

# Modern Policy for the Entrepreneurial Economy: Theoretical Considerations

**Krzysztof Wach**

Cracow University of Economics  
Faculty of Economics and International Relations  
Department of Entrepreneurship and Innovation  
ul. Rakowicka 27, 31-510 Kraków, Poland  
e-mail: wachk@uek.krakow.pl

---

## Summary

This article aims at defining the scope and conceptual instruments of the new policy to promote entrepreneurship under the conditions of the paradigm of entrepreneurial economy with particular emphasis on supporting high growth small and medium-sized enterprises (HGSMES). The article stresses the relationship between SME policy and enterprise or entrepreneurship policy and innovation policy. The article also identifies contemporary instruments to support entrepreneurship in the entrepreneurial economy. The study uses the analysis and critique of literature.

**Keywords:** entrepreneurship; small and medium-sized enterprises (SMEs); entrepreneurial economy; economic policy; enterprise policy; entrepreneurship policy

**JEL classifications:** L53, L26, L52, E61, D04

---

## 1.1. INTRODUCTION

The discourse conducted in the literature of the subject on the role and significance of small and medium-sized enterprises (SMEs) in the economy and the relationship between entrepreneurship and economic growth reveals a clear change in perceiving economic policy with regard to stimulating new jobs and economic growth (Urbaniec, 2015, Wach, 2015). Not only in the economic practice, but primarily in the theory of economics has reorientation and reconfiguration of the instruments of support taken place. At present, entrepreneurship is commonly perceived as one of the main factors of production (in addition to capital, land and labour in the classical trichotomic approach). The information revolution, as one of three great revolutions which have exerted a fundamental

impact on economy (the previous ones are the agrarian revolution and the industrial revolution), is now subject to fast and dynamic redefinition and reconfiguration towards the entrepreneurial revolution. It is the entrepreneurial society which has become the foundation of the economy and economic growth. Fast changes in the economic structure and exceptional dynamics of changes in the environment, defined as the paradigm of chaos, has brought about a necessity to redefine economic policy, resulting, as it is commonly defined, in a new or modern entrepreneurship policy.

The aim of the study is to analyse the scientific discourse on the modern policy to promote entrepreneurship, its synthetic presentation and discussion. It can be simply assumed that this new policy is a response to dilemmas occurring in scientific discourse and economic practice relating to the development of entrepreneurship, which in turn results into economic growth. The study uses the analysis and critique of literature.

## 1.2. ENTREPRENEURIAL ECONOMY PARADIGM

Drucker (1976) is considered an ancestor of the paradigm of the entrepreneurial economy. He noticed coming changes of the entrepreneurial revolution in his visionary article from the second decade of 1970s, and then in mid-1980s he developed his concept in his readable book entitled *Innovation and Entrepreneurship* (Drucker, 1985). The term was popularised by Audretsch and Thurik (2000; 2001) at the beginning of 21st century, when they noticed a fundamental change from the *managed economy* to the *entrepreneurial economy*. The departure from the prevalence of large firms in the economy and the economic phenomenon of small and medium-sized enterprises bore fruit in changes in the firm internationalisation processes and the globalisation of the world economy. The loss of comparative advantage of large developed economies in favour of developing countries, owing to their cost advantage in mass production, has caused strategic reorientation based on knowledge, information and innovation, as a result of which in the literature of the subject and in the economic practice the paradigm of knowledge-based economy has spread (Ropega, 2013). As Audretsch and Thurik (2000, p. 24) observe “an economy whose comparative advantage is new knowledge requires a very different industrial structure as well as economic values”, thus, in the reorganisation of economies, small and medium-sized enterprises, any entrepreneurial activities (as the authors themselves defined it) have performed a key role, and the entrepreneurial society has become the foundation of economic growth (Audretsch, 2009). Economic policy in the entrepreneurial economy is focused on deregulation, privatisation and flexibility of the labour market (Audretsch & Thurik, 2001, p. 269). “In the knowledge-based entrepreneurial economy the relevant policy question shifts away from ‘How can governments constrain firms from abusing their market power’ to ‘How can governments create an environment fostering the success and viability of firms?’” (Audretsch & Thurik, 2000, pp. 31-32).

