Strengthening Entrepreneurship and Economic Development in Eastern Germany

A review by the OECD in co-operation with the German Federal Ministry of Transport, Building and Urban Affairs

THE ENTREPRENEURSHIP POLICY DELIVERY FRAMEWORK IN ALTENBURGER LAND (THURINGIA) AND MITTWEIDA (SAXONY), GERMANY

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INTRODUCTION: THE ENTREPRENEURSHIP POLICY DELIVERY FRAMEWORK IN THE TWO DISTRICTS

With reference to the entrepreneurship policy delivery frameworks in the Districts of Altenburger Land (Thuringia) and Mittweida (Saxony), this report reviews the strengths and weaknesses of the current arrangements, identifies recommendations for adjustments to policy delivery methods, and details learning models of entrepreneurship policy delivery from North East England (UK), North Jutland (Denmark), and Ontario (Canada). In conclusion, several strategic issues are identified concerning the purposes of entrepreneurship policy, the development of a distinctive and more locally appropriate model of entrepreneurship and the appropriate institutional mechanisms and scales for entrepreneurship policy delivery.

STRENGTHS AND WEAKNESSES OF THE CURRENT ARRANGEMENTS

The constraints upon entrepreneurship policy outcomes in the two districts reflect their shared context of deep seated local economic conditions that are largely beyond the influence of local institutions especially in the short to medium-term. Historically, the highly restricted and limited space for private income generation under the GDR system prevented the accumulation of private capital. After unification, individuals and businesses were left with a limited capital base and insufficient equity capital to provide collateral for borrowing. This left them reliant upon bank credits and vulnerable to changing interest rates. Low levels of investment and debt service payments generate weak profitability amongst existing firms, further limiting capital for reinvestment.

The evolution of the local industrial structure has further militated against the success of policy interventions to exploit opportunities for start-ups and SME business growth. The current local growth industries are capital intensive, specialised and part of sophisticated supply chains, for example auto components, agro-food, plastics and, to a lesser degree, textiles. The weak local capital base limits start-up potential and opportunities for new entrants to break into existing production relationships with lead firms. Given the limited capital base, there has been a proliferation of service business start-ups in activities with low barriers to entry and low capital requirements, including cleaning, childcare and gardening. Some of which have been supported through the *Ich AG* self-employment scheme operated by the Public Labour Office. Such businesses can exhibit a degree of resilience in their survival rates but are largely low productivity, labour intensive activities. Such businesses are not unwelcome in the context of high local employment but their fortunes are tied to the currently depressed macroeconomic conditions in Germany and the lack of local purchasing power to support markets for goods and services.
The large scale of local deindustrialisation after 1990, for example over 24,000 jobs were lost in traditional industry closures in Mittweida, generated high levels of unemployment that have persisted. This has raised the question of the social and cultural adjustment required by redundant former state-owned employees to become entrepreneurs. Engrained feelings of uncertainty, fear of failure and insecurity are associated with business ownership. Job search for employment is preferred even in a slack local labour market. Self-employment may not be an attractive or viable proposition for a 50 year old former mechanical engineer. In addition, nurturing the next generation is difficult. A cohort of entrepreneurs was lost upon re-privatisation in the early 1990s of family-owned businesses nationalised under GDR in 1972, craft and trade skills are not being reproduced due to the declining uptake of apprenticeships and, in Mittweida, retaining graduates from the University is difficult since many potential entrepreneurs return to their home Districts to found new businesses.

The policy cycle concept can help analyse the strengths and weaknesses of policy delivery frameworks. The policy cycle identifies 4 linked stages: problem definition, design, delivery and, connecting through feedback to the earlier stages, evaluation.

Problem definition

Both Districts have clear understandings of their entrepreneurship problems, and the context of local economic constraints. Altenburger Land and Mittweida suffer from the particular historical legacy of transition from the centrally planned economy of the German Democratic Republic following unification in 1990. Since 1990, the development trajectories of the Districts have been marked by local contexts of low GDP and incomes per capita, high unemployment (particularly amongst older and lower skilled people), reliance upon declining traditional industries, an ‘employee’ rather than ‘employer’ culture, low levels of business start-ups, a ‘branch plant economy’ resulting from increased external ownership post-privatisation, increased competition for mobile investment from new EU Member States in central and eastern Europe, adverse demographic changes (including declining population through emigration and low birth rates, falling numbers of school leavers and ageing), and a declining fiscal base. Such conditions present a highly challenging local context for entrepreneurship policy and are clearly recognised by the relevant local institutions. Both districts lack the high rates of population in-migration and high proportions of employment in small firms that are positively linked to high new firm formation rates. High unemployment, in particular, underpins a need for high levels of job creation but this priority may create a degree of mismatch with the need for sustainable and viable entrepreneurship and business development.

