

Bachelor Thesis

Small Business

Entrepreneurs in Europe:

To which extent will the European Commission succeed in establishing a prosperous entrepreneurial environment?

Research report

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Abstract

Would you start your own business in Europe? If not, it might be because of the weak entrepreneurial environment for starting entrepreneurs! Europe possesses many skilled citizens that could become entrepreneurs. Yet, these nascent entrepreneurs observe entrepreneurial factors that deter them from becoming self-employed. European entrepreneurship fails to reach its full potential. This thesis examines the factors that deter European potential entrepreneurs, as well as the factors that cause the difference between the prosperous entrepreneurial environment of the United States and Europe's entrepreneurial environment. European entrepreneurship is considered to be lagging behind compared to American entrepreneurship (Audretsch, Thurik, Verheul, & Wennekers, 2002). To enhance entrepreneurial activity within the European Union the European Commission has created two main acts: In 2008 they released the "Small Business Act" and in 2013 this was followed by the "Entrepreneurship 2020 Action Plan". These acts are reviewed in this thesis and compared to entrepreneurial factors found in corresponding literature. The main conclusion of the thesis is that the "Small Business Act" and the "Entrepreneurship 2020 Action Plan" will, to some extent, suffice in the creation of a prosperous entrepreneurial environment. But the EC has neglected to include some factors that may be of importance, such as improvement of European IPR and facilitation of employment laws for SMEs. However, the fragmentation within Europe is the primary problem that the EC experiences which disables them to enforce their proposed policies.

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Introduction

“The European dream”. It may sound foolish, but this could become a reality in the near future. European entrepreneurship lags behind the American entrepreneurship (Audretsch, Thurik, Verheul, & Wennekers, 2002). But this isn’t because European entrepreneurship has reached its full potential. After the Lisbon European Council in March 2000, the European Union decided to improve Europe’s employment and social cohesion by improving conditions for entrepreneurs (European Commission, 2012). The EC believes this will lead to a more competitive economy. Small and medium sized Enterprises (hereafter referred to as SMEs) will play a dominant role in the economy. They possess the capabilities to invest in innovative technologies and cope with the challenges posed by globalization (European Commission, 2008). The primary focus of this thesis will be on these small entrepreneurs and potential entrepreneurs, because the European Union considers them as important for the future of European entrepreneurship.

This bachelor thesis has been divided into three sections. The first section will describe why start-ups are important for an economy. Europe copes with high unemployment rates and the EC considers entrepreneurship as a positive source of employment (European Commission, 2013). Entrepreneurial activity has been proven to provide more employment (Kane, 2010). Furthermore, this section will determine which factors are important for entrepreneurs and to which extent they are relevant for an attractive entrepreneurial environment. The relations between these factors and entrepreneurship are being examined by studying scientific articles. The factors that are being considered to have an influence on entrepreneurs are the following: regulation burdens, tax-policies, bureaucracy of creating a business, bankruptcy procedures, culture, entrepreneurial education, access to finance, Intellectual Property Rights and restrictions posed on certain groups of society. These factors are commonly considered to influence the decision to become an entrepreneur (Schoof, 2006) (Schumpeter, 1934). The factors are assessed individually and their relation with entrepreneurship will be defined. The thesis will then proceed to review the differences in entrepreneurial policies and factors between Europe and the United States. It is commonly acknowledged that Europe lags behind compared to the United States where entrepreneurship is concerned (Frydman, Khan, & Rapaczynski, 2011) (Audretsch, Thurik, Verheul, & Wennekers, 2002). Europe has a lot to learn from the policies that the U.S. applies, for instance in policies concerning bankruptcy proceedings (Bhandari & Weiss, 1996).

The second section of the thesis covers an examination of the “Small Business Act” (SBA) and the “Entrepreneurship 2020 Action Plan” (European Commission, 2008) (European Commission, 2013). These are the plans that the European Commission has created in order to improve European entrepreneurship. The “Small Business Act” was created by the European Commission in 2008. The SBA consists of a number of policy measures with the

objective to make Europe more attractive for young entrepreneurs. These policies are based on a set of ten principles. They are being assessed to review their impact on European entrepreneurship and if there is still room for improvement. The thesis will then discuss the follow-up plan, the "Entrepreneurship 2020 Action Plan" (also referred to as "Action Plan"). This plan was created in 2013 to further improve European entrepreneurship. As the name implies, the time-frame in which this plan will be applied extends to the year 2020. The main objective of this plan is to re-ignite the entrepreneurial spirit in Europe (European Commission, 2013). The policies imposed to achieve this are built around three main pillars, the so called "Action Pillars of Entrepreneurship 2020". The first is based on entrepreneurial education and training. This pillar emphasizes the importance of the new generation of entrepreneurs. The second pillar regards the establishment of an environment in which entrepreneurs can flourish and grow. The policies corresponding with this pillar are focusing on assisting entrepreneurs and on removing burdens SMEs face. The third and last pillar concerns role modeling and raising awareness of the career opportunities for entrepreneurs. This pillar indicates the need for a radical change of culture throughout Europe. The European Commission wants to incorporate entrepreneurship as, quote, "the new cool" in the European culture (European Commission, 2013). The research question that will be assessed throughout the thesis concerns the measures imposed by the "Small Business Act" and the "Entrepreneurship 2020 Action Plan". The research question is defined as follows:

To which extent will the European Commission succeed in establishing a prosperous entrepreneurial environment?

The policy-measures of both plans will be compared to the entrepreneurial factors found in the literature study in the third section. I will judge whether the imposed plans include the most efficient policies. Also I will assess which policies are wrongfully excluded or unnoticed in the plans. Furthermore, I will compare the policies with the corresponding policies from the United States and will discuss which aspects are sufficiently included in the plans and which aspects are wrongfully excluded. The thesis will end with some conclusive remarks and suggestions for further research.

In general, this thesis will give an insight in what the European Commission has tried to do to improve entrepreneurial activity in Europe. Many researchers, and even the European Commission itself, acknowledge that their neglecting attitude against entrepreneurs has cost Europe a great deal of potential economic growth. The plans that the EC has created are made to catch up with the flourishing entrepreneurial activity the United States has experienced.

Importance of Start-ups and important factors for entrepreneurs

This thesis will proceed with the discussion of the importance of entrepreneurs in an economy. This will be followed by an examination of the factors relevant to let entrepreneurs thrive. These factors are found in scientific reports and by comparison with entrepreneurship policies from the United States.

The importance of start-ups

There are multiple answers to the question, why start-ups are important for an economy. One of which concerns the relation between entrepreneurship and employment. The unemployment rates of Europe are the highest since the establishment of the European Union in 1999, due to the crisis of 2008. In countries as Spain and Greece unemployment even skyrocketed to over 25% of the labor force (Eurostat, 2014). Dealing with these high unemployment rates is one of the primary concerns of the European Union. The European Commission believes that an improved entrepreneurial environment will lead to more and better jobs. The European Commission phrases this as follows: “Dynamic entrepreneurs are particularly well placed to reap opportunities from globalization and from the acceleration of technological change. Our capacity to build on the growth and innovation potential of small and medium-sized enterprises (SMEs) will therefore be decisive for the future prosperity of the EU” (European Commission, 2008). Entrepreneurship has been proven to have a positive influence on employment rates (Audretsch, The Entrepreneurial Society, 2007). Kane, who is a researcher at the Ewing Marion Kauffman Foundation, researched the effect of entrepreneurship on job creation and job destruction. More specifically, he examined the effects of start-ups on employment in the United States. His results showed that start-ups in the U.S. account for the creation of 3 million jobs annually. Remarkably, he found that existing firms are net job destroyers. Currently existing firms in the U.S. account for 1 million lost jobs per year. From this he concludes that without start-ups the United States wouldn't even experience a net growth of employment (Kane, 2010). Thus, entrepreneurship is a positive source for an economy's employment.

But not only does entrepreneurship have a positive influence on employment. Entrepreneurship can lead to social stability, especially when we consider social entrepreneurship. 191 countries signed the United Nations of Developments goals in the year 2000. This treaty consists of 8 goals that United Nations member states and a several international organizations try to achieve within a certain period of time. These goals include, among others, environmental sustainability, improvement of maternal health and reduction of child mortality. Social entrepreneurs are found to make a significant impact on achieving these targets (Mair, Robinson, & Hockerts, 2006). Hence, entrepreneurs have a positive influence on social welfare. Entrepreneurship is also positively related with

economic growth in general. Start-ups tend to have high growth-rates and their innovative attitude make them positively related to economic growth (Carree & Thurik, 2003).

It is only a recent development that small entrepreneurs are recognized for their impact on the welfare of an economy. Economists used to be convinced that small businesses will inevitably fail due to their own inefficiencies. If they wouldn't have inefficiencies, they wouldn't have remained small businesses. Nowadays their influence on the economy is being recognized through their impact on employment and social stability (Audretsch, Thurik, Verheul, & Wennekers, 2002).

