



ROLE OF GOVERNMENT POLICIES IN PROMOTING ENTREPRENEURSHIP

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Abstract

Study presents an introduction to the theories of Entrepreneurship and practices on special issue of entrepreneurship and public policies. Entrepreneurship is a significant growth driver. In turn, government policy creates the institutional environment where business judgments are prepared. Government policies are crucial for entrepreneurship as a result. Regulations, however, are more conducive to successful entrepreneurship. Despite extensive research on the entrepreneurship and related subjects, there is a great deal that we don't understand about this crucial relationship. After the analyzing current entrepreneurship literature, this study reviews the many previous studies and situates them, in the context of the continuing scholarly discussion on policy. The purpose of the special issue of entrepreneurship is to present significant unresolved problems and to start a fruitful discussion between opposing viewpoints.

Keywords: Entrepreneurial Activity, Policies, Program, Government, Productive, Destructive

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1. Introduction

The concept that entrepreneurship encourages economic development and progress has persisted throughout the entrepreneurship community. This awareness has consequently increased interest in how government actions may contribute to fostering Entrepreneurship and whether its impacts may be universal across nations. Schumpeter began highlighting the importance of entrepreneurship in the growth and diffusion of innovation as early as 1934. In a related vein, Acs, Audretsch, Braunerhjelm, and Carlsson (2004) contend, "Entrepreneurship's primary contribution to economic growth comes from acting as a knowledge filter that converts inventions into marketable goods and procedures".

Many governments have introduced measures to promote entrepreneurship in their countries throughout the course of the previous 10 to fifteen years. With a few notable exceptions, scholars have not been able to fully address this problem because the outcomes of such initiatives have been uneven. Actually, a thorough literature search demonstrates that the essential and general problem of how and if Government can have a favorable impact on entrepreneurship, but the problem has not yet been fully handled (Capelleras, Kevin, Greene, & Storey, 2008). This special issue of theories of Entrepreneurship and major goals of practices are to assess our current knowledge of the subject, offer some fresh theoretical evidence and—ideally—provoke a robust discussion between opposing viewpoints.

This essay, which acts as the special issue's introduction, goes as follows:

The possibility of government policy affecting entrepreneurial activity is discussed in Section 2. Some of the more popular entrepreneurship policy types are reviewed in Section 3. Each paper chosen

for this special issue makes a brief summary in Section 4 that places it in the context of earlier works. Section 5 comes to an end.

Is the impact of government policy on entrepreneurship Activities?

At the municipal, state, and federal levels, interest in the relationship among entrepreneurship and growth of economy has intensified, and current studies have found out that the entrepreneurial sector's contribution to employment and GDP is rising. (Birch, 1987; Kumar & Liu, 2005; Audretsch & Thurik, 2001). "Additionally, much research has demonstrated that entrepreneurship has substantial social ramifications (Chell, 2007)". And the result, arguments about policies have focused on the notion that government should loosen restrictions on entrepreneurship in order to boost their economies (Acs et al., 2004; Minniti, Bygrave, & Autio, 2006).

Since the formation of an acceptable trade-off among the concentration of market and the performance of productivity is crucial for the effectiveness of entrepreneurship policy more than any other sort of industrial policy, it poses a substantial difficulty in practice. That is in a trade-off; highly fragmented industries with low levels of market power perform better than those with larger levels of market power, which frequently lead to economies of scale (Audretsch, 2004). Industrial strategies over the majority of the 20th century aimed to develop ways to maximize the efficiencies of large-scale manufacturing while simultaneously limiting waste the detrimental impacts of industrial concentration. These efforts led to the common uses of regulations, anti-trust laws and different types of ownership of public, along with attempts to fix claimed market failings (World Bank, 2004). The entrepreneurial sector was thus largely left out of industrial policy, with the exception of the widely held idea and it