Audretsch and Thurik (2001, pp. 270-272; 2004, p. 13) identify 14 changes – trade-offs in bipolar polarisation of the managed economy and the entrepreneurial economy, which are comprised in 4 groups, namely:

- a change in the factors of comparative advantage from capital and labour to knowledge-based economic activities, triggered by the emergence of low-cost and at

the same time highly qualified competition from Central and Eastern European and Asian countries (a change from the advantage of localisation to globalisation [1]; a transition from temporary changes to continuation [2]; a transition from low to high remunerations with simultaneous growth of employment [3]),

**Table 1.1.** Models of conducting economic policy in the managed economy and the entrepreneurial economy

Governance model	Managed economy	Entrepreneurial economy
Partnership	<ul style="list-style-type: none"> <li>– partnership considering resource-dependent groups (trade unions - entrepreneurs),</li> <li>– consensus and cooperation based on institutionalised networks, with coordinated decision-taking,</li> <li>– collective investment in technologies and competences ensuring risk sharing.</li> </ul>	<ul style="list-style-type: none"> <li>– multilateral partnership among entrepreneurs, especially with SMEs, universities and local authorities,</li> <li>– joint decision-making within the network, sharing information and joint promotion of entrepreneurship,</li> <li>– resource distribution and execution of joint projects in specific industries.</li> </ul>
Coordination	<ul style="list-style-type: none"> <li>– institutionalised state support for specific industries, resistance to narrow groups of interest,</li> <li>– centralised coordination of the policy and political decisions,</li> <li>– the policy of the state outlines the priorities of the development of economic activities and investment incentives.</li> </ul>	<ul style="list-style-type: none"> <li>– coordination of institutional changes with regard to knowledge and entrepreneurship, overcoming political opposition to changes,</li> <li>– development of knowledge infrastructure supporting SMEs via launching academic incubators, technological parks and forums of knowledge sharing.</li> </ul>
Fragmentation	<ul style="list-style-type: none"> <li>– heterogeneous group of actors and institutions, which lacks coordination,</li> <li>– taking decisions is defragmented, and the system includes multiple centres of power competing with each other,</li> <li>– market incentives and rewards driven by market competition.</li> </ul>	<ul style="list-style-type: none"> <li>– uncoordinated and sometimes incoherent support for entrepreneurship by competing institutions,</li> <li>– focus on ensuring cost competitive environment,</li> <li>– private initiatives and risk taking is more frequent than governmental interventions.</li> </ul>

Source: Own study based on Parker (2008, pp. 842-847).

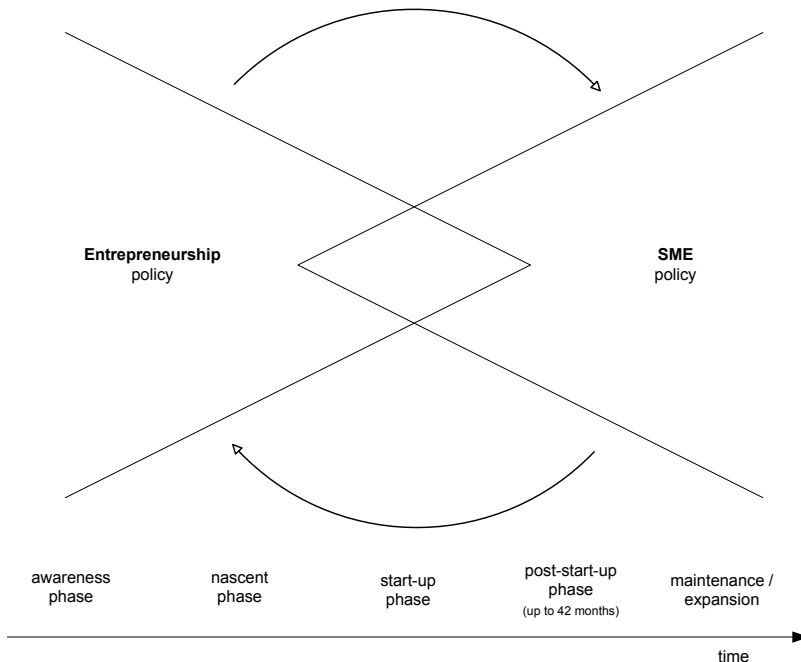
- a change in the dynamics of the business environment (complexity [4], turbulence [5] and heterogeneity [6] of the environment in the entrepreneurial economy, whereas the managed economy was characterised by continuity, stability and homogeneity),
- changes in firm functioning (motivating [7] replaces control; market exchange [8] instead of transactional approach; departure from competitive struggle for competition as cooperation [9] having both complementary and substitutive character, departure from the economies of scale in favour of flexibility [10],

- changes in economic policy (the purpose of the policy is stimulating [11] instead of regulating; the object of the policy are outlays [12], and not results; the place of the policy has changed from the national to local [13], but the principles of financing the policy have also changed [14]).