From this I conclude that the importance of entrepreneurship is being acknowledged by researchers as by policy-makers. In the following sections the factors for a prosperous entrepreneurial environment are being derived.

Important factors for entrepreneurs according to corresponding literature

Entrepreneurs thus have a positive effect on economic growth, but in what kind of environment can we let them thrive and stimulate their growth. The environment in which an entrepreneur finds himself is complex. Many different factors have to be taken into account by an entrepreneur before risking the failure of a new business. Even once a potential entrepreneur has taken this step, they usually struggle with burdens, which lead to 50% of start-ups failing in the first 5 years (European Commission, 2013). The relevant factors are analyzed individually in order to derive the best possible environment for an entrepreneur.

Regulation Burdens

Entrepreneurs are bound by many regulative constraints. They can make it more difficult to become an entrepreneur or to survive as an entrepreneur. Governments have direct influence over regulation. That is why it can be an important tool to establish a better environment for entrepreneurs. Yet, the European Commission can only propose policy-measures to its Member States. It is up to the national authorities themselves to reduce these regulative constraints. The "Small Business Act" and the "Entrepreneurship 2020 Action Plan" both include measurements to reduce regulatory burdens (European Commission, 2008) (European Commission, 2013). Yet, in a survey conducted by the European Commission in 2012, only 5% of European participants felt discouraged by these regulatory burdens (European Commission, 2012). Administrative regulations have been proven to have no or little impact on potential entrepreneurs. The time required, the costs and the number of procedures involved to start a business were found to be unrelated to the decision of entrepreneurs to become self-employed (Van Stel, Storey, & Thurik, 2007). Reduction of regulatory burdens wouldn't be harmful, but it is questionable if it would have

significant impact on entrepreneurial activity. The European Commission should not devote many resources to this reduction.

Taxes

Favorable tax-policies could be an incentive for entrepreneurs to enter a market or survive once entered the market. High effective corporate taxes have been proven to have a large and significant adverse effect on entrepreneurship. The impact is consequent when controlling for, among others, personal income tax and VAT (Djankov, Ganser, McLiesh, Ramalho, & Shleifer, 2009). Researchers Cullen and Rogers found that a cut in corporate tax rates in the U.S. may lead to only a small increase in entrepreneurial entrance or even no change in entrepreneurial activity at all. They believe that such a tax cut reduces the taxes saved from deducting business losses, while profits remain taxed at the corporate tax rate. This results in a discouragement of risk-taking (Cullen & Roger, 2007).

However, the most common findings on this topic are that countries with low tax-rates on corporate income yield higher entry rates of entrepreneurs. In comparison to low tax rates on personal income, the effect of lower tax-rates on corporate income is significantly higher (Klapper & Laeven, 2006). High estate taxes, tax on wealth accumulated over a life-time, also has a negative effect on entrepreneurship (Fleenor & Foster, 1994). Furthermore, entrepreneurs encounter difficulties due to double taxation or tax mismatches. These problems should be eliminated or reduced to a minimum, because it harms entrepreneurs (Henrikson, 2005). Thus, policy-makers can encourage potential entrepreneurs by reducing corporate taxes. Double taxation and tax mismatches should be avoided by policy-makers.

Bureaucracy of creating a business

The European Commission encourages entrepreneurs create new businesses across European borders. Yet, every European country has its own conditions to which a start-up needs to comply. Because Europe can be considered as fragmented in comparison to the United States, the EC proposes certain standards to its Member States to ease cross-border entrepreneurship. It should be possible to start a business within three days in all Member States, for instance. Entrepreneurs should be able to do all their administrative procedures at one administrative institution, an one-stop-shop. The entrepreneurs must be able to do its sign-up procedures online. The costs of starting a new business in another country are also under proposed constraints (European Commission, 2014). These standards are adopted by many of the Member States, but in 2012 there were still some exceptions that didn't comply with the criteria. For instance, in Slovakia it still took 12 days to start a business and in Spain it even took 17 days. Greece and Germany, amongst others, lacked a one-stop-shop at which entrepreneurs could do all their administrative procedures. In almost all Member States the costs were still too high to create a start-up, compared to the standards set by the European Commission (European Commission, 2012). There is still

room for improvement concerning these bureaucratic procedures for starting businesses across Europe.

Bankruptcy Procedures

European bankruptcy procedures are time consuming. The EC estimated the length of bankruptcy proceedings anywhere between four months and nine years. In the United States these procedures are better dealt with. An American entrepreneur is therefore granted a second-chance faster than an European entrepreneur (European Commission, 2013). These lengthy bankruptcy procedures in Europe have been proven to work deterring for potential entrepreneurs (Klapper & Laeven, 2006). The European Commission should aim to reduce these lengthy proceedings and it will thereby encourage nascent entrepreneurs to start an own business.

Culture

Entrepreneurs are made, not born (Van der Loos, Rietveld, Eklund, Koellinger, & Rivandeneira, 2013). Entrepreneurs do have similar social characteristics like structural thinking and self-efficacy, but an “entrepreneurial gene” has not been discovered. 25% of the affinity with becoming an entrepreneur can be explained by someone’s genes (Van der Loos, Rietveld, Eklund, Koellinger, & Rivandeneira, 2013). Socio-economic characteristics are therefore of utmost importance in the decision to become self-employed. The risk-taking propensity, that is established by a country’s culture, has an effect on nascent entrepreneurs (Thomas & Mueller, 2000). Yet, this is difficult to measure for nearly equal countries. Only the United States may be a perfect example of where risk-taking propensity is high and therefore entrepreneurial activity is high. With the “American Dream” as national ethos, the United States embedded risk-taking deep into its national culture. But is a radical culture change plausible for other countries? Well, yes. Evidence suggests that individual values and beliefs are indeed malleable and thus cultural values can be altered (Hayton, George, & Zahra, 2002). Back in 1934, Schumpeter already acknowledged the importance of cultural aspects in reference to entrepreneurship (Schumpeter, 1934). But only recently researchers started to plead for an independent measurement of several cultural values that are relevant for entrepreneurship (Hayton, George, & Zahra, 2002). Such a measure could contribute to a better understanding of the cultural factors that encourage self-employment and which social aspects policy-makers should target to establish a change in the European culture towards entrepreneurs.

Education

Education has a significant impact on potential entrepreneurs. Great entrepreneurs like Bill Gates and Richard Branson may have dropped out before receiving their degrees, but these are exceptions to the rule. Advanced education in science, technology, engineering and mathematics have been proven to be correlated with high rates of entrepreneurs and innovations (Wadhwa, Rissing, Saxenian, & Gereffi, 2007). Better educational systems could,

thus, lead to higher entrepreneur rates, which in turn leads to more welfare. Specific education in entrepreneurship will have a positive effect on future entrepreneurial activity. The focus of the current education on entrepreneurship is on a broadly theoretical view of entrepreneurship. Part of this theoretical view is analyzing different business situations and business strategies. Yet, entrepreneurship education should also incorporate practical experiences (Garavan & O'Cinneide, 1994). Entrepreneurship students should experience what it is like to be self-employed. Therefore it should include more project teams, workgroups, individual counseling and peer exchanges (Garavan & O'Cinneide, 1994). Education on entrepreneurship shouldn't be 'about' entrepreneurship, but 'for' entrepreneurship. The education should also focus on the student's development of creativity and adaptation skills, because these characteristics are essential for an entrepreneur (Kirby, 2004). Education that let students participate is thus of the utmost importance in the schooling of new entrepreneurs. Furthermore, there should be a clear differentiation among education in entrepreneurship, enterprises and small business management education. These fields are often mixed up in education, but these subjects need different approaches (Gorman, Hanlon, & King, 1997). Education in entrepreneurship is a great way to stimulate young entrepreneurs, but policy-makers should remark that practical experiences are necessary.

Access to finance

Acquiring the amount of funding required to start a business is a great concern for young entrepreneurs. In the Eurobarometer survey of 2012, 21% of European participants acknowledged the lack of financial resources as the main reason why they wouldn't start a business in the next 5 years. Only 15% saw this as the main reason in the United States (European Commission, 2012). Better access to finances will inevitably lead to more entrepreneurial activity. Financing of an own business is usually done by one of these four options. Firstly, by financing the new enterprise out of own savings. Secondly, funding by debt financing which is usually issued by a commercial bank. Thirdly, loans issued by governments. Fourthly, equity funding by venture capital, business angels or other forms of investments. SMEs experience disproportionate difficulties in acquiring these kinds of funding in comparison with larger start-ups (Back & Demirguc-Kunt, 2006). The SMEs are restricted by underdeveloped legal and financial institutions that lack to support SMEs to grow to their full potential. The European Commission should acknowledge these inefficient institutions and strive to improve them.

