indonesia. Government needs a responsive and appropriate policies to be implemented in country, province, city or municipal, firms and individual level by considering the economic, demographic and politic conditions. Based on "UUD 1945", government can create and make policies in order to achieve their objectives. Policy product can be implemented in various form of government's program or intervention. Once the programs were implemented then government needs to evaluate whether those program are success or fail. However, policy evaluation processes toward government's programs are very rare to be done, therefore, this study is interesting and challenging to be able to describe and examine the phenomenon of the implementation of entrepreneurship policy in Indonesia context. The goal of this study is to construct a framework of conceptual model of entrepreneurship policy.

## **ENTREPRENEURSHIP DEFINITION AND FOUNDATION**

Research on entrepreneurship developed rapidly during the last 20 years. Started from research conducted by Chantillon who described the process of bearing the risk to organize factors of production and to deliver a product or service demanded by the market. The existing literature categorized research on entrepreneurship into five major categories. The first was focused on searching of entrepreneurship definition, the second was related to trait or behavior approach, the third was associated with success strategies, the fourth was studied of formation of new ventures and the fifth was related to the effect of environmental factors on entrepreneurial action (Bull and Willard, 1993). Bygrave (1989) observed that many researchers in the area of entrepreneurship focused on exploring the definition of entrepreneurship. In accuracies in selection or defining the word of entrepreneurship could lead to or contribute to the lack of Robust Entrepreneurship Model. Before defining the terms entrepreneurship, first, researcher needs to define the word entrepreneur.

There is a need for researcher, teacher, politician, government and policymaker to have an acceptable definition in general which can distinguish who entrepreneurs are and vice versa. What define entrepreneur? Sometimes the usage of the terms self-employed, small business owner and entrepreneur are used interchangeably. There is no unified definition. It started from 1755 when Richard Cantillon used entrepreneurship and described it as someone who exercises business judgment in facing uncertainty. Knight (1921) saw the entrepreneur as an individual with a usually low level of uncertainty aversion. Baumol (1990), define entrepreneur as someone who creates and then organises and operates a new firm, independent of whether there is anything innovative in the act while the other use refers to the entrepreneur as an innovator, someone who transforms inventions and ideas into economically viable entities, independent of whether in the process he/she creates or operates a firm. Entrepreneur, according to Schumpeter (1934) should be seen as a leader and contributor of creative destruction process an entrepreneur is the person who carries out new combinations and causes discontinuity. Those definitions are significant for the performance of the economy, although they differ profoundly in their roles, the nature of their influence and the type of analysis their roles require, further Lowrey (2003) defines the entrepreneur as an individual with a perpetual desire for achievement.

In this study, entrepreneur will be defined as people who at different stages of life and at different stages of starting, managing or growing their own businesses are at different stages of the entrepreneurial journey. They move along a continuum that includes nascent entrepreneurs, solo-entrepreneurs, micro-entrepreneurs, lifestyle-entrepreneurs, technology-entrepreneurs, high-growth entrepreneurs and innovative entrepreneurs. Some start small and stay small, some start a series of progressively larger businesses over time and some make the transition from micro-entrepreneur to high-growth entrepreneur as life and business circumstances change (Lundstrom and Stevenson, 2005).

Definition of entrepreneurship has evolved broadly and up to now there is no one definitive definition of entrepreneurship. It is not easy to define entrepreneurship in a single word because it was a complex phenomenon and it comprised the processes that transform an idea into a firm (Hoffmann *et al.*, 2006). The European Commission quoted "Entrepreneurship refers to an individual's ability to turn ideas into action" and the EU Green Paper Entrepreneurship in Europe defined, "Entrepreneurship is the mindset and process to create and develop economic activity by blending risk-taking, creativity and/or innovation with sound management within a new or existing organization". Drucker (1985) defined entrepreneurship as an act of innovation that involves endowing existing resources with new wealth-producing capacity. According to Kirzner (1982), entrepreneurship was the one who perceived profit opportunity and initiated action to fill currently unsatisfied needs or to improve inefficiencies. Entrepreneurship can take place when there is a state of task-related motivation. Furthermore, this definition was widely used as a reference by researchers in entrepreneurship area.