Policy design

While the local entrepreneurship problems appear well understood, local policy design capacity is somewhat fragmented and under-developed. Many initiatives are driven ‘top-down’ from the Land level with varying degrees of local discretion and input. The ability to

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identify local priorities is relatively constrained, partly reflecting the breadth and magnitude of local economic challenges, and the fragmented availability of funding. Systematic analysis of the evidence base, appraisal of policy options and targeting are lacking. Co-operation between local institutions for policy design is evident but somewhat limited. Policy design relationships appear to work vertically between Land and District rather than horizontally between partners within the District or between Districts. Co-ordination and integration opportunities may be missed as a result. The overall approach is more characteristic of a narrower SME support policy rather than a more broadly-based entrepreneurship policy. SME support policy focuses purely on the needs of local SMEs. Entrepreneurship policy, in contrast, commonly incorporates a much wider focus and seeks to support and encourage entrepreneurship amongst the wider population, including schools, colleges and universities, as well as the existing stock of SMEs. Policy design relies upon relatively generic instruments, for example subsidised accommodation, with limited relation to the local context. The different levels of eligibility for national and EU regional policy support in the Districts reflect their different relative levels of prosperity. In 2003, while the GDP per employee in both Districts is significantly less (around 73%) of the German national level (€55,546), Mittweida (€42,937) is above the average for Saxony (€40,629) and Altenburger Land (€38,378) is below the average for Thuringia (€40,309).

Economic promotion and regional development is a main task at the District level. However, business support is a voluntary task that has to be funded within the District Authority’s existing budgets. Competition for funds with mainstream statutory services is evident. The policy focus is broadly supply-side, emphasising infrastructure and a ‘site and service’ approach to support for SMEs, including the provision of business location information, business premises, financial aid and relevant contacts for local expansions, start-ups and relocations. There is some utilisation of industrial zones. In addition, in the context of the German public administration system, a key focus is integrating and reducing administrative burdens, for example building approval procedures, to facilitate business settlement and expansion. Both Districts have focused on this activity and achieved a degree of success.

**Policy delivery**

Two different policy delivery models exist in Mittweida and Altenburger Land. Saxony utilises a three-level structure with a regional tier authority (Regierungsbezirke) working between the Land and the Districts. Thuringia operates a two-level structure with direct relations between the Land and the Districts. The key issue shaping the effectiveness of the different models is the extent to which District priorities can be articulated and reflected in Land level strategy and policy. At the District level, the key partners comprise: District Office, Town and Commune Councils, Land Development Company, Chamber of Industry and Commerce (IHK, Industrie- und Handelskammer), Chamber of Crafts (Handwerkskammer), Local Association of Crafts, Public Employment Service, banks (especially the Savings Bank (Sparkasse) and Land Development Banks, local businesses and

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5 Regionomica (2005) Local Diagnostic Report for Districts Mittweida (Saxony) and Altenburger Land (Thuringia), Regionomica: Berlin
communities. Both Districts are active in regional management through either a Regional Management or by participating in InnoRegio, supported by the joint Federal and Land-funded GA Investment Promotion Programme. In Mittweida, additional key partners are the University of Applied Sciences and the Technology Park. Other sub-regional institutions operating above the District level also play a role locally in specific policy areas, including the Saxony Economic Development Corporation, Association of Labour and Economy Support of Thuringia, the Chambers of Industry and Commerce in East Thuringia and South West Saxony, and the Chambers of Craft East Thuringia and Chemnitz.

The Districts are embedded within Land level economic promotion structures to a greater and more effective degree in Mittweida (Saxony) than Altenburger Land (Thuringia). As part of its eastern periphery, located on the Land border and formerly part of Saxony, institutions in Altenburger Land felt marginal to the decision-making centre in the Thuringian capital of Erfurt. This context has bred traditions of self-reliance and proactivity, however. For both Districts, the key local partners are well known and established, although not necessarily formalised into partnerships. The lack of institutionalised relations is interpreted positively because it provides flexibility for partners to build relationships around specific issues. Each District is relatively small, contacts are well known to each other and information is exchanged easily. Effective joint working and positive relations are evident with little evidence of duplication. Institutions ‘signpost’ the contacts and services of local partners to prospective businesses. Coterminal institutional boundaries exist in some cases and support joint local working, for example the District and the Savings Bank (*Sparkasse*), and, in Altenburger Land, the Public Labour Office.

The close, local linkages and networks between the main public authorities and agencies and local businesses provide deep local knowledge and support policy delivery effectiveness. Contacts with business are informal and irregular but often highly useful. The German model of mandatory business membership in either the Chamber of Industry and Commerce or the Chamber of Crafts for non-free-lance and non-agricultural activities is especially important. The Chamber is an authoritative and key local partner, specifically in business plan scrutiny and counselling for publicly supported start-ups, and its close business contacts allow timely interventions and intermediation with banks to prevent business insolvencies and safeguard employment.

In addition to the strengths, a number of weaknesses are evident in the current policy delivery arrangements. There is limited capacity to maintain sufficiently close and timely linkages with local businesses to replenish understanding of local business needs on an ongoing basis. Resources and time to develop broader sub- or regional programmes are lacking. Local institutions are mostly limited to discrete project-oriented co-operation. Coordination between Districts is low and offers possibilities for further projects and initiatives following the example of Altenburger Land and Leipziger Land. The voice and ability of local institutions to influence Land level decision-making is limited and uneven. The co-ordination and integration of business support institutions is not always sufficiently obvious and clear to local businesses. Firms often have to develop their own networks to find their way through the system. Finally, in sum, local institutions have struggled significantly to enhance the competitiveness of local businesses and the pooling of enterprises into a dynamic and entrepreneurial local platform for growth.
Policy evaluation

Evaluation activity is focused at the level of specific projects and programmes, especially enumerating outputs. There is less evidence of systematic assessment of the broader outcomes or impacts of projects, the ways in which projects have complemented or duplicated individual initiatives, and the extent to which evaluations feed back improvements into the earlier problem definition, design and delivery stages of the policy cycle. Barriers and under-exploited opportunities are not systematically identified and there is limited evidence of the adjustment of policies to the local context. Business association assessments emphasised the time consuming and costly bureaucracy necessary to obtain permissions from public authorities. Among others, trade associations claimed displacement effects from the Ich AG self-employment scheme through increased cost competition with existing trade businesses.