Intellectual Property Rights Protection

Innovative start-ups usually deal with the intellectual property rights (IPR) of their products. That their products are well patented is thus important for entrepreneurs. In the United States the IPR system are fairly well structured for entrepreneurs. An IPR is acknowledged by the entire continent. Europe has made progress when it concerns an European-wide regulation on IPR ownership, but it is still far from optimal (Geuna & Rossi, 2011). Policy-

makers should take this into account that IPR has an impact on entrepreneurs when trying to achieve an environment in which entrepreneurs can thrive.

Gender

Even in these modern times, women still face additional barriers in creating a business in comparison to men. They are limited in their ability to gain the required funding to start a business. Potential female entrepreneurs cannot escape from these negative stereotypes against women. As to all entrepreneurs, the two most common ways of financing a start-up for women are through personal savings and bank loans. Yet, women experience greater limitations upon access to their personal savings than men. Researchers Marlow and Patton studied the negative stereotypes surrounding female entrepreneurs. The reason they found for the limitation on access to personal savings is that they depend on prior work experience and women are more likely to have been working part-time. In general, the disadvantageous position of women regarding work experience has great influence on their capabilities of becoming self-employed (Marlow & Patton, 2005). Marlow and Patton categorized three constraints, which women are exposed to when trying to obtain the proper finances. Firstly, structural constraints. The environment of venture capitalists is dominated by men. It is difficult for women to enter these networks. Secondly, human capital constraints. This constraint concerns the lack of career possibilities for women. On average, men are more likely to work in management positions than women. When investors are deciding whether or not to fund a start-up, these prior management experiences are often taken into account. Women are thus less likely to receive the funding compared to men. Thirdly, strategic choice. Venture capitalists seek the highest return possible from their investment. They are under the assumption that women are rather risk-averse regarding investment risks and that they focus more on the social aspect of their start-ups than men do (Marlow & Patton, 2005). In general, the lack of appreciation for women entrepreneurs is the problem (Shaw, Marlow, Lam, & Carter, 2009). Policy-makers should strive for more emancipation for female entrepreneurship, but changing the perspective of investors won't be easy. Monitoring of discrimination against female entrepreneurs is difficult. The EC should aim to get more women on higher occupations and especially managerial occupations. This would increase their chances of receiving the funding they need to start their own business.

Immigrants

Transnational entrepreneurship has not been studied much, but the research that has been done shows that immigrants have great potential to become self-employed. Immigrant entrepreneurs usually continue to have ties with their homelands. This may lead to more export towards these countries, which is beneficial for an economy. The immigrants that begin start-ups in foreign countries are commonly well educated (Portes, Guarnizo, & Haller, 2002). In the United States a study was conducted on the education of immigrant entrepreneurs. The results showed that 96% of immigrant entrepreneurs at least have a

bachelor degree. 76% even had a master degree or a PhD (Wadhwa, Rissing, Saxenian, & Gereffi, 2007). Policy-makers should take into account that highly educated immigrants are a great source of potential entrepreneurship.

Summary of important factors for entrepreneurs

Reduction of regulatory burdens for entrepreneurs has been proven to be of little influence on entrepreneurs (Van Stel, Storey, & Thurik, 2007). The EC should thus not devote too many resources on reducing regulatory burdens. Policy-makers should aim to lower tax-rates on corporate income in order to encourage young entrepreneurs (Klapper & Laeven, 2006). Bureaucratic procedures for starting businesses across Europe is still far from optimal and should be improved by the European Commission (European Commission, 2012). European bankruptcy procedures are too time consuming and discourage entrepreneurs to become self-employed (Klapper & Laeven, 2006). Cultural values are another aspect that is of great influence on entrepreneurial activity and these have been proven to be adaptable (Hayton, George, & Zahra, 2002). The general appreciation of entrepreneurs in the modern society should be promoted. Education is also found to be of great importance. Policy-makers should aim for better education and especially better education in Entrepreneurship, which combines theoretical aspects with practical experiences (Garavan & O'Connell, 1994). Entrepreneurs struggle with acquiring the funding needed to start a business and this should be dealt with by the EC (Back & Demirci-Kunt, 2006). Large pools of entrepreneurial potential are found to experience additional burdens compared to average entrepreneurs. Women experience difficulties with acquiring the proper funding of their start-up due to male-dominated entrepreneurship platforms (Marlow & Patton, 2005). Also immigrant entrepreneurs yield a great potential that shouldn't go unnoticed by policy-makers (Portes, Guarnizo, & Haller, 2002). Lastly, Intellectual Property Rights across Europe should be improved (Geuna & Rossi, 2011). These are all factors that policy-makers should take into account when trying to promote entrepreneurship in modern society. The factors determined in this section will be referred to as "entrepreneurial factors" throughout the remainder of the thesis.

EU-US comparison on entrepreneurship policies

The following section will firstly highlight the differences in entrepreneurial "spirit" between Europe and the United States. Entrepreneurship in Europe lags behind compared to the entrepreneurship in the United States (Audretsch, Thurik, Verheul, & Wennekers, 2002). The occurrence of this difference will be described in this section as well. Lastly, the difference in entrepreneurial factors between the continents is discussed. The factors that are seen as the reason for the difference in entrepreneurial activity have been divided in the sections cultural differences and economic differences.

Difference in entrepreneurial “spirit” between Europe and the United States

Are Europeans less ‘entrepreneurial’ than Americans? The answer to this question is found by examining several indicators of entrepreneurial activity in both Europe and the U.S. The European Commission has requested several surveys about a variety of entrepreneurial topics known as the Flash Eurobarometer surveys (European Commission, 2012). In June 2012, a survey concerning entrepreneurial environment was conducted. An overview of the relevant results can be found in appendix 1. In the U.S. the perceived feasibility of self-employment within 5 years is 44%. This is significantly higher than in Europe where only 30% of the participants believed this was feasible. Only 37% of the European participants would like to be self-employed against 51% of American participants. To the question whether or not the person has ever started a business, taken over one or about started one, 23% of the Europeans answered “yes”. In the U.S. 28% of the participants answered “yes” (European Commission, 2012). The United States’ participants score better than Europe’s participant in all of these statistics. Their entrepreneurial “spirit” seems to be higher. The reasons why a participant wouldn’t risk starting an own business also differs between Europe and the U.S. The main reason why European participants wouldn’t start a business is because they couldn’t get the financial resources to become self-employed (21%). In the U.S. only 15% of the participants remarked this as the reason why they didn’t start a business. The risks of failure and consequences of failure, both legal and social, involved with starting a business are more repellent for Europeans (5%) than for Americans (2%) (European Commission, 2012). These statistics from the Eurobarometer survey seem to capture the essence of the entrepreneurial problem in Europe.

How did the difference in entrepreneurial “spirit” between Europe and the U.S. arise?

The United States has been better in absorbing the benefits of its entrepreneurs in comparison to Europe (Audretsch, Thurik, Verheul, & Wennekers, 2002). This could be the reason why the United States experienced more economic growth than Europe. Europe is trying desperately to follow suit by imposing policy-measures that favour entrepreneurial environment. The researchers Audretsch, Thurik, Verheul and Wennekers defined five stages on how Europe missed to grasp the opportunities of entrepreneurship and how it tries to attain it now. The first stage was denial. In the 1980s and 1990s the European policymakers focused on its larger companies rather than small start-ups. Silicon Valley’s start-ups weren’t of great concern to them. They didn’t face the fact that they could form a potential competitive threat in the near future. But in the mid-1990s Europe started to recognize their threat. This can be seen as the second stage. The start-ups in the United States seemed to deliver sustainable long-term companies with high performances. The third stage is determined by Europe’s envy, which came about in the second half of the 1990s. The United States’ economy grew due to its entrepreneurial activity, whilst Europe coped with high unemployment rates. Policy-makers determined that the European traditions and values weren’t compatible with the mind-set of an entrepreneur. In the fourth stage, at the end of the 1990s, policy-makers acknowledged that they had fallen

behind. They decided that creating a prosperous entrepreneurial environment in Europe should be one of their main objectives. Europe has a lot of highly educated and skilled citizens, which account for a great pool of potential entrepreneurs. The fifth and final stage revolves around the attainment of this entrepreneurial environment (Audretsch, Thurik, Verheul, & Wennekers, 2002). This is the stage we are currently in. The “Small Business Act” and the “Entrepreneurship 2020 Action Plan” can be considered as means to catch up with the United States.

Difference in entrepreneurial factors for European and American entrepreneurs

It is obvious that Europe lags behind compared to the United States (Audretsch, Thurik, Verheul, & Wennekers, 2002). There are multiple factors that can be appointed as reasons why entrepreneurial activity in both continents differ. The differences in factors will be discussed in the following paragraphs. One paragraph will review that cultural differences may have led to the difference in entrepreneurial activity. The other paragraphs show that a number of economic differences can also be appointed as reasons why this difference has occurred.