On the other hand, Parker (2008) makes an interesting analysis of three selected governance models and conducting an economic policy, indicating significant changes in the way of conducting it in two contrasting economies - the managed and the entrepreneurial one (Table 1.1).

### 1.3. ENTREPRENEURSHIP POLICY AND SME POLICY

A delimitation should be made between the policy in favour of entrepreneurship and the policy in favour of the SME sector. A premise for such determination is basically a different scope of those terms, and, what follows, a need to apply different tools of influence. Besides, the literature of the subject only recently undertakes the issue of the need to differentiate between those policies, and the major postulators are Lundström and Stevenson (2005), but also Audretsch, Grilo, Thurik (2007) with their associates, or Henrekson, Douhan (2008) with their associates. On the other hand, Storey (2008) uses the term *Entrepreneurship and SME Policy*, delimitating those areas, although he himself, for pragmatic reasons, as he emphasises, uses then the term *SME Policy* considering within its scope also the support for entrepreneurship.



**Figure 1.1.** The interface between entrepreneurship policy and SME policy

Source: Lundström and Stevenson (2005, p. 55).

**Table 1.2.** Characteristics of SME policy and entrepreneurship policy: a comparison

Characteristics	Traditional SME Policy	Newer Entrepreneurship Policy
Outcome	Firm growth, productivity growth.	Growth in entrepreneurial activity (i.e., in the number of business owners and firms).
General goal	Create a "favourable business climate" (e.g., tax regime; marketplace frameworks; reduced red tape).	Create a "favourable entrepreneurial climate and culture" (e.g., few barriers to entry, promotion of entrepreneurship in society).
Specific objective	To help individual firms modernise, expand or improve competitiveness.	To encourage more people to start their own businesses and provide opportunities for them to learn about the entrepreneurial process and develop the necessary skills.
Focus	On firms rather than individuals.	On individuals rather than firms.
Stage of business cycle	Primary focus is on support after the business has actually started.	Support is offered in the nascent stages as well as during the critical first years of a start-up.
Client groups and targeting	Existing firms. (Often) targets high growth sectors or high growth firms (i.e., "picking winners" approach).	Nascent and new entrepreneurs. Targets the general population and (often) segments within it (e.g., women, youth). Generally no sector targeting.
Policy priorities	Reduce red tape and paper burden for existing SMEs.	Reduce procedural, regulatory and taxation barriers to business entry.
	Improve access to financing.	Facilitate access to micro-loans, seed capital and other start-up financing
	Improve SME access to information (provide business, economic, market, government regulatory and programme information).	Improve access to start-up information and advice, entrepreneurial know-how.
	Facilitate SME's access to domestic and international markets (e.g., tariff reductions, export subsidies).	Facilitate networking activities and exchanges to promote peer-learning, partnering and dialogue.
	Improve the competitiveness of small firms (e.g., management skills, strategic consulting).	Increase opportunities for people to learn the entrepreneurial process and skills for starting a business (e.g., education, training); enhance the quality of start-up support services.
	Foster R&D and technology adoption among SMEs (e.g., technology transfer).	Create awareness of entrepreneurship as a viable option (e.g., profile role models, influence public attitudes).
Primary policy levers	Use of financial/fiscal incentives to lever specific SME activities (e.g., R&D investment, exporting).	Greater use of non-financial levers (except in the case of start-up and seed financing).
Time period for results	More immediate (aims for results over a three-to-four year cycle).	More long-term (process perspective requires time).

Source: Lundström and Stevenson (2005, p. 44).

It should be emphasised that it is highly advisable to differentiate between those policies for current analyses, or those concerning the policy after 2007. Lundström and Stevenson (2005) make a simple delimitation of those policies in the temporal approach (Figure 1.1).

Entrepreneurship policy starts from the stage of awakening the awareness of the essence and a need for entrepreneurship, but first of all it includes pre-entrepreneurs and initial entrepreneurs (both in the start-up and post-start-up stage). In the approach established in the literature, rooted in the firm lifecycle theory (Wach, 2008, p. 54), the policy is conducted for entrepreneurs and businesses in the phase of start-up, birth and survival, and the initial development (the first 3.5 years). To entrepreneurs and businesses in the phase of maturity, the policy for small and medium-sized enterprises is addressed (Wach, 2013; Sułkowski & Marjański, 2015). A more detailed comparative characteristics of both discussed policies is proposed by Lundström and Stevenson (2001) (Table 1.2).