LEARNING MODELS FROM ALTENBURGER LAND AND MITTWEIDA

There are several ‘good practice’ learning models in the policy delivery arrangements in Altenburger Land and Mittweida:

The Technology Park in Mittweida successfully captures local spin-off businesses and connects knowledge transfer activities from the University of Applied Sciences. It works as a business incubator offering shared services, ranging from technical infrastructure to consultancy, and takes a proactive approach to soliciting appropriate tenant firms. The Park is well established and connected with key local sectors in electronics and electrical engineering, laser technology and specialised machinery. Its activities extend beyond the District border in networks with 21 other Technology Parks in Saxony. Strong co-ordination is evident with local agencies to ensure expanding tenant firms stay local and relocate within the District. The District Authority is a key financial partner, and it utilises EU Structural Funds support.

At the sub-regional level around Mittweida, there has been successful utilisation of a Federal Programme (InnoRegio) with INNtex and InnoSachs to promote innovation and adjustment in traditional indigenous industrial sectors, for example mechanical engineering and textiles. The two projects seek to pool local SME potential and improve international competitiveness through production co-operation, joint marketing and innovation, especially using IT. The aspiration is to support SMEs to move into higher value-added markets with higher productivity potential (e.g. technical textiles for the automotive and medical services sectors). Activities include supported and developed network building between production, sales and distribution, and consulting businesses, designers, research and educational institutions. In particular, closer SME, college and university co-operation has been encouraged for knowledge transfer. Central to the projects’ success has been the utilisation of an existing industry association with close relationships to SMEs as the programme leader and the matched funding support model with public and SME contributions. Further inter-regional co-operation across national borders into the Czech Republic and Poland has also been
established. Both projects have been successful in fostering and strengthening co-operation between local business support institutions, higher educational institutes, local businesses and the district authorities in the neighbouring districts Mittweida and Döblin following the principles of mutual interest and reciprocity. It is important that information exchange between InnoRegio projects is fostered and the necessary external funding of these regional networks is continued until self-sustainability is reached.

Public procurement has been used effectively to stimulate local demand and business development. Close co-operation between local public bodies and the Chambers of Craft has encouraged local public authorities to deploy their purchasing power through restricted tenders and to let public contracts to local firms on a competitive basis. Such ‘creative’ public procurement can reduce contract sizes and values, and include particular specifications that do not contravene EU competition rules or undermine wider economic efficiency but may enhance the ability of local businesses successfully to compete for the contracts.\(^6\) In addition, local contractors may be more able successfully to deliver on smaller scale contracts. The local benefits generated by such procurement practices outweigh the increased transaction costs and administration.

**RECOMMENDATIONS FOR ADJUSTMENTS TO POLICY DELIVERY METHODS**

A number of general and specific recommendations for adjustments to the current policy delivery arrangements in Altenburger Land and Mittweida flow from the analysis.

i) **Establish a vision and strategy for entrepreneurship policy.** Whether a key priority within or distinct from a broader local economic development strategy, a clear and mutually agreed strategy for entrepreneurship aims to formalise the aspirations and co-operation of key partners locally. It should be the product of public debate, deliberation and consensus building amongst relevant local institutions, as well as consultation amongst relevant communities, and seek to develop a comprehensive and integrated approach. A medium to long-term focus is preferable, as sustained and evolving approaches to local development have proved successful elsewhere as the North Jutland learning model demonstrates below.\(^7\) An authoritative local strategy may better communicate and promote the interests of the Districts in the Land context, for example as proximate, well connected and lower cost business locations, particularly given air and road infrastructure upgrading, in the context of adjacent growth areas in the Dresden-Leipzig-Chemnitz triangle. Each District is potentially able to capture the growth spill-overs from these areas, especially Leipzig for Altenburger Land and Chemnitz for Mittweida. Localised inflationary pressures in capital, labour and land markets in the main growth centres are likely to encourage businesses to consider decentralising their activities in search of more competitive wage and commercial space rates. Local institutions

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need to ensure the local supply-side of the economy is attractive, for example in the skills and productivity of labour and the appropriateness and quality of commercial accommodation. Currently, the Districts have developed visions but it is unclear how widely communicated and how authoritative they are amongst local institutions. Such strategies appear to exist within rather than being shared between institutions at present. This allows some scope for institutions to work on their own strategies with a degree of isolation when greater co-operation may be more effective. A strategy building exercise, including consultation with the relevant stakeholders and drawing on the experience of North East England discussed below, could be used to start this process. Once established, the strategy can be translated into an action plan with clear priorities and roles for partners, timescales and resources. A formal lead body or new partnership may be established to bind the key partners into the collective project and act as the custodian of the strategy.