should be partly protected for social reasons. Scenarios began to change near about 1980s when several western nations started privatizing publicly held firms and easing regulatory controls on industries in response to the difficulties for sustain competitive manufacturing and for the service sector's growing importance. According to Audretsch and Thurik (2001), "when industrial comparative advantages evolved toward knowledge-based economic activity, the entrepreneurial sector's function transformed". Large companies in established manufacturing sectors first lost their competitive edge. Second, in a knowledge-based economy that is becoming more prevalent, smaller, more adaptable entrepreneurial enterprises have become more significant. Similar to this, Audretsch, Gilbert, and McDougall (2006) argued, "during the past 20 years, industrial policies have experienced a dramatic change where smaller, more innovative businesses have been seen as having a greater potential for success drivers of innovation, and a fresh set of initiatives aimed at encouraging entrepreneurialism have evolved to support the viability of such businesses" The discussion about how the government can support entrepreneurship was reignited by renewing demand to strong policies of entrepreneurship. The contrast made by Baumol & North's (1990) among unproductive, productive and disastrous entrepreneurship. The framework for talking about entrepreneurship policy that works best to date is the analysis of institutions and the function of institutions in society.

Entrepreneurs' quantity and the nature of their motivations don't significantly vary over time, according to Baumol's landmark 1990 article: Entrepreneurship, according to Mises (1949), is a trait of human behaviour and can be found in a variety of contexts anywhere and at any moment. Institutions, or the game's rules, which

govern how the economy will ultimately be affected by entrepreneurship through the distribution of entrepreneurial resources, are what important (Boettke & Coyne, 2007). Baumol's fundamental premise is while the overall entrepreneurs' quantity is generally consistent beyond the countries, the productive contribution of entrepreneurial activities differ as a result of its allocations between valuable activity like innovation and undesirable ones like organized crime or rent-seeking. Government policy can therefore have a greater impact on entrepreneurship's allocation by putting in place the right institutions (Baumol, 1990, Bowen and De Clercq, 2008). In that perspective North (1990) offers a theory that connects the institutions' growth with entrepreneurship. Institutional setting establishes, the formal and unofficial game rules, imposes limitations on human action, and perhaps lessens uncertainty. In order to determine entrepreneurial behavior, institutions (and the policies that shape them) are therefore essential. However, institutions for example the policy environment are which direct entrepreneurial efforts toward productive & unproductive activities, by affecting the relative incentive-payoffs offered to such activities. Entrepreneurship is, the platform through which the growth of economy occurs. Institutional frameworks are shaped by government policies for supporting some such activities while inhibiting other. It follows that government policies definitely have the ability for affecting the entrepreneurial activities. Such influence may lead businesspeople to take acts that have detrimental socioeconomic externalities, which is not always desirable.

Not All Fit into One Size

The prior analysis's key policy implication is that "one size does not suit all." In other words, legislative initiatives with regard to entrepreneurship must be adjusted to the specific needs of the industry if the efforts for entrepreneurial are, to be dedicated to

the productive activities each economic region's institutional setting (Wagner & Sternberg, 2004). Such as rural area, high-technology-cluster and metro-centre are likely to require very different settings for the creation of productive entrepreneurship. Therefore, policy design must consider regional variations and be flexible enough to the varying size, nature, and market capacities of available resources. Despite the need for diversification, entrepreneurship policies frequently rely on a small number of policy instruments. Finance, taxation, trade laws, and the promotion of innovative activities are a few of them. Numerous initiatives have been made to improve the financial options available for entrepreneurs (Mason and Girling, Harrison, 2004). Government has specifically tried, to ease the financial-constraints that faced by entrepreneurial endeavors through offering tools such as alternatives to typical bank loans, collective credit guarantee and microfinance program. The benefit of mutual credit guarantees is that they lessen knowledge asymmetries, which lowers transaction costs. Instead, the advantage of microfinance program is that they can avoid the borrowers' financial risk by choosing collateral-requirements, are covered by non-monetary responsibility based on reputation and small group enforcement procedures (Lutafali and Khoja 2008). Empirical data on the efficiency of financial assistance however is mixed. While micro-finance programs are frequently rated favorably, other types of finance have come under fire. (Li 2002) for instance, demonstrates the credit counseling program in form of interest subsidy has a significant impact on how credit is distributed to targeted business owners, but that doing so comes at the expense of untargeted business owners. As well reveals that there is a considerable loss in output and a reduction in overall entrepreneurial activity. Additionally, some governments have concentrated their