#### 1.4. MODERN POLICY

Audretsch and Thurik (2010, p. 22) go a little further and notice the departure from *entrepreneurship policy* towards *policy for the entrepreneurial economy*. This specific new policy focuses on the creation of instruments directly promoting the establishment of new firms, considering their survival and development.

A very interesting conceptualisation of the policy of support for entrepreneurship is presented by Audretsch, Grilo and Thurik (2007). They postulate departure from the traditional understanding of policy in the economy managed in accordance with the principles of contemporary interventionism to the entrepreneurial economy in which this policy requires different instruments. So far, the research into entrepreneurship and SME policy carried out in the discipline of economy concerned mainly macroeconomic or microeconomic issues in the sectoral approach, whereas the research view of this policy from the perspective of management studies focused mainly on the aspects of entrepreneurship *per se*, entrepreneurial process, entrepreneurial approach or an entrepreneurial organisation. The challenge scientists and political decision-makers are facing now is linking the level of the existing entrepreneurship with its optimum level, namely imbalance in Schumpeter's approach<sup>1</sup>, which can take place through intervention, in accordance with the contemporary stream of economic interventionism. In this context, the mentioned authors propose the application of six policy intervention channels (Audretsch, Grilo, Thurik, 2007, pp.1-17):

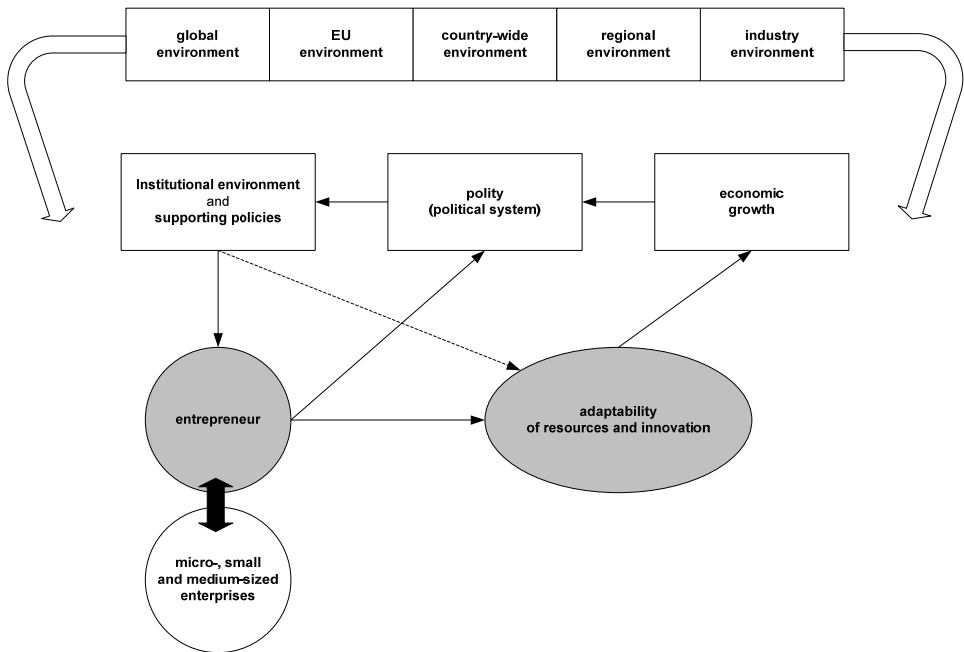
- intervention considering the demand side of entrepreneurship, determining the size of the market, which is to contribute to the intensification of entrepreneurial opportunities,
- intervention shaping the number of potential and future entrepreneurs on the aggregated level at the supply side (e.g. dispersion of the society, urbanisation, migration, immigration in particular),

---

<sup>1</sup> According to J. Schumpeter, economic balance is equal to the lack of economic development.

- intervention influencing the capabilities and resources of potential entrepreneurs, however, in addition to key financial needs, in the first place care should be taken of the diffusion of knowledge, innovation and information,
- intervention influencing attitudes of the society, evoking in it not only the ethos of entrepreneurship, but also the wish to become an entrepreneur, which can be chiefly done by designing a modern educational system departing from the traditional view of the teaching-learning process which is still deeply rooted on all levels of education, including majority of universities (Gubik, 2014),
- intervention focused on the decision-making process of potential entrepreneurs because the wish to be an entrepreneur is not enough, specific decisions are needed,
- intervention considering the demand side of entrepreneurship, determining the access to markets, eliminating all kinds of administrative and legal barriers and regulating business activities.