ii) Enhance institutional integration and co-ordination. At the strategy and policy development level, key local partners may benefit from more formalised joint working, for example using the kind of partnership models deployed in the North East England and North Jutland learning models below. While offering a degree of flexibility and built upon well established local contacts, the relatively informal, issue-based and ad hoc current system raises questions about how institutional relations and contacts renew themselves over time and maintain their problem solving capacity. Policy integration and co-ordination may benefit from a more systematic and institutionalised approach while utilising institutional models that preserve local flexibility. In particular, if a joint vision and strategy for entrepreneurship is developed, a local partnership may provide the vehicle and custodian to progress its implementation as well as a policy champion to encourage further simplification and streamlining of administrative procedures within local institutions as the Ontario learning model demonstrates below. In policy delivery terms, the clarity, transparency and communication of business support services for local entrepreneurs and businesses may be improved by the establishment of a single institutional identity or brand and gateway, for example using the ‘One Stop Shop’ model to provide a single and widely communicated information point for services. This provides a way of integrating and co-ordinating the current programme of activities and services offered by local institutions and is evident in both the North East England and Ontario learning models. A free public access website may further underpin this model, for example drawing upon the experience of the Virtual Start-Up Centre of the Chambers of Industry and Commerce in Thuringia or the joint Internet portal of Chambers of Industry and Commerce and Crafts in Saxony. A first step might explore the potential for more formalised joint working in a specific and discrete policy area before examining the support for establishing more broadly-based partnerships.

iii) Adopt the policy cycle methodology. The 4 linked stages – problem definition, design, delivery and evaluation – underpin a potentially stronger and more systematic approach to entrepreneurship policy. For example, information gathering and analysis of the local evidence base to inform policy interventions and review existing arrangements – as demonstrated in the North East England learning model. Identification of better and more appropriate performance indicators may be appropriate. For example, measures of dynamism

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(e.g. business start-ups, exits, growth firms), social value attached to entrepreneurship (e.g. public opinion surveys), and reduced administrative burden (e.g. time and cost for business registration, hiring first employee)\textsuperscript{9}. Policy evaluation activity could also be enhanced with greater attention to systematic assessment of outcomes and impacts of projects, the interaction and complementarity between projects, and the use of evaluations to feed back improvements into the earlier problem definition, design and delivery stages of the policy cycle. The policy cycle also includes a more forward looking policy development approach. This may begin to foster a more proactive approach locally that may be more future-oriented rather than reactive in its responses to local economic change and Land level initiatives. Local institutions may seek to build on their current activities, drawing on medium-term forecasting approaches, like the one undertaken by the District Office in Mittweida, and undertake more comprehensive and far reaching local ‘Foresight’ or ‘Strategic Futures’ exercises, for example envisaging the Districts in 2020\textsuperscript{10}.

iv) **Tailor policy to the local and regional context.** Building a more systematic approach to policy development amongst local institutions provides an opportunity better to shape policy more effectively to address particular local and regional conditions rather than relying upon generic, ‘off-the-shelf’ instruments. The identification of specific regional priorities based upon indigenous strengths with growth potential is evident in the North East England and North Jutland learning models. For local institutions, this may involve seeking to establish local policy-making discretion within their competence in the Land context or using existing policies in different ways. Given the potential this creates for policy divergence and diversity, efforts will be required to maintain co-ordination and integration between different institutions working at different geographical levels. For example, given the high levels of local unemployment and the relatively weak performance in encouraging new business start-ups, a more locally appropriate model of entrepreneurship may need to be developed better suited to the aspirations and needs of local people. An associative or co-operative model of entrepreneurship may have the potential to work with the grain of local attitudes and beliefs towards entrepreneurship with more success than the individualistic and risk-oriented Anglo-American model\textsuperscript{11}. Given the traditions of mutual aid and social solidarity characteristic in the former GDR regions (*Bezirke*), associative and socially-oriented entrepreneurship may warrant further attention as a locally specific policy response in both Districts. Identifying opportunities for tailoring policy to the local and regional context could be embedded within the strategy building exercise discussed above.

v) **Establish clear priorities.** An entrepreneurship strategy, local institutional framework and systematic approach to locally-oriented policy provide a means for identifying key priorities. Namely, clear views on the sectors, businesses (e.g. technology-based and/or high growth potential), social groups (e.g. women, young people) and places to be prioritised. A clear focus can help local institutions to be more discerning about the quality of entrepreneurship, potentially seeking to encourage and support those entrepreneurs and businesses with growth and sustainability potential. The Ontario learning model illustrates the

\footnotesize{\textsuperscript{10} See, for example, ONE North East Strategic Futures Exercise ‘Shaping Horizons in the North East’ (SHINE) www.shinenortheast.co.uk.} \\
role of targeting in its small business growth policy. Although given the high unemployment rates in Altenburger Land and Mittweida, Federal and local pressures to orientate entrepreneurship policy toward creating jobs (almost irrespective of quality) and reducing the numbers and income losses to benefit claimants are likely to persist. Local priorities may strengthen the emphasis upon mobilising indigenous potential rather than chasing mobile investment through public subsidy. The articulation of local priorities, embedded in the strategy, sends clear signals about the kinds of activities sought both to local and external partners and to potential entrepreneurs and investors. In particular, it can underpin attempts to capture the local growth spill-overs associated with ‘clusters’ of related industries and institutions with high productivity, export competitiveness and local wealth creation potential. Both Districts have clear potential to develop local specialisms and build further upon current policy support, for example plastics in Altenburger Land and laser applications in Mittweida by using the GA Investment Promotion Programme. Priority policy areas can also be targeted at key needs and/or bottlenecks locally, for example developing micro-finance instruments together with local financial institutions to address the weak capital base of local SMEs, and extending current knowledge transfer activities to encourage innovation in SMEs, particularly in Altenburger Land. In the context of Land Development Plans, local planning strategies might be used in more strategic ways, further developing the existing designation of key sites to target specific kinds of activities, and building on the local commitment to think beyond the District border to co-operation opportunities with other institutions.