efforts on luring fresh entrepreneurial money. The basic presumption in this situation is which more venture-capital permits to increase in profitable entrepreneurial-activity. But empirical data are more contradictory. For instance, Cumming (2007) discovered that the 1997-first-introduced Australian Innovation Investment Fund government program has facilitated to investment in startup and high tech enterprises and cost effective monitoring. On the other hand, Kreft and Sobel (2005) proposed that causal relationship among entrepreneurship and venture-capital are reversed, meaning that entrepreneurial activities attract fresh venture-capital. Manipulation of taxes at various jurisdictional levels are the another common entrepreneurship policies. Underlying premise is, a taxation system that is friendly to shorter, ventures may inspire people to establish business. Hubbard & Gentry (2000) investigated the degree to which marginal tax' progressive rates deter entry through business owners with the help of most promising ventures. The findings demonstrated that while marginal tax rates' level has a detrimental impact on starting a business, progressivity of tax also deters it, and does that's why significantly for particular venture capital, although the opposite is untrue. Finally, it has been demonstrated that venture capital actually makes up a very small portion of total funding for entrepreneurship and is only significant for relatively less number of high potential companies in a small number of nations (Quill and Bygrave, 2007). This is in line with Takii's (2008) claim, "Entrepreneurship is discouraged when profit taxes are high and government expenditure does not match economic growth because an expansionary fiscal policy partially crowds out private consumption shifts in customer preferences". On the other hand, Mohsin and Bruce (2006) demonstrated, "The majority of these taxes have significant but minor effects on entrepreneurship using

U.S. time series to investigate the significance of various taxes on self-employment rates". Their findings imply that, despite the fact that taxes can have a considerable impact on entrepreneurship, they are unlikely to be useful tools for producing noticeable changes in the level of entrepreneurship as a whole.

"The problem of policies directed at the internationalization of entrepreneurial ventures has also drawn major attention from many governments as a result of the intense competition from developing countries, and many nations limit or prohibit the mobility of entrepreneurial initiatives international commerce (La Porta, Djankov, Lopez-de-Silanes, and Shleifer, 2002)." These policies typically involve the development of tariffs and tax structures that do not penalise venture-capital earnings, as well as tools like export credits and export guarantees. Jones (2007) stated that trade restrictions are expensive and harmful to this sector in opposition to such protectionist tendencies. The study contends that in a market that is open to worldwide competition, businesspeople can look for new market prospects while also upholding the highest international standards. In a similar vein, Puia and Minnis (2007) hypothesised that entrepreneurship is especially dependent on the regulation of entrance, or the collection of regulations governing, the admission of new and international businesses. "Since nations with higher rates of entrepreneurship typically have lower levels of entry regulation. Last but not least, despite the fact that internationalization has historically been characterized as a progressive, sequential process, more recent research has revealed that enterprises do not always internationalize in the same way (McDougall and Oviatt, 2005; Oviatt & McDougall, 2005)". In reality, start-ups entering knowledge based industries are more likely to do so directly, making them,

more likely to profit from low trade barriers (Bosma and De Clercq, 2008).

The frontier of entrepreneurship has been broadened by globalization, a fourth, extremely popular type of entrepreneurship policy has concentrated on local interventions. For instance, Storey (2003) has cited numerous instances of various entrepreneurship laws that are increasingly made at the local, regional, and state levels. The development of institutional and informal support systems including chambers of commerce and training programs, publicly funded incubators and most importantly, science and technology are some of the best-known examples of these policies. Innovation is connected to entry, growth and the evolution of businesses and sectors. As a result, how well the regional and even national economies perform has been connected to the economy displays innovation's potential. Instead of merely importing effective policies from other regions, direct subsidies for research and development & support of connections among universities and private sectors reflect and address the needs of particular localities or regions to be effective in encouraging innovation (Knudsen and Augier, Jacobides, 2006; Langley, Ortt and Pals, 2005). These local entrepreneurial policies are still being developed, but it is obvious that they are becoming more significant and influential in the total set of economic policy tools. The government has become more involved in helping businesses during the past 20 years or more considering that these industries will remain competitive in the future; regional level should support industrial clusters, high tech start ups, technology transfer and (Kautonen and O'Gorman, & Litzenberger, Sternberg, 2004). Feldman and Audretsch (1996) offered convincing evidence that knowledge spillovers result in a regional clustering of innovative activity in the context of technological innovation as well as a rise in new businesses throughout