The last element of the model is the economic argument, which is the completion of the system, and what is meant here is equilibrium. The aforementioned factors shape the entrepreneurial activity rate, namely the actual rate of entrepreneurship,  $E$ , which differs from the optimum, expressed by the equilibrium rate of entrepreneurship,  $E^*$ . Therefore, a discrepancy occurs here  $|E - E^*|$ , arising from cultural, institutional, regulatory or resource factors. It can be reduced either by market forces or in effect of the application of the set of six intervention channels (Audretsch, Grilo, Thurik, 2007, p.7).



**Figure 1.2.** Context of the SME and entrepreneurship policy  
Source: own study based on Henrekson and Douhan (2008, p. 3).

The entrepreneurial economy departs from the primacy of the dominance of firm as the main economic entity in favour of a potential entrepreneur who should be supported while waiting for the operation of the mechanism of Schumpeter's creative destruction (Wach, 2014). Thus, in the new approach, the centre of entrepreneurship and SME policy there is this potential entrepreneur, his entrepreneurship, creativity and innovativeness (Figure 1.2). Entrepreneurial activity, from the point of view of Kirzner's equilibrium but also Schumpeter's disequilibrium, influences the scope up to which economy is able to adapt to changing conditions and revive via innovations (Henrekson, Douhan, 2008, pp. 2-3). It influences an opportunity to apply new combinations of the existing resources, namely innovativeness which, in turn, being an intensive factor, contributes to economic growth. In turn, economic growth (or the lack of it) influences the political system, just like the power of entrepreneurs determines the actions of political authorities. Then, the latter influence the institutional environment of entrepreneurship and innovativeness and shape entrepreneurship and SME policy (Gubik, 2008, 2014; Stawasz, 2013).

### 1.5. CONCLUSIONS

Since the beginning of the 1990s, the problems of SMEs and entrepreneurship have been present in EU policy, executive programs and activities. It can be likely concluded that in the future the importance of SMEs in economic development will no longer decrease. One is tempted to say that the European Union has been successful in its policy in favour of entrepreneurship and enterprises, especially SMEs. Observing the trends of the SME sector, also in terms of quality, we can confirm the effectiveness of the entrepreneurship policy. In this context, Dannreuther (2007, p. 394) in his ironically entitled article, *A Zeal for a Zeal*, argues that the EU economy is after all actions taken in favour of SME and entrepreneurship, more decentralized and in terms of GDP and employment more dependent on SMEs than the US and Japan economies. Europeanization and diffusion of EU policy for entrepreneurship and enterprise has become a reality, contributing to the convergence of the policies at local, regional and national levels.

So far in the literature and business practice, the understanding of policy to support entrepreneurship, discussed in this study, generally constituted one of the elements of SME policy, which was rather marginalized. The emphasis was primarily on businesses. The postulate of transformation in entrepreneurial economy can be found in the literature since the beginning of the 21st century, with the intensification occurred in the second half of the first decade. Currently, there is a new impulse and the beginnings of reconfiguration and reorganization of policies for entrepreneurship in the entrepreneurial economy.

### REFERENCES

- Audretsch, D.B. (2009). Emergence of the Entrepreneurial Society. *Business Horizons*, 52(5).
- Audretsch, D.B., & Thurik, A.R. (2000). Capitalism and Democracy in the 21st Century: From the Managed to the Entrepreneurial Economy. *Journal of Evolutionary Economics*, 10(1-2).
- Audretsch, D.B., & Thurik, A.R. (2001). What's New about the New Economy? Sources of Growth in the Managed and Entrepreneurial Economies. *Industrial and Corporate Change*, 10(1).