Based on existing research on entrepreneurship definition, there are two streams of research in defining entrepreneurship. First, entrepreneurship is defined as something that entrepreneurs do or in relation to aspects of an individual's entrepreneurial behavior. Second, entrepreneurship is defined in term of an economic dynamic or a societal phenomenon (Lundström and Stevenson, 2001). For example, Lowrey (2003) defined entrepreneurship as an economic system that consists of entrepreneurs, legal, institutional arrangements and government. Governments are very important because they have the ability to manage and to develop the economic institutions that work to protect entrepreneurs and to stimulate their motives, thus economic development and growth can be fostered. In

purposing of developing policy, the Swedish Government defined entrepreneurship as an expression on the activities undertaken by individuals when ideas are generated and turned into something of value. Entrepreneurship can be seen as a process that arises in a social context.

This study adopted the definition of entrepreneurship from Lundström and Stevenson (2005) who stated that entrepreneurship is not just something that entrepreneurs do, it is a process, activities and social phenomenon that emerges within the context of a broader society and involves many actors.

## **ENTREPRENEURSHIP POLICY**

Government policy is the part of environmental factors that should support the development of entrepreneurship that was main priority in several countries in the last decade. Many governments paid attention to entrepreneurship policy and they implemented policies to boost entrepreneurship (Minniti, 2008).

Policy has a broad definition. There are several versions of policy definition. Based on Dye (1987), policy was "whatever government chooses to do or not to do", or based on Wilson (2006) policy was the action, objectives and pronouncement of government on particular matters, the steps they took to implement and the explanation. Those definitions are quite general to describe the term policy. Anderson (2003) defined a narrower definition of policy which was relatively stable, purposive course of action followed by an actor or set of actors in dealing with a problem or matter of concern.

Initially, the policies widely applied in business world were industrial policies where the government should balance the interests of the market and industry. The effectiveness of industrial policy depended on the establishment of an appropriate trade-off between market concentration and productivity performance (Minniti, 2008). However, the entrepreneurial sector remained excluded from industrial policy expect for the widespread belief that it should be protected for political and social reasons (Minniti, 2008).

Since 1980s, regulatory control on the industry began to decline due to the inability to sustain competitive production and the growing of service sector (Minniti, 2008). At that time, the industrial competitive advantage shifted toward knowledge-based economic activity. The smaller and more flexible entrepreneurial firms gained new

importance in an increasingly knowledge-based economy also known as entrepreneurial economy (Audretsch and Thurik, 2001). The study explained the rise in entrepreneurship policy formulation as a necessary response to fundamental industrial and economic restructuring a shift from the “managed economy” to the “entrepreneurial economy”.

In the last 20 years, industrial policies have undergone. Driven of innovation has represented by smaller companies which were more dynamic and flexible. Furthermore, a new set of interventions designed to promote entrepreneurial activity has emerged. Entrepreneurship policy is an instrument that can be used to foster entrepreneurial activity. Entrepreneurship policy should enrich environment in which individuals grasp knowledge that might otherwise go unexploited (Mimiti, 2008; Link, 2007).

There are several existing entrepreneurship policy model, first is the study of entrepreneurship policy conducted by Lundström and Stevenson (2001) was intended to answer the question “what should be done to produce higher level of entrepreneurial activity” but limited knowledge exists related to how entrepreneurship policy is constructed. The study is based on what governments are actually doing in several countries. The object focused on objectives, policy measurement, the weighting of their focus on different policy measures and their rationale. The study found that entrepreneurship policy is different from one country to another. After did a comprehensive study as to entrepreneurship policy in several countries, Lundström and Stevenson came up with the framework on entrepreneurship policy. The framework indicated the relationship between determinant variables and entrepreneurial activities. Determinant variables such as level of economic development, population growth, growth in the immigration rate, growth in per capita GDP, etc. While, its impact to entrepreneurial activities are very varies such as high standard of living, demand for products and services, etc.

Lundström and Stevenson (2005), stated that If entrepreneurship is a system that includes entrepreneurs (potential entrepreneurs), institutions and government actions and the desired policy outcome is an increased level of entrepreneurial activity, then the role of institutions and governments is to foster environments that will produce a continuous supply of new entrepreneurs as well as the conditions that will enable them to be successful in their efforts to start and grow enterprises. In order to do this, the system of entrepreneurship must logically focus on all parts of the

individual entrepreneurial process from awareness of the entrepreneurship option to early stage survival and growth of an emerging firm.