progressive industries, like semiconductors (Kogut and Almeida, 1997), and biotechnology (Darby and Armstrong, Zucker, 1998). Furthermore, according to Audretsch and Feldman (1996) knowledge is fundamentally distinct from traditional-inputs of production like land, labour and capital because it is un-certain, asymmetrical, linked to higher transaction costs, and hence more challenging to analyze. Clearly, the breadth of this section does not allow for a thorough analysis of literature on entrepreneurship policies. However, it is already clear from this little review that many crucial concerns about the forms and efficacy of entrepreneurship policy are still being resolved. The research papers included, this special issue represent a first attempt to close this significant gap.

This ET&P Special Issue

For this important issue, a huge number of good papers were submitted and selection process required me to make some extremely tough judgments. After an exhaustive double-blind review procedure in which every paper was evaluated by at two reviewers at least, one research note and six publications were chosen. Contributing academics come from the range of academic fields, including management, organization-theory, economic-geography and economics. Each of six papers includes both theoretical and empirical contribution and can be categorized, as contributing to one of four different but related major areas of inquiry, namely policy topic at the industry, regional and national level. The first paper examines the evolution of nanotechnologies and focuses on concerns that affect the entire sector. Renee Rottner and Jennifer Woolley examine the connection among innovation policies and nanotechnology entrepreneurship in their article "Innovation policy and nanotechnology entrepreneurship" policy and the development of new businesses in the US. Authors analyze public policies

initiative for economics, science and technology by using an original data-set on history of commercial nano-technology and related new business development at the state level (S&T). They observe an increase in environmental generosity for new businesses and an acceleration of emerging entrepreneurship as a result. In particular states with economic and (S&T) initiatives have six times, as many new enterprises as those without these initiatives, according to Woolley and Rottner. Additionally, they discover that economic initiative has a greater impact than S and T projects, most likely as a result of their short-term generosity and support to the infrastructure of the entrepreneurial sector. They also discover proof of first-mover benefits for jurisdictions having the rate of related firm establishment are greater over time for the early innovation initiatives. Overall Rottner and Woolley contribute to the crucial discussion surrounding innovation policies and propose that the nations that are appealing to entrepreneurs should support and legitimate commercial development in addition to technological innovation. The 2nd and 3rd studies examine regional concerns, specifically the interaction between entrepreneurial policies, regional agglomeration and alternative governance systems at regional level, as we move from industry level to aggregate level. Considerable interest in potential role that government policy may play in fostering the entrepreneurial dynamics of local economies has increased in recent decades as a result of significant economic shifts brought on by globalization and the loss of established sectors (Minniti, 2004, 2005). These two papers make significant contributions to this field of study. Disregarding geographical expertise, Desrochers and Sautet make no claims. Instead, they advocate for the coexistence of spontaneous industrial diversity and regional specialization. In this context, they offer proof indicating that

spontaneous by allowing entrepreneurs for capitalize on the both explicit and tacit-knowledge, established industrial diversity creates an environment that is highly innovative. Desrochers and Sautet contend that what matters is the climate in which entrepreneurship occurs, not the kinds of industries that emerge. Finally, the author's hypothesis that an innovative region will resemble a diverse city comprised of numerous specialized cluster, because the emergence, development, and eventual demise of diverse metropolitan centers are fundamentally a result of a parallel order based on entrepreneurship. The article makes a significant contribution to the discussion of regional policy as well as the function of entrepreneurship in the spread of innovations.