- Audretsch, D.B., & Thurik, A.R. (2004). A Model of the Entrepreneurial Economy. *Discussion Papers on Entrepreneurship, Growth and Public Policy*.
- Audretsch, D.B., & Thurik, A.R. (2010). Unraveling the Shift to the Entrepreneurial Economy. *Tinbergen Institute Discussion Paper*, no. 2010-080/3, Amsterdam – Rotterdam.
- Audretsch, D.B., Grilo, I., & Thurik, A.R. (2007). Explaining Entrepreneurship and the Role of Policy: A Framework (chapter 1). In: D.B. Audretsch, I. Grilo, A.R. Thurik (Eds.). *Handbook of Research on Entrepreneurship Policy*. Cheltenham – Northampton: Edward Elgar.
- Dannreuther, Ch. (2007). A Zeal for a Zeal? SME Policy and the Political Economy of the EU. *Comparative European Politics*, 5(4).
- Drucker, P. (1976). The Coming Entrepreneurial Revolution: A Survey. *The Economist*, December 25, 1976.
- Drucker, P. (1985). *Innovation and Entrepreneurship. Practice and Principles*. New York, NY: HarperCollins Publishers.
- Gubik, A.S. (2008). The environmental embeddedness of small- and medium sized enterprises. *Business Studies*, 6(1), 80-88.
- Gubik, A.S. (2014). The Role of Higher Education Institutions in the Entrepreneurship of Hungarian Students. *Theory Methodology Practice*, 10(1), 71-79.
- Henrekson, M., & Douhan, R. (2008). *Introduction*. In: M. Henrekson, R. Douhan (Eds.). *The Political Economy of Entrepreneurship*, vol. 1-2. Cheltenham – Northampton: Edward Elgar.
- Lundström, A., & Stevenson, L.A. (2001). A Discussion of SME versus Entrepreneurship Policy (chapter 3). In: A. Lundström, L. Stevenson et al., *Entrepreneurship Policy for the Future*. Stockholm: Swedish Foundation for Small Business Research.
- Lundström, A., & Stevenson, L.A. (2005). *Entrepreneurship Policy: Theory and Practice*, (International Studies in Entrepreneurship). New York, NY: Springer.
- Parker, R. (2008). Governance and the Entrepreneurial Economy: A Comparative Analysis of Three Regions. *Entrepreneurship Theory & Practice*, 32(5).
- Ropega, J. (2013). Importance of Entrepreneurs' Knowledge for Business Restarts of Micro and Small Enterprises. *Acta Universitatis Lodzianis. Folia Oeconomica*, 242, 135-150.
- Stawasz, E. (2013). Impact of State Aid on Innovativeness in the Context of the Innovation Capacity of Enterprises in the SME Sector. *Współczesne Zarządzanie*, 12(4), 8-19.
- Storey, D.J. (2008). *Entrepreneurship and SME Policy*. World Entrepreneurship Forum.
- Sułkowski, Ł., & Marjański, A. (2015). Polish Small and Medium-sized Family Businesses: Trajectories of Success. *Management & Gouvernance*, 13, 75-94.
- Urbaniec, M. (2015). Europeanization of Entrepreneurship and SME Policy: Challenges and Opportunities (chapter 5). In: P. Stanek & K. Wach (Eds.). *Europeanization Processes from the Meso-economic Perspective: Industries and Policies*. Kraków: Cracow University of Economics, pp. 95-111.
- Wach, K. (2008). *Regionalne otoczenie małych i średnich przedsiębiorstw*. Kraków: Wydawnictwo Uniwersytetu Ekonomicznego w Krakowie.
- Wach, K. (2013). *Koncepcja otoczenia dla przedsiębiorczości. Typologizacja egzogenicznych determinant rozwoju przedsiębiorczości*. In: K. Zieliński (Ed.). *Makroekonomiczne i sektorowe uwarunkowania rozwoju przedsiębiorczości*. Katowice: Wydawnictwo Naukowe Śląsk.
- Wach, K. (2014). Paradygmat gospodarki przedsiębiorczej a polityka wspierania przedsiębiorczości (rozdział 1). In: K. Zieliński (Ed.). *Formy i przejawy współczesnej przedsiębiorczości w Polsce*. Warszawa: Difin, pp. 13-30.

Wach, K. (2015). Przedsiębiorczość jako czynnik rozwoju społeczno-gospodarczego: przegląd literatury. *Przedsiębiorczość - Edukacja*, 11: 24-36.

---

#### **ACKNOWLEDGEMENTS AND FINANCIAL DISCLOSURE**

The article came into being within the statutory research project no. 054/WE-KPI/02/2015/S/5054 entitled "Inclusive Entrepreneurship: Contemporary Challenges and Development Prospects" coordinated by K. Wach and financed by the Ministry of Science and Higher Education of the Republic of Poland with the funds allocated to development of research potential of the Faculty of Economics and International Relations of the Cracow University of Economics.

---