vi) Enhance policy co-operation and co-ordination. A broader entrepreneurship strategy may necessitate further co-operation and co-ordination in functional policy areas between local institutions at the District level. In many key areas, the District may prove too small a geographical area for effective policy development and delivery. Looking beyond the District boundary may provide a stimulus to collaboration, innovation and joint working. The regional level was considered appropriate in the North East England case. Such initiatives may build upon the example of the formal business support co-operation agreement between Altenburger Land and Leipziger Land and its long-term plans for the establishment of a common business support association to cover both Districts, and the supra-District co-operation with a wider geographical scope and partners promoted by the GA Investment Promotion Programme around Mittweida. The InnoRegio projects exemplify the type of policy co-operation and co-ordination that could be more widely disseminated and practised. Indeed, the information exchange between the InnoRegio projects needs further support and resources to encourage the longer term sustainability of these networks. For financial instruments, the joint venture capital fund developed by the Sparkasse in Chemnitz and Mittweida offers another example of cross-District working. Developing potential linkages to the wider technology support infrastructure and regional universities is especially important for Altenburger Land. Building upon existing and identifying new opportunities for co-operation and co-ordination in specific policy areas can provide the starting points for enhancing policy.

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vii) **Encourage institutional and policy innovation.** Developing a new strategy, institutional co-operation and establishing locally-oriented policy priorities suggests the need for openness in supporting institutional and policy innovation. As the North East England and North Jutland learning models demonstrate, experimentation may be required to pilot new initiatives and promote what works best for policy delivery for the key partners locally. Examples include the cross-territorial networks for local development working across administrative boundaries supported through the InnoRegio projects and the ‘Studium Plus’ pilot project for knowledge transfer between the HEI and local businesses in Altenberger Land. Several other potential sources of such innovation may be explored further in the respective Districts, including: a commercialisation arm for the University of Applied Sciences (Mittweida) to allow it to take a financial stake in new businesses established with its support and benefit from future income streams; an emphasis upon sustainable development in developing the food sector link to the biogas plant in Altenburger Land; promoting higher levels of women’s entrepreneurship\(^{13}\), especially in Altenburger Land where the share of women founding sole proprietorships is above the level for Thuringia\(^{14}\); developing a graduate retention programme to embed the talented and skilled to develop businesses in the District\(^{15}\); organising university alumni as business angel investors and mentors for new entrepreneurs and businesses; establishing a school and university entrepreneurial role model programme; and, extending a peer coaching programme perhaps supported by retirees and successful entrepreneurs, drawing on the experiences of the Chamber of Commerce in Chemnitz and Gera.

**CONCLUSIONS AND STRATEGIC ISSUES**

Overall, the entrepreneurship policy delivery frameworks in Altenburger Land and Mittweida are strong on problem definition, local contacts, positive institutional relations, flexible joint working, and local knowledge. Learning models are evident in the Technology Park (Mittweida), the InnoRegio projects InnTEX and InnoSachs, and public procurement. Weaknesses and areas for improvement include policy design and evaluation, delivery capacity and resources, co-operation (especially between Districts), voice and influence at Land level, co-ordination and integration of support services, and the ability significantly to enhance local business competitiveness. Key recommendations for adjustment comprise: establish a vision and strategy for entrepreneurship policy; enhance institutional integration and co-ordination; adopt the policy cycle methodology; tailor policy to the local and regional context; establish clear priorities; enhance policy co-operation and co-ordination; and, encourage institutional and policy innovation. The international learning models emphasise analysis of the evidence base and policy delivery framework review (especially its


\(^{14}\) Regionomica (2005) Local Diagnostic Report for Districts Mittweida (Saxony) and Altenburger Land (Thuringia). Regionomica: Berlin

geographical scale), development of clear strategy and region-specific priorities, establishment of a lead organisation and institutionalised partnership, and openness to broader forms of entrepreneurship, especially social enterprise (North East England); development and evolution of long-term strategy and priorities based on indigenous growth potential, public-private institutional delivery partnerships, and ongoing policy and institutional innovation (North Jutland); and, entrepreneurship strategy and institutional leadership at the federal and Land levels, strong relations and co-ordination between institutional levels, and entrepreneurship and innovation policy synergies (Ontario).