The following essay, written by Rachel Parker and titled "Governance and the Entrepreneurial Economy: A Comparative Analysis of Three Regions," similarly concentrates on regional politics and policies. "The paper of Parker adds to the body of knowledge on local government and entrepreneurial economy by examining whether regional and national governance models for entrepreneurial economy differ from one another. Parker examines each model of governance by comparing the evidence for the information and communication technology sector from the Limerick (Ireland), Karskrona (Sweden), and Adelaide (Australia) regions. Parker identifies partnership, state-institutional coordination, and fragmentation as three possible models of governance. In the partnership and state-institutional models, but not in the fragmented model, the article finds that regional governance arrangements do in fact differ from national varieties." The differences are demonstrated to be mostly related to the kind of individuals taking part in governance structures. Parker's article demonstrates that networks of small

businesses, local and decentralized governments, and universities are all necessary decision-making actors at regional level regardless of the sort of governance arrangement. Her findings suggest that decentralized governance structures favor entrepreneurship more.

The 4th and 5th papers shift the analysis's national-level focus from the regional to institutional systems. They specifically talk about the importance institutional arrangements play on entrepreneurship in terms of market openness and economic freedom, and demonstrate how an entrepreneur's incentives and choice of economic activity are affected by the level of economic freedom, in addition to the profit potential available to them. Myra McCrickard, Bradley Hobbs, and Stephan Gohmann analyse that how entrepreneurial activity and the level of employment in United States of America's service industry respond to economic freedom in their article titled "Economic freedom and service industry growth in the United States" variations in each state's level of economic independence. Despite considerable research on the impact of economic-freedom, on entrepreneurship, there were few empirical studies on the service sector. According to and McCrickard, Gohmann and Hobbs' results, the relationship among successful entrepreneurship and financial independence can't be categorically established because it differs greatly by industry. Economic freedom is favourably correlated with the rates of growth and employment in sectors like business services, but the correlation is the opposite in sectors like health services, legal services and social services. As a result, the evidence from service sector points to considerable industry-specific differences in the link between entrepreneurial success and financial freedom. Their article directly contributes to literature on how government policies affect the distribution of profitable and unproductive

entrepreneurship-activities. The Global Entrepreneurship Monitor-statistics and the Heritage Foundation-Index of Economic Freedom and are used by Leslie Palich, Ray Bagby and Jeffery McMullen, and in their fifth paper, "Economic freedom and the motivation to participate in entrepreneurial action" regression possibility-driven entrepreneurial activities and necessity driven entrepreneurial activities on eleven dimensions of economic-freedom and Gross Domestic Product per capita for 37 countries. In this essay, the decision to launch a business is examined in relation to a number of institutions that have an impact on both the drive and the level of uncertainty that entrepreneurs feel when they make their choices. Bagby, McMullen and Palich specifically relate increase in economic freedom to decrease in transaction cost and test for variations in entrepreneurship levels between nations by evaluating if there is a relationship among policy factors and the driving force behind starting a business. Their findings imply a reverse correlation between per capita GDP and entrepreneurial activity and a positive correlation between labour freedom and business activities, regardless of the incentive for entrepreneurship. The only other factors that make up the economic-freedom score seem to be specifically linked to either opportunity- or necessity-driven entrepreneurship but not for both shows that depending on the specific feature of freedom restricted investment freedom, labour-freedom, property rights etc. and whether the restriction is legal or not, governmental constraints on economic freedom may affect entrepreneurial activities differently. Entrepreneurs are driven by either opportunity or need. The discussion surrounding the impact of different institutional environments on entrepreneurship is directly impacted by this work.