Cultural differences

Cultural differences could be the reason why entrepreneurial activity is higher in the United States (Thomas & Mueller, 2000). The Americans embedded risk-taking deep into their culture. They are more likely to take the risk of starting a new business, while Europeans are less risk-loving. The appreciation for entrepreneurs is higher in the United States than in Europe (Frydman, Khan, & Rapaczynski, 2011). It is difficult for Europe to establish a similar appreciation, because Europe is still very fragmented. Every European country has its own cultural values. Embedding appreciation towards entrepreneurs in all these different cultures is a difficult task. However, the establishment of the European Union has made tremendous progress in achieving more unity. The European Commission should incorporate promotion of entrepreneurship in their plans, but the effectiveness of these measures will remain uncertain.

Economic differences

One economic aspect, in which Europe differs from the United States, is that of employment law. The United States is less strict concerning its labor markets compared to Europe. European policy-makers value job security more than the policy-makers in the United States do. It's more difficult to fire an employee in Europe, minimum wages are higher, taxes on wage are higher and wage negotiations are commonly nationwide applicable. This makes the labor costs in Europe higher and reduces incentives for entrepreneurs to start a business there. Another economic difference is one of access to finance. The European risk capital market is small and fragmented compared to the U.S. risk capital market. On top of that, the European market focuses on buyouts rather than early-stage start-ups (Frydman, Khan, & Rapaczynski, 2011). European incubators are considered to be relatively strong, but focus on

other aspects compared to its American incubators. European incubators apply a supporting and facilitating strategy, where American incubators act more like an accelerator with structured financial support (Chengappa & Geibel, 2014). The European venture capital market should be encouraged to invest in early-stage start-ups. The EC could propose policy-measures that benefit investments in early-stage start-ups compared to investment in late-stage start-ups. A third reason why entrepreneurial activity differs between the continents is a geographical one. Europe doesn't hold attractive regions, where entrepreneurs and investors can come together. The United States does hold these kinds of regions, for example Silicon Valley and New York City. Entrepreneurs can find potential investors and other entrepreneurs more easily there. Europe still lacks these "start-up hubs", but the EU is working on this particular problem through the "European Entrepreneurship Region" (EER) project (Committee of the Regions, 2014). The last major difference is about bankruptcy proceedings. As mentioned before, it takes a longer time to recover from bankruptcy and be granted a second chance in Europe compared to in the U.S. (Bhandari & Weiss, 1996). This deters entrepreneurs from establishing firms in Europe.

Summary of different factors for European and American entrepreneurs

Thus, there can be four economic reasons appointed to why entrepreneurship is more prosperous in the United States than in Europe. Firstly, the difference in employment laws. Secondly, the lack of venture capital in Europe, that invest in early-stage enterprises. Thirdly, Europe is missing attractive regions for entrepreneurship, where other entrepreneurs gather as well. And finally, the fourth reason, it is more difficult to recover from a bankruptcy in Europe. Cultural differences could also be appointed as a reason why European entrepreneurs aren't as prosperous. All these factors should be taken into account by policy-makers whilst trying to establish a better entrepreneurial environment.

European Commission's Plans to improve entrepreneurial activity

We have seen that the United States has been better at transforming entrepreneurial opportunities into economic growth and that Europe tries to catch up with the U.S. For this reason the European Commission has created the "Small Business Act" (SBA) in June 2008. In 2013, the "Entrepreneurship 2020 Action Plan" was created as a follow-up plan for the SBA. These plans will be reviewed in this section of the thesis. This section will provide an insight in what the European Union has attempted and is attempting in order to achieve a prosperous entrepreneurial environment.

The "Small Business Act":

The "Small Business Act" (SBA) has been created in June 2008 as a set of policy measures to create a prosperous entrepreneurial environment in Europe. The slogan of the SBA is "Think Small First", which reveal the essence of this act, namely small entrepreneurs. The "Small Business Act" applies to 99% of all European Businesses, which consists of the independent companies with 250 or fewer employees. It consists of 10 principles, which function as a guide to the design and implementation of policies regarding administrative and legal restrictions for SMEs. These principles apply at EU and Member State level. An overview of all the principles included in the "Small Business Act" can be found in Appendix 2. The guidance principles are supported by a set of new legislative proposals and new policy measures. In the following paragraphs the principles will be discussed individually. The aim of the principles will be described and also if the principle has had any effect measured in the SBA evaluation conducted in 2011. Every principle involves certain policy measures, which are addressed in twofold. Firstly, the measures the European Commission will take to reach its objective, which in general is a better environment for small entrepreneurs. Secondly, the principle will address the Member States and invite them to apply certain policies on a national level. These proposals are non-obligatory. There is a general evaluation of the SBA at the end of this section.

Principle 1: Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded.

The EC included this principle to improve the appreciation towards entrepreneurs and thereby promote a career in self-employment amongst Europeans. This change of European attitude towards entrepreneurs will lead to more entrepreneurship (Thomas & Mueller, 2000). This principle also discusses the gender gap between male and female entrepreneurs. Removing or reducing this gap could lead to a significant increase of entrepreneurial activity (Marlow & Patton, 2005). Also immigrant entrepreneurs are mentioned as important potential entrepreneurs, but the policy-makers should notice that the commonly only high-

educated immigrants have the intention to start a business (Portes, Guarnizo, & Haller, 2002). Lastly, this principle targets entrepreneurial education in Europe. Entrepreneurial education should be seen as an important mean to achieve more entrepreneurial activity (Garavan & O'Connell, 1994). The actions taken by the EC regarding this principle involved promotion of entrepreneurial culture and facilitation of entrepreneurial education. The "European SME Week", the "Erasmus for Young Entrepreneurs" and networks for female entrepreneur all were facilitated by the EC. Other improvements of the entrepreneurial environment are reduction of hampering due to taxation and support for business transfers (European Commission, 2008). In the evaluation of this principle in 2011 it was found that many Member States introduced entrepreneurship education programs. Some countries set up programs to promote female entrepreneurship (European Commission, 2011). Policies to improve entrepreneurial education have been integrated by several Member States.

Principle 2: Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.

The high bankruptcy procedures that European entrepreneurs experience have a negative impact on entrepreneurial activity (Klapper & Laeven, 2006). The EC acknowledges that the process of bankruptcy is too long, currently varying between 4 months and 9 years (European Commission, 2008). The EC therefore promoted a second chance policy by facilitating exchanges of best practice between Member States. The non-fraudulent bankruptcy cases should be finished up within a year and re-starters should be treated equally as starters (European Commission, 2008). In the evaluation it was found that only five Member States (Belgium, Finland, Ireland, Spain and the United Kingdom) complied to all legal procedures to wind up a business bankruptcy within a year (European Commission, 2011). The EC should address this issue further in the "Entrepreneurship 2020 Action Plan".

Principle 3: Design rules according to the "Think Small First" principle.

SMEs' burdens on administrative regulations are disproportionate compared to larger firms. By estimation 1 euro is spent per employee by large firms due to administration costs, where 10 euro is spent per employee by SMEs. The European Commission aimed to reduce the legislative and administrative costs for SMEs. Yet, it is questionable if reduction of regulatory burdens will have any impact on entrepreneurial activity (Van Stel, Storey, & Thurik, 2007). The EC proposed to the Member States to reduce their regulatory burdens for SMEs and integrate an "SME Test", which assesses the impact of the regulatory reductions on SMEs. Small business owners would be consulted by the EC and thereby included in the decision-making-process of new administrative regulations. The primary concern of this principle is to reduce administrative burdens by 25% before 2012 (European Commission, 2008). In 2011, only a few Member States (Belgium, Denmark, Finland, Luxembourg, Germany, Poland, Slovenia, Sweden and the United Kingdom) actually integrated the "SME Test". The objective of a reduction of 25% on administrative burdens has been reached by

the time the “Entrepreneurship 2020 Action Plan” was conducted and even went beyond this target (European Commission, 2013).

Principle 4: Make public administrations responsive to SMEs’ needs.

The EU and the Member States are trying to make public administrations compatible to SMEs’ needs in order to further decrease the burdens on SMEs. The EC believes that if less time is spend on public administrations, that more time can be spend on innovation. However, as mentioned before, reduction of regulations are proven to be unrelated to entrepreneurial activity (Van Stel, Storey, & Thurik, 2007). Member States were invited to reduce registration fees and decrease the set-up-time of a business to less than one week. They were also asked to simplify the acquirement of licenses and permits to less than one month. Lastly, this principle includes establishing a better communication between the SMEs and governments to get a better understanding of the needs of small business owners, and their hinder from regulative obligations (European Commission, 2008). Some countries have integrated processes with the objective to simplify communications between businesses and administrations. Some Member States facilitate public consultations to better understand the needs of their SMEs (European Commission, 2011).

Principle 5: Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs.