Several strategic issues for entrepreneurship policy delivery in Altenburger Land and Mittweida arise from the analysis. First, what is the purpose of entrepreneurship policy in the context of persistently high levels of local unemployment? An appropriate balance and connection needs to be found between entrepreneurship activities focused upon job creation and those concerned with sustainable business development. If the priority is job creation then particular forms of intervention might be explored, for example helping the establishment of businesses to support publicly subsidised intermediate labour markets to provide skills and ‘employability’ training, and equip especially the long-term unemployed with the capacities to re-enter the labour market. If the priority is sustainable business development then at least some attention and resources need to be directed towards ensuring that the potential local workforce, especially those currently unemployed, can participate through training and skills development relevant to local business needs. Clarifying the strategy and priorities for entrepreneurship policy is required initially as part of resolving this issue.

Second, can a distinctive east German – or even Saxon or Thuringian – model of entrepreneurship be developed better to reflect the attitudes, beliefs and aspirations of local people? The local traditions of mutual aid and support have bred social resilience and a key issue is how to adapt the policy delivery framework to channel this toward entrepreneurial activity, perhaps drawing upon the successful and replicable characteristics of businesses that have thrived since unification. Attempting to implant the Anglo-American model risks echoing the post-unification privatisation of the east German economy that rankled locally due to the perceived imposition of western European or German values on the east. In the context of limited capital and disposable income to support the consumption of purely market-oriented activities, support for forms of ‘not-for-profit’ social enterprise could be explored to mobilise the local population in gainful activity that meets currently unmet or underserved social needs, for example – as the North East England learning model illustrates – child and elderly care, environmental improvement and recycling. Such activities may mobilise the entrepreneurial talents of sections of the population disillusioned with market-based activities and allow them to practise and acquire new skills. Identifying and learning from examples of successful social enterprise in the east German and broader EU context is an initial starting point.

Last, what are the appropriate institutional mechanisms and scales for policy delivery? The international learning models suggest a number of institutional structures, such as

formalised partnerships, that might underpin co-operation and co-ordination, and encourage local innovation. A critical question is the geographical scale at which such institutions operate. If the District level is too small, then ways need to be developed better to co-ordinate and integrate policy horizontally between Districts and vertically with the Land. The expected shift of economic promotion activities to the supra-district level, encouraging co-operation and co-ordination, will underpin this re-evaluation of the most suitable geographical scales for organising specific interventions. For other areas relevant to entrepreneurship policy, for example technology and knowledge transfer policy, even wider geographical scales of operation may be appropriate, linking and networking the relevant institutions in strategic areas. As part of the strategy building exercise discussed above, a review of the existing institutional structures and arrangements is required to assess its appropriateness to delivering the new strategy and priorities.

ENTREPRENEURSHIP POLICY DELIVERY LEARNING MODELS

North East England, UK

1. Description of the approach

Following an extensive consultation process concluded in 2001, the focus, geographical scale of operation and institutional architecture of the entrepreneurship policy delivery framework has been reorganised in North East England. A clear 5-year regional strategy has been established by the Regional Development Agency (ONE North East) and is being implemented by the North East Business Support Network, with focused activities and clearly established priorities. Operating as a broadly-based entrepreneurship policy, the vision seeks to create a more entrepreneurial society with a diverse mix of new and developing businesses. The strategy aims to develop the region’s enterprise culture, increase new business start-ups, encourage business survival and address the specialised needs of the region’s high growth businesses. Drawing upon an evidence-based approach and in recognition of the particular issues in the North East, it also aims to increase the numbers of women and people from disadvantaged communities starting new businesses. The strategy connects with the priority given to enterprise support in the RDA’s Regional Economic Strategy and the national Small Business Service’s emphasis upon business competitiveness. The enterprise strategy forms part of the Entrepreneurial Culture priority theme within the Regional Economic Strategy, comprising a programme budget of £24m (€35m) (9.5% of total RDA expenditure) for 2004-05. The strategy provides a framework for the co-ordination and direction of enterprise support activities in the North East region. Reorganisation of the policy delivery framework

aims to expand the pool of people positively disposed to entrepreneurship, increase the new business start-up rate, develop more effective mechanisms to support business survival and enhance support for high-growth businesses. Mobilising the collective resources of key regional and local agencies is central to the strategy, including Business Links, Enterprise Agencies, banks, business associations and the education sector. Formal partnerships are used to embed co-operation between key regional institutions.

2. Why the approach is relevant to the two districts

North East England shares a position as an old industrial region undergoing a prolonged economic transition marked by the contraction of its traditional industries and shift toward a private and public service-based regional economy. In the context of low levels of GVA per head, high unemployment and low levels of business start-ups in the UK context, enterprise and the creation of new businesses have been longstanding policy priorities. While less stark than the post-unification economic transition in eastern Germany, the experience of North East England is relevant because of its old industrial history, employee culture and weak entrepreneurship. High unemployment in eastern Germany and North East England creates an entrepreneurship conundrum. High levels of job creation are required to reduce unemployment. Yet simply encouraging more and perhaps less educated and skilled people to start new businesses may displace existing firms through low cost competition and prove unsustainable. Decades of enterprise policy have had limited effect upon entrepreneurship in the North East. Significant problems exist, including low rates of business start-up, limited business stock, significant business failure rates, under-representation of women and disadvantaged community entrepreneurs, low cultural valuation of entrepreneurship, and limited support for high-growth businesses.