Lundström and Stevenson (2005), made first efforts to comprehensively define the term of entrepreneurship policy namely, policy measures taken to stimulate entrepreneurship aimed at the pre-start, start-up and early post start-up phases of the entrepreneurial process, designed and delivered to address the areas of motivation, opportunity and skills with the primary objective of encouraging more people to consider entrepreneurship to move into the nascent stage and proceed into start-up and early phases of a business. Those definitions focused on what is actually done instead of what is only proposed or intended; differentiated a policy from a decision which is essentially a specific choice among alternatives and viewed policy as something that unfolded over time. The implications of this concept are that those definitions linked policy to purposive or goal-oriented action rather than to random behavior or chance occurrences. Proposed policies may be usefully thought of as hypotheses suggesting that specific actions be taken to achieve particular goals.

Dutz *et al.* (2000) explored the relationships between entrepreneurship and economic development in low-income countries. In this context, they suggest that two policies are critical for promoting growth. First is protecting commercial freedom, property rights and contracts and second is fostering opportunities for grassroots entrepreneurship is paramount through an active supply-side competition policy that emphasizing access to essential business services and other required local inputs.

Research conducted by Verheul *et al.* (2001) was successful in describing how and in what stage that government can make interventions. It is generally, accepted that policy measures can influence the level of entrepreneurship (Storey, 1994, 1999). The government can exert influence on entrepreneurship in different ways; directly through specific measures and indirectly through generic measures. The determinants of entrepreneurship can be categorized according to the disciplinary approach, the level of analysis, the discrimination between demand and supply factors and a distinction between influences on the actual and equilibrium rate of entrepreneurship (Verheul *et al.*, 2001).

According to the levels of analysis, there three level that are micro, meso and macro. Micro where the object of the study is individual entrepreneur or business, related to decision making process and their motives for

becoming self-employed; personal factors such as psychological traits, formal education and other skills; financial assets; family background and previous work experiences. Meso or Industry where the object of the study is sectors of industry, market specific determinants of entrepreneurship such as profit opportunities and opportunities for entry and exit. Macro where the object of the study is the national economy, range of environment factors such as technological, economic and cultural variables as well as government regulation. (Verheul *et al.*, 2001).

The level of entrepreneurship can be explained by making a distinction between the supply side (labor market perspective) and the demand side (product market perspective; carrying capacity of the market) of entrepreneurship. This distinction is sometimes referred to as that between push and pull factors (Vivarelli, 1991). The demand side of entrepreneurship represents the opportunities for entrepreneurship. It can be viewed from a consumers and a firms perspective. The greater of diversity of consumers demand, the more room is created for potential entrepreneurs. Meanwhile from a firms perspective, focus is on the industrial structure (sector structure, outsourcing and networking). The opportunities are influenced strongly by technological developments and government regulation. The supply side of entrepreneurship is dominated by the characteristics of the population (demographic composition). Key elements are the resources and abilities of individuals and their attitudes towards entrepreneurship (preferences). The cultural and institutional environment influences the supply side of entrepreneurship (Verheul *et al.*, 2001).

Other research by Wennekers and Thurik (1999) divided entrepreneurship policy category into two types of intervention. The first aimed to promote the creation of technology-based firms in selected industries and the latter aimed to promote newly-created firms, regardless of sector by giving better access to the financial, organizational and technological resources needed to grow. They suggested a role of government in stimulating cultural or social capital and creating appropriate institutional framework at the country level to address the supply side of entrepreneurship for example focus on the number of people who have the motivation, ready financially and skill to launch a new business.

Concern of the entrepreneurship policy was also given by the Global Entrepreneurship Monitor (GEM) team. Entrepreneurship policy model introduced by the GEM were using a combination between Conventional

and Entrepreneurial Model. The main focus of Conventional Model was established firms as the engine of economic growth while small businesses were the next priority. Entrepreneurial process model focused on entrepreneurial sector, i.e., the conditions that shaped it and its direct economic consequences. GEM then introduced the entrepreneurial framework condition, i.e., element of environment, opportunities, motivation and capacity was addressed to the conventional model and replace the primary focus on the major established firms. Entrepreneurial framework highlighted on the contemporary emphasis on business churning such as births, death, expansions and contractions of firms as the driver of growth (Reynolds *et al.*, 1999).