Governments tend to discriminate against SMEs when it comes to public procurement. Larger companies have build up a reputation with governments, while young companies are discouraged to participate in public procurement due to procedures. The EC presented a voluntary Code of Best Practice that could be used as a guide to reduce bureaucracy, improve transparency and create more possibilities for SMEs to participate in public procurement. The Member States are requested to increase the awareness of the opportunities and reduce the conditions to participate in public procurement in order to avoid disproportionate qualification and financial requirements (European Commission, 2008). In practice only a few countries (Austria, France, Germany, Ireland, Poland, Portugal, Sweden and the United Kingdom) have started to promote the European Code of Best Practices. The information about public procurement has become more transparent as it is put on the governments’ websites (European Commission, 2011). In additional measures to promote entrepreneurship this should be giving more attention.

Principle 6: Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions.

Investors and banks are usually risk-averse and therefore do SMEs experience difficulties with receiving funding (Back & Demirguc-Kunt, 2006). This lack of access to finance for SMEs is recognized by the Commission. Late payments by investors are also a burden to SMEs, which even accounts for the insolvencies of one out of four SMEs. The EC introduced private placement regime to facilitate cross-border investment to improve European venture capital

markets. The EC recommends Member States to develop financing programs to fill the funding gap between € 100,000 and € 1,000,000, while respecting the State Aid rules. Also they were invited to address regulatory and tax obstacles, that hamper venture capitalists to invest in SMEs (European Commission, 2008). Reducing taxes on corporate profits has been proven to have a positive impact on entrepreneurial activity (Djankov, Ganser, McLiesh, Ramalho, & Shleifer, 2009). These policies in this principle have been widely adopted by many Member States. Several Member States took measures in order to increase risk capital and some Member States created a “credit ombudsman”. But only few Member States took measures against late payments (European Commission, 2011), whilst bankruptcy problems are of great concern to nascent entrepreneurs (Klapper & Laeven, 2006).

Principle 7: Help SMEs to benefit more from the opportunities offered by the Single Market.

The establishment of the European Union brought new opportunities for entrepreneurs in the form of the Single Market. This principle involves improvement of information on Single Market policies that are of concern to SMEs. It also covers the access improvements of patents and trademarks for SMEs. In order to highlight the importance of Intellectual Property Rights for SMEs, the Commission would work on a better patent system at a European level. The EC strives for a European-wide Patent Jurisdiction (European Commission, 2008). In the evaluation of 2011 it was found that 22 Member States set up one-stop shops. With these shops it becomes easier to do business across Europe, because administrative formalities can now be done electronically. 15 Member States provided the information about patents and trademarks in their native language and an English version (European Commission, 2011).

Principle 8: Promote the upgrading of skills in SMEs and all forms of innovation.

This principle revolves around the encouragement of SMEs to invest in R&D. The EC would like more transnational research and better intellectual property management by SMEs. The EC points out that entrepreneur struggle with inadequate educated employees. Especially in new technology fields, it is hard to find capable employees. The EC would therefore support the development of online e-Skills and Career Portal in order to enable firms to self-assess the required skills. Furthermore this principle includes better information transfer between the government and firms, as well as knowledge transfers between firms (European Commission, 2008). In practice, several Member States provided funding to young innovative entrepreneurs. Most commonly this was done through venture capital. Other Member States funded innovation centers that have the objective to link businesses with universities and other kinds of research facilities. Several Member States also provided “innovation vouchers”, which firms could use to buy consulting services (European Commission, 2011).

Principle 9: Enable SMEs to turn environmental challenges into opportunities.

This principle addresses the struggles that SMEs encounter due to environmental challenges. Consumers demand more “green” products and some SMEs find it difficult to deliver to these high requirements on their products. The EC would lower environmental standards, reduced fees and optional cluster registrations for SMEs. It would also fund a network of environment and energy efficiency experts in the Enterprise Europe Network. Member States were asked to simplify the approach of environmental aid for SMEs. They are also encouraged to spend the EU-funding allocated to the Cohesion Policy for support of eco-innovative entrepreneurs (European Commission, 2008). Several Member States (Belgium, Bulgaria, Cyprus, France, Germany, Malta, Portugal, Slovenia and the United Kingdom) funded energy efficiency initiatives through favorable loans or direct subsidies. Some of them also provided consulting services for SMEs to inform and raise awareness of business opportunities regarding environmental measures, like energy efficiency cost-savings (European Commission, 2011).

Principle 10: Encourage and support SMEs to benefit from the growth of markets.

The turnover due to export is significantly lower for SMEs than for larger companies. The EC would like to encourage SMEs to benefit from the growth of markets outside of the EU. Trade barriers impact SMEs on a greater scale than larger companies, because SMEs only have limited resources to absorb the risk of overcoming these trade barriers. The EC established Market Access Teams who help improve SMEs’ information on trade barriers outside the European Union. The EC seeks to create more opportunities through WTO negotiations and bilateral agreements with third-world countries and other fast-growing markets. The Member States were encouraged to come up with programs in which SMEs get counseling from larger firms (European Commission, 2008). A lot of Member States tackled the problem of the lack of internationalization of SMEs. The issue was dealt with by financially supported export promotion, market access strategies and participation in trade fairs. Other measures taken involve a mentoring scheme and new promotion agencies (European Commission, 2011).

General evaluation of the Small Business Act

The EU consists of 28 Member States. In the evaluation of 2011 only some Member States actually applied certain policy-measures from the principles. Most of the time, the same countries were the ones to implement some of these measures. This leaves a lot of countries that neglected the SBA. Only by Europe-wide appliance of these policy-measures will Europe achieve its full potential regarding entrepreneurship. Incoherence should be sanctioned by the European Commission. But of course the problem with these policies is that every country wants to keep its sovereignty.

On the other hand, the progress the European Commission has made by itself is substantial. Almost all legislative initiatives have been adopted, which have improved the business

environment (European Commission, 2011). Also the EC has improved the access to finance for SMEs, which is considered a great concern for nascent entrepreneurs (European Commission, 2012). The appreciation of entrepreneurs has been increased by the EC through the SBA (European Commission, 2011). However, policy measures regarding the following factors are not included or incorrect incorporated in the SBA. Entrepreneurial education is addressed in the SBA, but it doesn't emphasize the fact that the education should include practical experiences (Garavan & O'Connell, 1994). The potential of female entrepreneurs is also addressed. Yet, it doesn't cover the problems that women experience due to discrimination by male investors (Marlow & Patton, 2005). The importance of reducing regulatory burdens is stressed in the SBA, but evidence suggests that this would not have an impact on entrepreneurial activity (Van Stel, Storey, & Thurik, 2007). Policy-makers shouldn't focus too much on reducing these regulatory burdens. When comparing the SBA policies to the differences found in the EU-US comparison, I find that none of the policies involve employment law. Europe has strict employment laws, which are discouraging for entrepreneurs. Easing these laws for SMEs could be considered by policy-makers in order to increase entrepreneurial activity. The SBA should also include measures to establish attractive regions within Europe for entrepreneurs. Such regions make it easier for entrepreneurs to find potential investors. Overall, the SBA targets a lot of the right issues to establish a better entrepreneurial environment, but there is still room for improvement on certain aspects.

As a side note to the "Small Business Act", I find that it has a chaotic appearance. The principles that follow each other in the report are mostly unrelated. Ten principles may have been too many in order to keep a clear overview of the policy implications. The "Entrepreneurship 2020 Action Plan" has done a better job of keeping it clear by dividing the policy implication into the three "Action Pillars of Entrepreneurship 2020".

The "Entrepreneurship 2020 Action Plan":

In the previous section, I discussed the "Small Business Act" from 2008. In this section the "Entrepreneurship 2020 Action Plan" will be reviewed. The small entrepreneurs in Europe still don't experience the optimal environment to thrive in. Therefore the European Commission proposed the "Entrepreneurship 2020 Action Plan" as a follow up to the "Small Business Act". The "Action Plan" was adopted in 2013. The "Entrepreneurship 2020 Action Plan" has a clear layout, because it is based on three objective pillars rather than a set of principle like in the "Small Business Act".

The three “Action Pillars of Entrepreneurship 2020” are:

1. *Entrepreneurial education and training to support growth and business creation.*
2. *Strengthening framework conditions for entrepreneurs by removing existing structural barriers and supporting them in crucial phases of the business lifecycle.*
3. *Dynamising the culture of entrepreneurship in Europe: nurturing the new generation of entrepreneurs.*

In short, these pillars cover entrepreneurial education, entrepreneurial environment and a far-reaching cultural change concerning European entrepreneurship. The slogan of the “Action Plan” is “Think Small First”, like it was in the SBA. The measures in the “Action Plan” are twofold, as they were in the SBA. The first part consists of the measures the European Commission will take in order to achieve the objectives set by that certain pillar. The second part consists of a set of policies to Member States, which they are invited to apply.

Pillar 1: Entrepreneurial education and training to support growth and business creation.