3. Reasons for the success or failure of the approach

A key drive has been the need to integrate and co-ordinate business support more effectively to reduce fragmentation and competition between providers, improve the quality and consistency of service provision and remove actual and perceived administrative barriers. A common regional approach is being developed to segment the market for business support and tailor services to the diverse range of new and existing businesses. The shared regional focus is considered necessary to achieve the required step change in performance. The North East Business Support Network was established in 2004 to develop the new business support delivery model and simplify routes to business support in the region. The governance and funding of Business Links has passed from the Small Business Service to the RDA, and has shifted their geographical policy delivery focus from the local to the sub-regional level, mirroring the RDA’s 4 sub-regional partnerships in Durham, Northumberland, Tees Valley, and Tyne and Wear. The previous local focus led to fragmentation and duplication. Business

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Link acts as a broker and provides a ‘One Stop Shop’ single entry point and seamless connection to a wider network of service providers.

4. The obstacles that were faced and the quality of the response taken

The new policy delivery arrangements have received a positive assessment\(^{20}\). However, the continued limited degree of success in promoting entrepreneurship – the North East still lags behind the national average across key entrepreneurship indicators – has encouraged consideration of a wider range of routes into enterprise, including intermediate labour markets and social enterprise, and a focus upon reducing or removing barriers to participation. Linking with the national policy framework\(^{21}\), growing social businesses to meet local community needs and, with public subsidy, to provide training opportunities has achieved some success, for example in child and elderly care, environmental improvement and recycling. In policy delivery terms, the drive for integration and simplification has struggled to reduce the number of organisations and programmes. Many entrepreneurs and new firms still claim the system is complex and confusing.

5. Considerations for adoption of this approach in the two districts

The North East England experience suggests a number of issues for Altenburger Land and Mittweida that echo the main recommendations, including:

- following the policy cycle model, the need systematically to review the evidence base to define the problem and review the existing policy delivery framework

- echoing the strategy and vision sensitive to particular local and regional needs, the development of a clear strategy and priorities based on region-specific problems

- enhancing institutional co-ordination and integration through the reorganisation of the institutional architecture, creating a focal and lead institution responsible for co-ordination and integration through formalised partnerships to embed co-operation

- following the policy cycle model, rethinking the scale at which entrepreneurship policy is designed, developed and delivered (especially if the District level is too small, then cross-District integration and joint working may need to be explored)

- recognising that conventional business entrepreneurship may yield only limited results given the particular local contexts and histories, and the need for innovation and greater openness to the wider range of routes into entrepreneurship, especially social enterprise, that may be necessary.


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North Jutland, Denmark

1. Description of the approach

Broader and more innovative than the traditional ‘site and service’ technology park model, the NOVI Science Park – Nordjylland Videnpark A/S – acts as a science park, innovation environment and venture capital provider. North Jutland County Council has played a lead role through its close links to Aalborg University in technology-based regional development programmes (e.g. Nortek, Digital North Denmark), particularly in electronic engineering. Both institutions co-operated to establish the NOVI Science Park as a beacon for industrial development and connection between research and production in the late 1980s. NOVI’s vision is to create competitive Nordic businesses. It has evolved from its initial ‘Knowledge Centre’ function, pioneering the use of its own share capital for financing early stage product development. Appointment as a venture capital company by the Danish Commerce and Companies Agency, with a credit facility of DKK 60m (€8m), broadened its focus from site and service toward business development. NOVI Innovation, established in 1998, now works independently within NOVI as an innovation environment for new knowledge-based businesses, evaluating project proposals, undertaking pre-projects and supporting the launch of new companies. NOVI Innovation is now a national player with a DKK 500m (€67m) capital base and investment portfolio in new and expanding IT, biotechnology, medical/health care and energy/process optimisation businesses.

2. Why the approach is relevant to the two districts

North Jutland is an old industrial region that has nurtured a successful high technology-led development strategy. Ongoing rationalisation of its traditional industrial sectors in cement, engineering, food processing, shipbuilding and textiles, unemployment persistently above national levels and weak population growth, underpinned a regional crisis in the late 1980s and prompted the actions of local institutions. A clear regional strategy was developed tailored to distinctive regional strengths and built upon its trajectory of regional structural change during the 1990s, driven by specialisation in electronics, especially wireless communications technology, as well as IT service and software development, printed circuit boards, and biomedical technologies. North Jutland’s experience is instructive for entrepreneurship policy delivery in eastern Germany because of the common context of structural change in its traditional employment base, and it reinforces the importance of a long-term and sustained strategic framework, local institutional co-operation and the focus upon growing and mobilising indigenous high-technology potential through a lead technology-based institution – the NOVI Science Park.

3. Reasons for the success or failure of the approach

NOVI is co-located and works in close co-operation with Aalborg University, emphasising commercialisation and the establishment and incubation of knowledge-based companies. Innovation consultants are used to bridge institutional boundaries and underpin the process of knowledge transfer. From its inception, the total budget for NOVI has been DKK 244m (€33m), including DKK 89m (€12m) of EU Structural Funds. NOVI has 50 tenant companies, including SMEs, R&D activities of existing businesses, commercial service businesses and public trade and industry agencies. Key local linkages for NOVI include the umbrella organisation for the wireless technology cluster NorCom and the Centre for Teleinfrastructure (CTIF), established in 2004 with private and public funding, focusing research on alternative future wireless infrastructure models.