The 6th study explores the connection between super national trade policy,

entrepreneurship, and venture capital inflows as it moves from the national to the global level. Despite significant initiatives promoting international economic integration, Surprisingly little research has been done on how these policies affect entrepreneurial activity. "Tyge Payne, Curt Moore and Hadi Alhorr take a first start in bridging this gap in their study titled "The influence of economic integration on cross-border venture capital investments: Evidence from the European Union". Authors investigate whether two distinct forms of integration-policies namely single-market and common-currency; have an impact on the volume of cross border venture capital investment by drawing, on previous studies on institutional economics and entrepreneurship made by countries that are members of the European Union. Large-scale economic integration policies have an impact on how much foreign venture capital is invested in other member nations, according to Alhorr, Moore, and Payne. Additionally, they discover that while both integration strategies lead to a rise in venture capital investments among EU nations, the common currency's adoption proves to be a more potent strategy for encouraging economic growth investing across borders as opposed to the single market. Accordingly, this study contends that as nations become more linked, a rise in cross border venture capital investment are more likely, to occur after an uptick in entrepreneurial activity than before it. This essay makes a direct contribution to the discussion of how internationalization affects entrepreneurship as well as the merits of raising venture capital to encourage the growth of new businesses. Research note concludes with a theoretical argument regarding possible impact of government on entrepreneurial activities that are grounded in the mathematics of complex systems. Roger Koppl contends in the note titled "Computable Entrepreneurship" that when recommending or endorsing policies,

policy-makers frequently have expectations about how those policies will turn out. Sadly, he says, these expectations force decision-makers to forecast events that are actually difficult to foresee, even with the help of mathematics. Governments are unable to forecast which entrepreneurial activities are more desirable or how to encourage it to occur since doing so will require them to conduct impossibly difficult calculation. But, in Koppl's opinion, Government have the power to establish trustworthy norms that businesses can abide by. This is so that policies that ensure institutional openness, taxation and property rights can achieve their intended purpose of encouraging entrepreneurial endeavors without requiring policy makers to calculate precise results. The discussion surrounding the limitations of proactive-policies and the idea that market alone can find value creating initiatives is directly impacted by Koppl's research note.

2. Conclusion

Entrepreneurship depends heavily on institution and the policy that shape them. Entrepreneurship is the engine that drives economic expansion. Institutions permit the distribution of efforts among different groups by affecting their respective payoffs entrepreneurship that is effective and ineffective. Effective entrepreneurship strategy can't be that restricts itself, to business subsidies and imposes top down techniques, according to prior research and the pieces in this special issue. Because entrepreneurship is favorably correlated with performance, not support the need for government action. Instead, as suggested by Audretsch (2004), the need for government involvement in the economy can only be the outcome of significant market failures. It is also obvious that there is no one-size-fits-all approach to entrepreneurship policy and in the long-run, government can only create a foundational environment that encourages

the growth of productive rather than, unproductive-entrepreneurship because so many public participation without support from private sector might harm rather than aid entrepreneurs by potentially causing market distortions, government should work to promote conditions that are supportive of division of labour, invention-commercialization and exchange.

Additionally, the level of development matters, and different countries have different relationships between policy and entrepreneurial activity. In their 2000 study, Dutz, Ordober, and Willing looked at the connections among entrepreneurship and growth of economic in low income areas countries. Their study contends, two policies are essential for fostering growth in this situation. 1st, a greater emphasis on protecting the benefits of productive-innovation by protection of commercial-freedom, property rights, is required to stop the diversion of entrepreneurial potential toward nonproductive pursuits. 2nd, Fostering chances for grassroots-entrepreneurship through, aggressive supply side competition policy emphasizing access, to necessary local inputs is crucial given that important local inputs are susceptible to monopolization. Instead, Szerb and Acs (2007) contend, "Middle-income countries should prioritise improving human capital, expanding access to technology, and fostering enterprise growth. Finally, they assert that high-growth start-ups are the kind of business most fitted to encourage future growth in mature countries. In most circumstances, lowering entry barriers won't lead to an increase in high-potential start-ups; instead, financial market deregulation and labour market reform may be better positioned to assist the expansion of high-performance businesses." At last, government policies shouldn't aim to completely eradicate failed new ventures. Business churning is a necessary component of a robust economic system, despite being painful at the

microeconomic level. “The market alone, most importantly, may decide what the ideal level of entrepreneurship. This fundamental question remains unanswered, and we don't even have enough information to choose which businesses to target for success or failure (Holtz-Eakin, 2000)”. However, government policies can support the creation of institutional environment, which promotes successful entrepreneurship.

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