Research conducted by Kim *et al.* (2010) examining the effect of finance, labor and tax policy measures on entrepreneurial activity. In the research, entrepreneurship policy classified by the two dimensions, those are unit of analysis and level of analysis. Unit of analysis can be individual and aggregate while level of analysis can be regional, country-wide or even international which is comparing many countries. Individual unit used for examining relationship between individual characteristics such as personal traits, motivation and educational background. Aggregate unit used for finding determinants of entrepreneurial activities such as firm birth rate. Kim *et al.* (2010) found out entrepreneurship policy research at regional level that identifies determinants of regional entrepreneurial activity in a single country, country-wide and international level as well. At national level Kim *et al.* (2010) used finance, labor and tax policy to measure the effect of public policy on entrepreneurial activity. Total Entrepreneurial Activity (TEA) developed by Global Entrepreneurship Monitoring (GEM) index also used as a measure of the national level of entrepreneurial activity.

#### **A CONCEPTUAL FRAMEWORK OF ENTREPRENEURSHIP POLICY**

From the existing models, researcher is making a framework of entrepreneurship policy. Based on the presumption that entrepreneurship is a process and then the entrepreneurship policy should involve the entire process of entrepreneurship including opportunity identification, ide evaluation and action which is business implementation. Level of entrepreneurship as mentioned in research conducted by Verheul *et al.* (2001) should also be included into entrepreneurship policy model, this is intended to separate the object in which entrepreneurship

policy is implemented and the impact of those regulation. Research conducted by Wennekers and Thurik (1999), included level of analysis in entrepreneurship policy, consists of micro, meso and macro level of analysis.

Micro level define as an individual in this level, government intervention should in developing entrepreneurship policy should covers how people know, interest and eventually want to run a start-ups business. Based on research conducted by Lundstrom and Stevenson (2005), the crucial element is motivation, skills and opportunity. Minniti (2008) also mention the role of mentor as a role model in improving the entrepreneurial activities. At the meso level (firm), define entrepreneurship as a mindset that can be developed within an organization. The development of entrepreneurship policy should be able to answer whether an incumbent business will still remain, grow, sustain and develop to be an entrepreneurial organization (intrapreneurship) or the business will bankrupt because of the lack of innovation. The important elements that should be exist at this level is the policy related to innovation process, technology commercialization, intellectual property right, knowledge transfer, etc.

At macro level, government intervention should be able to answer how entrepreneurship policy can directly or indirectly generate economic sustainability. The important element in this level is culture, education and infrastructure. Following is researcher's conceptual model which is a tentative theory of the phenomena that is investigated.

#### **ENTREPRENEURSHIP POLICY GOVERNMENT INTERVENTIONS**

**Government intervention 1-micro level:** Conceptual framework of entrepreneurship policy can be described as follows in the process of entrepreneurship, entrepreneurial performance can be done by creating motivation, entrepreneurial skills and business skills (Van Vuuren and Nieman, 1999). Motivation is crucial element that must be embedded in a person at the time he decided to become entrepreneurs. It is also supported by research done by Lundstrom and Stevenson (2005) that made motivation as one of the variables in constructing entrepreneurship policy.

Opportunity can be related to entrepreneurship skills that can be described as a person's ability to be possessed at the time he decided to become entrepreneurs. Entrepreneurial skills including creative problem solving, persuading, negotiating, selling,

proposing and holistically managing business/projects/situations, strategic thinking, intuitive decision making under uncertainty and networking (Van Vuuren and Nieman, 1999). Those mentioned skills above can be obtained through entrepreneurship education, mentorship or role model. As well as entrepreneurial skills, business skills can also be provided through education program, including (but not limited to) the managerial functions such as marketing, operations, finance and business feasibility.