The EC believes that the investment in entrepreneurial education yields one of the highest returns Europe can achieve. Unlike in the SBA, here the EC emphasizes the fact that entrepreneurial education should concern practical experience. Young entrepreneurs could develop business knowledge through these practices, which help them develop the essential skills to become an entrepreneur (Kirby, 2004). Entrepreneurs lack employees with the right skills and the EC will try to deliver the means in which this demand can be satisfied. Higher education has been proven to be positively related with entrepreneurial activity in a country (Wadhwa, Rissing, Saxenian, & Gereffi, 2007). The European Commission will take a couple of measures to empower this pillar. They will develop a Europe-wide entrepreneurial learning initiative that will link together national expertise with European expertise. Hereby it will become easier to share knowledge throughout Europe. Furthermore, the EC will reinforce their co-operation with Member States to introduce practical entrepreneurship education. The EC even wants to establish exclusive entrepreneurship schools and VET institutions¹ across Europe. VET programs can encourage young entrepreneurs to develop the required skills through an informal manner or through volunteering (European Commission, 2013). The policies surrounding this pillar thus involve enabling young Europeans to achieve the right skills through practical, rather than theoretical, education about entrepreneurship.

The Member States are invited to include entrepreneurial education in their national curricula. This includes primary, secondary, vocational, higher and adult education. The time-frame in which the EC likes to assure these measures is set before the end of 2015. The

¹ VET – Vocational Education and Training

EC also encourage the Member States to create opportunity at least one practical entrepreneurial experience before young people leave compulsory education. This could be in the form of an entrepreneurial project or running a mini-company. Member States should furthermore boost entrepreneurial training by using Structural Funds resources in line with their national job plan (European Commission, 2013). They are thus strongly advised to create the opportunities for young people to enroll in entrepreneurial experiences.

Pillar 2: Strengthening framework conditions for entrepreneurs by removing existing structural barriers and supporting them in crucial phases of the business lifecycle.

This pillar of the “Entrepreneurship 2020 Action Plan” is divided into six key areas, which objectives are to remove existing barriers for young entrepreneurs. This pillar consists of the following areas: access to finance, support to entrepreneurs, unleashing digital opportunities, transfers of businesses, second chance and regulatory burden reduction. They will be assessed individually in the following paragraphs.

Access to finance

Potential entrepreneurs have difficulties raising the required finances to begin their own start-up (European Commission, 2012). The EC acknowledges this problem and therefore set up proposals on venture capital funds and social entrepreneurship funds. They want to ensure entrepreneurs the proper financial support for testing, demonstrating and piloting new technologies by strengthening venture capital, business angels, incubators and loans for high potential SMEs. European investors tend to focus on late-stage start-ups rather than early-stage start-ups (Frydman, Khan, & Rapaczynski, 2011). The measures imposed in this pillar should target this problem. The EC will finance programs aimed at developing a market for microfinance in Europe and facilitate direct access of SMEs to the capital market. The EC invites Member States to facilitate alternative forms of financing for young entrepreneurs. A possible alternative that the Member States could facilitate is crowd funding. Also they are asked to encourage business angel investments, by simplifying tax legislation. They are asked to use the European Social Fund (ESF) and the European Regional Development Fund (ERDF) to set up microfinance support for SMEs. Lastly, the EC likes the Member States to ensure entrepreneurs of access to finance, in particular at an early stage of an enterprise (European Commission, 2013).

Supporting new businesses in crucial phases of their lifecycle and help them grow

50% of new businesses fail in the first 5 years. The EC wants to bring down the percentage, because they believe it is due to a lack of an appropriate economic system. Since the start of the Single Market there are still problems of double taxations and tax mismatches (Henrikson, 2005). The EC considers these tax burdens especially harsh on small entrepreneurs and therefore the EC believes they need to be removed or reduced. The EC strives to improve the exchange of knowledge between European entrepreneurs. The EC will try to find the best-practices and promote them to other Member States regarding the

fiscal environment that are beneficial for entrepreneurs. The EC will facilitate the Enterprise Europe Network that will improve the exchange of knowledge between entrepreneurs. The Erasmus for Young Entrepreneurs program, established through the SBA, will be further developed.

Reduction of taxes is a national issue. Therefore the EC can only communicate the best-practices and invite Member States to apply these tax reductions on SMEs. They are also encouraging Member States to simplify tax filing and tax payment, because this will reduce the cost of tax compliance. The EC will also communicate the problems of double taxation and tax mismatches with its Member States (European Commission, 2013).

Unleashing new business opportunities in the digital age

Technology plays a big role in firms nowadays. Information and communication technology can foster the growth of SMEs. Web entrepreneurs tend to have a higher growth and fail rate than other entrepreneurial businesses. The European Commission specified certain measures especially to address these digital opportunities. The EC will enable sharing of knowledge by establishing online Market Monitoring Mechanisms and a Scoreboard. It will also raise awareness of the benefits that new digital revolutions bring. The European Mentors Network will be created to support new digital business ideas. Member States are invited to support digital and web entrepreneurs, and set up ICT innovation voucher schemes. Furthermore they are encouraged to support policies regarding data protection and promotion of access to Open Data for entrepreneurs (European Commission, 2013).

Easier business transfers

Business transfers often fail. Especially small businesses are exposed to this problem. Employees lose their jobs due to these failures. The barriers, that entrepreneurs encounter whenever they want to transfer a business, make starting a new firm more attractive. The EC believes that exchanging best practices on easier business transfers will be beneficial for the entrepreneurial environment. They therefore will develop guidelines on the most effective programs, as well as proposing the necessary measures to remove existing barriers of cross-border business transfers. Improvement of legal, administrative and tax provisions for transfers of businesses are requested from the Member States. They should use existing European funds to support business transfers of SMEs and improve information services about these transfers. Potential buyers and sellers should get a platform on which they can effectively enable transfers (European Commission, 2013).

Turning failure into success: second chances for honest bankrupts

In the SBA, it was already acknowledged that bankruptcies are mainly due to late payments. These are considered to be “honest failures”, in other words without any fraud of the entrepreneur. The laws regarding bankruptcy however treat both kinds in the same manner, as if they were fraudulent. The EC considers this as a great flaw in the European jurisdiction.

One might wonder if giving entrepreneurs a second chance is a good idea, because they failed the first time. Yet, entrepreneurs that receive a second chance are more successful than the average start-ups (European Commission, 2013). They have a higher growth rate. The issues that entrepreneurs experience due to bankruptcy will be identified through a public consultation by the EC. The EC can then target these problems effectively. The Member States are invited to reduce the time required to process a bankruptcy. It's a good thing that the EC tries to reduce the time of bankruptcy procedures, because it has proven to be deterring for nascent entrepreneurs (Klapper & Laeven, 2006). The maximum number of years a bankruptcy should cover has been set on three years by the EC. Finally, the EC encourages its Member States to provide advisory services to ease the process of bankruptcy (European Commission, 2013).

Regulatory burden: clearer and simpler rules

In the Small Business Act the problem of regulatory burdens was already addressed. The SBA set a reduction of 25% of the regulatory burden as a target for 2012. This target has been reached and the regulatory reduction even went beyond 25%. However, the EC still strives to eliminate the excessive regulatory burdens, the so called red tape (European Commission, 2013). As mentioned before, these reductions of regulatory burdens have been proven to have no significant impact on entrepreneurial activity (Van Stel, Storey, & Thurik, 2007). The European Commission doesn't acknowledge this and thus still tries to eliminate as many regulatory burdens as possible. The following measures will be taken by the EC to achieve this. Information on regulatory burdens for entrepreneurs should be more transparent. The EC would like a Points of Single Contact through which entrepreneurs can acquire relevant information. This contact point should also provide the entrepreneurs information on licenses, finance opportunities and public support. The EC thus will pursue further reduction of regulatory burdens and identifying the red tape observed by entrepreneurs. The EC will try to eliminate this red tape by proposing legislation. It'll establish Points of Single Contact for better communication. Member States should reduce the time required to acquire a license to less than one month by the end of 2015. They should try to achieve simplification of the administrative burdens and extend the Points of Single Contact. They should also set up "one-stop-shops for entrepreneurs" in order to bring together all the business supporting services.

Pillar 3: Dynamising the culture of entrepreneurship in Europe: nurturing the new generation of entrepreneurs.

Unlike the United States, Europe hasn't got many success stories of entrepreneurs. The EC acknowledges that this might be due to lack of appreciation towards entrepreneurs. There aren't that many Europeans attracted to a career of entrepreneurship (European Commission, 2012). A change of entrepreneurial culture is required, according to the EC. Such an entrepreneurial revolution can be achieved by setting role models and amplifying them through the media. Not only should entrepreneurship be promoted as a great career

choice, but the importance of entrepreneurship in national and European interest should also be advocated (Thomas & Mueller, 2000). In order to achieve this cultural change, the EC will set up several events, which will raise awareness. The “SME Week” and a Europe-wide “EU Entrepreneurship Day” for students of secondary schools are examples of these events. Meetings with entrepreneurs, “open-house-days” and workshops will be part of these events. The Member States should set up promotion activities and appoint national Entrepreneurship Ambassadors. They will act as role models to promote entrepreneurship in their countries (European Commission, 2013).