**Government intervention 2-meso level:** An existing or incumbent business cannot be denied can be continued to be a growth business or contrary, they cannot compete with other business and eventually fail. In this situation, business rate or rate between business entry and exit should be greater or at least equal. Government intervention should include decrease administration burden in facilitating business entry and exit. Furthermore, in this level, some targeted entrepreneurship policy should be started to focus for example simplify the process of intellectual policy right and export and import process as well. In terms of specific business such as technology, entrepreneurship policy must include technology transfer and technology commercialization. Incentives should also be given for labor market regulation and tax.

**Government intervention 3-macro level:** In the process of supporting entrepreneurship policy development at this level, the role of government is very important in determining entrepreneurial culture, entrepreneurship infrastructure and regulation (Fig. 1). In terms of government culture, intervention should be made in promoting entrepreneurship. Based on Lundstrom and Stevenson (2005) awareness and information are crucial in regard to inform and disseminate entrepreneurship as an alternative employment especially for educated people choose to be a nascent entrepreneurs. Through a media, government can do an entrepreneurship promotion.

Government intervention should also provide policy for start-ups finance/soft loan/venture or angel capital (Hoffmann, 2011; Verheul *et al.*, 2001). Moreover, in the current era, Information and Technology (IT) is growing rapidly. IT can provide a competitive advantage for a business. Therefore, internet access has become an important variable that should be prioritized by government. In terms of entrepreneurship infrastructure, this has to be an addition to the others general infrastructure such as roads, electricity and so on.

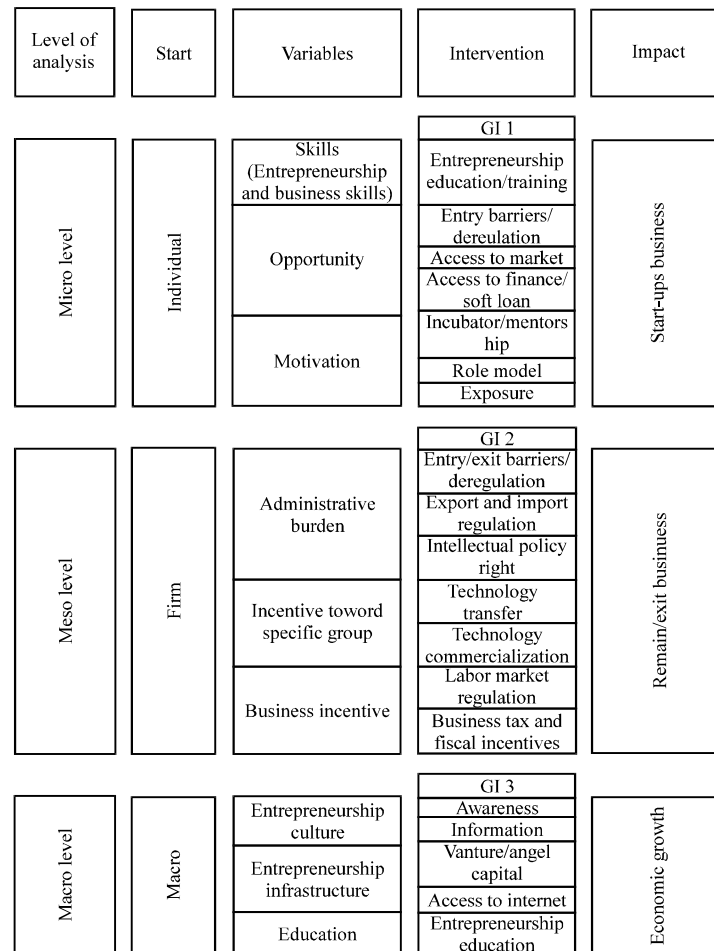


Fig. 1: A conceptual framework entrepreneurship policy

## CONCLUSION

In this research, conceptual framework of entrepreneurship policy can be divided based on level of analysis which are micro, meso and macro level. At macro level, entrepreneurship policy, focus on creating motivation, entrepreneurial skills and business skills. While at meso level, it include decreasing administration burden in facilitating business entry and import/export deregulation as well; focusing in targeted business (technology) and business incentives. At macro level, entrepreneurship policies should focus on creating entrepreneurship culture, entrepreneurship infrastructure and regulation itself.

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