This general change of culture on entrepreneurship regards all Europeans. This pillar however addresses specific Europeans, because they encounter specific burdens. These specific groups are women and immigrants.

Women

Women encounter more difficulties to become self-employed in contrast to men (Marlow & Patton, 2005). It is obvious that women form a great pool of entrepreneurial potential. The EC will create platforms especially for female entrepreneurs to unlock their entrepreneurial potential. These women will be supported through these platforms by means of online mentoring, advisory, education and business networks. Member States are requested to design women-specific strategies in promoting their entrepreneurial career. They should collect data about female entrepreneurs and distribute these data annually. The existing network of Female Entrepreneurship Ambassadors and Mentors for Women Entrepreneurs should be expanded (European Commission, 2013).

Migrants

Immigrant entrepreneurs are considered as a large group of potential entrepreneurs, especially the highly-educated immigrants (Wadhwa, Rissing, Saxenian, & Gereffi, 2007). The average career opportunities for immigrants in foreign countries are low. Therefore, they are pushed towards self-employment. Encouraging these immigrants to become self-employed is something that the European Commission should consider. In fact, the EC did notice the potential of immigrants. The EC proposed policy measures to attract immigrant entrepreneurs and will analyze if legislation concerning immigrant entrepreneurs could be altered. Member States are also encouraged to remove legal obstacles for this group. Also they should make the information about entrepreneurship for immigrants publicly accessible by creating information centers specifically to target this group (European Commission, 2013).

Discussion: Are European entrepreneurship policies on the right track?

In the previous section, the “Small Business Act” and the “Entrepreneurship 2020 Action Plan” were discussed. Their policies were described and the topics which they cover were highlighted. In this section, I will judge in greater detail whether the policies will be effective in creating an improved entrepreneurial environment. The policies will be compared to the entrepreneurial factors found in corresponding literature. The policies will also be compared to corresponding American policies, because it is commonly supported that in the U.S. the conditions for entrepreneurs are better (Audretsch, Thurik, Verheul, & Wennekers, 2002).

Comparison with entrepreneurial factors of corresponding literature and with corresponding U.S. policies

The entrepreneurial factors that are being compared to the policies of the plans are the following: regulation, taxes, bureaucracy of creating a business, bankruptcy procedures, culture, education, access to finance, IPR, gender and immigrants. Also the following factors that can be appointed in entrepreneurial prosperity between the EU and the U.S. are being compared: employment law, venture capital, attractive entrepreneurial regions and bankruptcy procedures. The objective of this section is to judge whether or not the plans, which have been created between 2008 and 2014, could lead to a better entrepreneurial environment in Europe. This section is divided in three parts: Sufficiently addressed factors, insufficiently addressed factors and neglected factors.

Sufficiently addressed factors

The following factors are sufficiently addressed in either the SBA or the “Action Plan”. The policies related to these topics will be effective if they are widely applied by the Member States.

Taxes

The EC propose corporate tax reductions in both of their plans. These reductions could lead to more entrepreneurial activity, because low corporate taxes are attractive for entrepreneurs (Klapper & Laeven, 2006). The mismatches of taxes and problems with double taxation are being acknowledged as well. These problems should be eliminated (Henrikson, 2005). The EC could achieve great progress through proper tax-policies, but the problem with tax-policies is that they are imposed by the Member States. The European Commission can't alter them, but only request its Member States to alter them.

Bureaucracy of creating a business

The problem of bureaucratic procedures to start a business across Europe is addressed in the “Entrepreneurship 2020 Action Plan” in its second pillar. The EC aims to reduce the regulations involved in starting a business across Europe. Lengthy bureaucratic procedures could discourage entrepreneurs and therefore it is important that the EC included this in their plans. The EC even included a section about easier transfer of business across Europe. These measures will lead more entrepreneurial activity.

Bankruptcy Procedures

The Flash Eurobarometer survey showed that almost half of the participants were afraid of going bankrupt and therefore wouldn't start a business. However, up to 82% of European participants agreed that failed entrepreneurs should be granted a second chance (European Commission, 2012). Yet, lengthy bankruptcy procedures discourage entrepreneurs to start again. They can be seen as a reason why entrepreneurial activity is high in the U.S. compared to Europe. The problem of bankruptcy proceedings was addressed in the second principle of the SBA, but in the evaluation of 2011 the EC concluded that there was little progress in this area (European Commission, 2011). The problem is newly addressed in the “Action Plan”, but why would the policy-measures be applied this time. A lot of entrepreneurs struggle with the lengthy bankruptcy procedures and that policy implications concerning bankruptcy procedures are overdue (Klapper & Laeven, 2006). This issue is important to be dealt with, because entrepreneurs that are granted a second-chance tend to perform better on average than inexperienced entrepreneurs (European Commission, 2013). In general, the EC has the right intentions, but it is yet to be seen if Member States will apply the proposed policies and thereby will contribute in creating a prosperous entrepreneurial environment.

Culture

Evidence suggests that promotion of a career as entrepreneur would stimulate citizens to become entrepreneurs (Hayton, George, & Zahra, 2002). Culture can be seen as a major contributor to entrepreneurial activity. The difference in entrepreneurial activity between the U.S. and EU could be largely explained by the difference in culture (Thomas & Mueller, 2000). The SBA didn't address a culture change towards more appreciation for entrepreneur. But it is not surprising that in the “Entrepreneurship 2020 Action Plan” an entire pillar (the third pillar of the “Action Plan”) was devoted to promote appreciation of a career in self-employment. However, the measures imposed in this pillar will probably not suffice in the radical culture change needed to embed these values in the European culture. Even if these measures will succeed, it will be a term process. Cultural changes will develop naturally over time by changing the perception of the new generation towards entrepreneurs. However, promoting a career in entrepreneurship won't be harmful.

Education

More education in entrepreneurship is required to achieve more entrepreneurial activity. The education should also focus on practical experiences in entrepreneurship through workshops and projects (Garavan & O'Connell, 1994). Furthermore, there should be a clear differentiation between education in entrepreneurship, enterprises and small business management education (Gorman, Hanlon, & King, 1997). Entrepreneurial education is thus important for entrepreneurial activity. However, education in entrepreneurship was only briefly addressed in the first principle of the SBA. Thankfully, the “Entrepreneurship 2020 Action Plan” addressed this issue in more detail. The EC acknowledges the demand for practical training in the field of entrepreneurship. The EC also strives to increase the number of students in higher education throughout Europe. Hereby they deliver to the demand of entrepreneurs in better skilled employees. These improvements in entrepreneurship education will lead to more entrepreneurial activity in Europe. The problem that remains is that the measures concerning Member States are non-obligatory and thus the responsibility of applying these measures is with the Member States themselves.

Access to finance

Small start-ups have more difficulties in acquiring the right amount of funding than larger start-ups (Back & Demirci-Kunt, 2006). Difference in venture capital market between Europe and the U.S. can also be seen as a reason for the difference in entrepreneurial activity. The EC set up proposals on venture capital funds and social entrepreneurship funds to help SMEs get access to finance. Investments in early-stage start-ups are especially addressed in the “Entrepreneurship 2020 Action Plan”. It’s a good thing that the EC addresses this problem for entrepreneurs so thoroughly. Improving finance opportunities will inevitably lead to more entrepreneurial activity. The EC should stay on top of this problem if they want to achieve a better entrepreneurial environment.

Immigrants

High-educated immigrants form a great source of potential entrepreneurs. Because society is not likely to employ them, they are forced to become self-employed while continuing their ties with their homelands. The EC acknowledges this subgroup and tries to ease the legislation involved for them to become entrepreneurs. Offering information in multiple languages also will support this. Encouraging immigrants to become entrepreneurs will lead to more entrepreneurial activity.

Insufficiently addressed factors

The following factors are addressed in either the SBA or the Action Plan, but their policies should be revised by the European Commission.

Regulation

In both the “Small Business Act” and the “Entrepreneurship 2020 Action Plan”, regulatory burdens have been addressed as an important mean to establish an improved entrepreneurial environment. The “Action Plan” addresses it in its second pillar and SBA in its third principle (European Commission, 2008) (European Commission, 2013). The EC wants to eliminate the red tape that entrepreneurs still need to deal with. However, the EC shouldn’t devote resources to this purpose and focus on other aspects of entrepreneurship. Reduction of regulatory burdens has no significant impact on entrepreneurial activity (Van Stel, Storey, & Thurik, 2007). The EC should focus on other issues, for example entrepreneurial education.

Gender

Women have disadvantages compared to men regarding acquiring the right funding for their start-ups. Three distinctive constraints have been identified which women experience when trying to acquire the proper funding. These restraints revolve around the fact that the entrepreneur industry is dominated by males and they have more faith in male entrepreneurs than in female entrepreneurs. The EC tries encourage women to become self-employed by creating female entrepreneurship platforms. Here they can receive mentoring, advisory, education and business networks. But this is not the problem that the female entrepreneurs are facing. It’s not that they don’t have the required skills, but that they are being discriminated by the male investors who rather invest in male entrepreneurs. The investors believe women are rather risk-averse regarding investment risks and are more fixated on the social aspect of their companies than men are. The female platforms that the EC facilitates will definitely not harm female entrepreneurs, but it wouldn’t solve their problems either. Member States should strive for more emancipation and higher occupations for females. Furthermore, they should target investors and convince them that female entrepreneurs are a good investment.

Neglected factors

The following factors are not mentioned in the policies of the European Commission. However, these factors do seem to have an impact on entrepreneurship. The EC should consider incorporating policy-measures corresponding with these factors.

Intellectual Property Rights

There has been progress on IPR in Europe over the years, but there is still room for improvement in this area (Geuna & Rossi, 2011). Even though the “Entrepreneurship 2020 Action Plan” emphasizes the importance of high growth innovative start-ups, they didn’t include any IPR policy-measures into the plan. Future policies should include policies concerning Intellectual Property Rights, because a better system will lead to more entrepreneurial activity.

Employment Law

Europeans experience more job security than Americans do. This is in itself a good social aspect of European employment. But this less flexible system deters entrepreneurs from Europe, because they are not as free in setting up their employment conditions as in the United States. The question that arises is: do we want to decrease this social aspect of European legislation in order to achieve more entrepreneurial activity? This is a consideration policy-makers need to make for themselves. Fact is, that easement of employment law is not included in either the SBA or the "Action Plan".

Attractive entrepreneurial regions

Because Europe is still fragmented, regulatory burdens should be eased for cross-border entrepreneurship. The EC acknowledges this issue and created the necessary measures to improve the conditions involved to start a business abroad. The creation of attractive regions for entrepreneurs within Europe is also addressed by the EC. Many entrepreneurs still struggle with getting their funding. A region where entrepreneurs and investors gather could make it easier to acquire funding. The EC tries to establish these attractive regions through the "European Entrepreneurship Region" (EER) project. Cities as London and Berlin are considered as possible "start-up hubs" as Silicon Valley is for the United States. It may have been desirable for the EC to stress the need of these entrepreneurship regions more in its "Action Plan".

Summary of comparisons between entrepreneurial factors and EC's plans

An overview of the factors relevant for entrepreneurs can be observed in appendix 3. This table exposes the topics that are rightfully and thoroughly included in either the "Small Business Act" or "Entrepreneurship 2020 Action Plan". It also exposes the conditions that are inadequately included or are neglected by the European Commission. It is remarkable that the topics on Intellectual Property Rights and employment law were not addressed by the European Commission. Especially IPR is of great importance for small innovative entrepreneurs. There is still progress to be made in this area. Therefore, the EC should incorporate policies concerning IPR in their future plans. None of the policy implication incorporated in the EC's plans address employment law for SMEs. The EC should look into the possibilities of easing the employment law for SMEs. Also remarkable is the devotion of the European Commission to reduce regulatory burdens. The EC should rather focus on appliance of the policies concerning culture and education, because these measures will definitely encourage more entrepreneurial activity in Europe. Policies on female entrepreneurship target the wrong problems and therefore should be revised. Also policies on establishing an attractive region for entrepreneurs should be included in future plans. All other topics are covered thoroughly and correctly in either one of the plans.

Concluding Remarks

This thesis revealed that the Europe is attempting to create an environment in which entrepreneurs can thrive. This objective will be achieved to some extent through the European Commission's "Small Business Act" and "Entrepreneurship 2020 Action Plan". Virtually all the factors that these plans cover will improve entrepreneurial activity in Europe. Yet, this thesis does suggest revising policy implications on some factors. The European Commission should consider creating policies regarding neglected factors like IPR and employment law in future plans. Policies on establishing an attractive region within Europe should also be incorporated in future policies. Another conclusion following from this thesis is that the policies developed to promote female entrepreneurship could be improved. Finally, policy-makers should reconsider the amount of effort aimed at reducing regulatory burdens, because the impact of these reductions on entrepreneurial activity is dubious.

However, the main problem of the "Small Business Act" and the "Entrepreneurship 2020 Action Plan" isn't that they neglected some of these factors or that the EC didn't create the proper policies. The problem is that the European Commission doesn't possess the power to apply all these policies throughout Europe, because Europe is still too fragmented. The United States did have the ability to do this and that's probably why they experienced the economic growth of entrepreneurs. Adequately tuned policies throughout Europe are necessary in order to gain all the benefits from these policies. The non-obligatory proposals from the European Commission to the Member States should gain weight by imposed sanctions to non-compliance.

This thesis is limited in the number of factors that are analyzed to have an impact on entrepreneurship. Further research could be done by conducting a survey among European entrepreneurs to identify the factors that may not have been included in this thesis. These factors should then be analyzed and the researchers should determine whether or not the factors are relevant for policy-makers. Further research could also analyze the policies that should be revised on gender and regulatory burdens. These factors are addressed by the EC, but in an inadequate manner. Lastly, researchers could analyze what kind of policies will be appropriate for the EC to incorporate regarding IPR, employment law and creation of attractive entrepreneurial regions.

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Appendices

Appendix 1: Survey Questions from Flash Eurobarometer (European Commission, 2012)

Survey Question	Europe (%) (EU27²)	The United States of America (%)
<i>Regardless of whether or not you would like to become self-employed, would it be feasible for you to be self-employed within the next 5 years? (Question 7)</i>	30%	44%
<i>If you could choose between different types of jobs, would you prefer to be self-employed? (Question 1)</i>	37%	51%
<i>Have you ever started a business, taken over one or are you taking steps to start one? (Question 13)</i>	23%	28%
<i>It would be not feasible to be self-employed within the next 5 years, because of no financial resources. (Question 8)</i>	21%	15%
<i>It would be not feasible to be self-employed within the next 5 years, because the risk of failure and its legal and social consequences are too big. (Question 8)</i>	5%	2%
<i>It would be not feasible to be self-employed within the next 5 years, because of the burdens of red tape and other administrative difficulties. (Question 8)</i>	4%	2%

² EU27 consists of the following countries: Belgium, Bulgaria, the Czech Republic, Denmark, Germany, Estonia, Ireland, Greece, Spain, France, Italy, Cyprus, Latvia, Lithuania, Luxembourg, Hungary, Malta, the Netherlands, Austria, Poland, Portugal, Romania, Slovenia, Slovakia, Finland, Sweden and the United Kingdom

Appendix 2: Principles of the Small Business Act (European Commission, 2008)

1.	<i>Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded.</i>
2.	<i>Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance.</i>
3.	<i>Design rules according to the “Think Small First” principle.</i>
4.	<i>Make public administrations responsive to SMEs’ needs.</i>
5.	<i>Adapt public policy tools to SME needs: facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs.</i>
6.	<i>Facilitate SMEs’ access to finance and develop a legal and business environment supportive to timely payments in commercial transactions.</i>
7.	<i>Help SMEs to benefit more from the opportunities offered by the Single Market.</i>
8.	<i>Promote the upgrading of skills in SMEs and all forms of innovation.</i>
9.	<i>Enable SMEs to turn environmental challenges into opportunities.</i>
10.	<i>Encourage and support SMEs to benefit from the growth of markets.</i>

Appendix 3: If and how the entrepreneurial factors are addressed in the EC's plans.

	<i>Entrepreneurial factor</i>	<i>Sufficiently addressed (+), neglected (-) or insufficiently addressed (+/-)</i>	<i>Comments</i>
Comparison of the plans with corresponding scientific literature	<i>Regulation Burdens</i>	+/-	Regulatory burdens should not be of primary concern to the EC
	<i>Taxes</i>	+	--
	<i>Bureaucratic Procedures</i>	+	--
	<i>Bankruptcy Procedures</i>	+	--
	<i>Culture</i>	+	--
	<i>Education</i>	+	--
	<i>Access to Finance</i>	+	--
	<i>IPR</i>	-	Failed to be addressed in the "Entrepreneurship 2020 Action Plan"
	<i>Gender</i>	+/-	This problem should be targeted differently.
	<i>Immigrants</i>	+	--
Comparison of the plans with corresponding US' policies	<i>Employment Law</i>	-	This topic hasn't been addressed in either of the plans.
	<i>Venture Capital</i>	+	--
	<i>Attractive Regions</i>	-	The EC should make this an important objective.
	<i>Bankruptcy Procedures</i>	+	--