4. The obstacles that were faced and the quality of the response taken

NOVI and North Jutland’s economic regeneration has achieved some success, supporting and nurturing the structural change in the region through institutional co-operation. North Jutland’s wireless technology competencies were recently ranked with Helsinki (Finland), Sophia Antipolis (France) and Stockholm (Sweden) while offering a relatively more cost effective location. Further restructuring in traditional and new electronics sectors and job loss has continued, but, while acknowledging the local impacts of ‘globalisation’, North Jutland’s institutions are consciously sticking to developing and evolving their long-term technology-based strategy to develop next generation technologies, for example biomedical and ‘4th Generation’ communications technology, and identify growing niches for new and existing local businesses. Regional industrial policy has been reorganised around a regional

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growth council, reducing the number of policy making bodies from 8 to 6, and is seeking to establish a regional coalition around the new growth agenda\textsuperscript{25}.

5. Considerations for adoption of this approach in the two districts

The North Jutland case raises a number of issues for Altenburger Land and Mittweida that resonate with the main recommendations, including:

- establishing a locally and regionally appropriate development strategy and vision that is open to ongoing innovation through the development and evolution of a long-term strategy, including the identification of specific regional priorities based upon indigenous strengths with growth potential

- enhancing institutional integration and co-ordination by institutionalised local co-operation and the integration of the local policy delivery framework through partnerships, establishing joint public and private responsibilities involving public authorities, business and trade unions

- encouraging ongoing policy and institutional innovation in evolving technology park activities to support incubation, commercialisation and early stage venture capital.

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Ontario, Canada

1. Description of the approach

In the context of the provincial development strategy that aims “to promote the transition of the Ontario economy towards those sectors and firms with the capacity to generate higher wage, higher value-added and environmentally sustainable jobs”\(^{26}\), entrepreneurship is a key element. An explicit small business strategy has been developed emphasising the sector’s contributions to innovation, investment and employment creation in Ontario. The strategy connects to the late 1990s federal government review and policy shift toward deliberate targeting of the 4% of existing businesses with growth potential rather encouraging a general increase in total business start-ups. Reinforced by the political change in Ontario during the 1990s, the strategy emphasises reduced taxation, regulation and administration, equity financing and more efficient programme and service delivery. Policy targeting is evident, especially for women and aboriginal groups, but more limited than hitherto. In addition, the strategy connects entrepreneurship and innovation policy in its links to the provincial Research Commercialisation Strategy, including seed capital, to strengthen the local capacity to test ideas, encourage growth-oriented spin-offs and deepen research collaboration and technology transfer activities. Entrepreneurship and innovation promotion are wedded together within the strategies.

Within the province, services are differentiated by type of business and geographical coverage. Regional-level Business Advisory Offices operate in southern, eastern and central areas and focus on support to existing innovative and growth-oriented small businesses through Business Development Consultants. The more remote and less populated western and northern areas are covered by their own specific regional development agencies. At the sub-regional and local scales, a network of Small Business Enterprise Centres focuses on business start-ups and early stage business development. For example, Enterprise Toronto provides access to information services for new and existing SMEs, including business consulting services, management, marketing, technology and financing. Managed through the City of Toronto Economic Development Office, Enterprise Toronto is a public-private sector alliance providing a ‘one stop sourcing’ for services and programmes for entrepreneurs and small businesses in Toronto.

2. Why the approach is relevant to the two districts

Ontario is an old industrial region adjusting to de-industrialisation and trade liberalisation under the North American Free Trade Agreement while promoting innovation and a shift to a ‘learning economy’. Ontario’s experience holds important lessons for eastern Germany because it demonstrates the importance of affording small business strategic priority and

institutional champions at federal and provincial levels; developing strong inter-institutional relations and co-ordination both vertically and horizontally within a Federal system; and, the need for formalised connections and synergies between innovation and entrepreneurship policies.

3. Reasons for the success or failure of the approach

Economic development and small business development are constitutional jurisdictions shared by the federal government and the provinces. The historical focus on top-down, nationally-centred policy development and delivery has shifted toward a more decentralised system with greater provincial and municipal responsibilities since the 1990s. Policy development is supported at the federal level by Industry Canada – a portfolio organisation involving 15 federal Ministries and agencies – with a dedicated Small Business Policy Branch that provides strategic policy and programme advice at Federal, Provincial and Municipal levels. The Small Business Policy Branch is charged with implementing the Small Business Policy Agenda that aims to ensure the business environment is conducive to small business growth, and to target government resources more effectively to enhance small firm competitiveness and growth in a global economy. A shift in approach is also evident away from direct subsidy toward ‘softer’ forms of support, especially greater access to information. The joint federal and provincial policy and service delivery is through the Canada-Ontario Business Service Centre, a ‘single window’ institution, jointly managed by Industry Canada and the Ontario Ministry of Consumer and Business Services. The Centre provides information on federal and provincial business support programmes, services and regulations. It was designed to simplify and reduce barriers to SME access to programme information and reduce the costs to government of programme delivery.

4. The obstacles that were faced and the quality of the response taken

Nationally, Canada has a vibrant entrepreneurial culture, ranked second amongst the G7 countries, and a US-inspired individualistic entrepreneurial model is favoured. The national entrepreneurial vibrancy is echoed in Ontario, particularly Toronto. Ontario was first in the recent ranking of small business potential by province. However, many newly established small businesses are not growth-oriented and remain small, typically employing under 4 people. Policy has had limited impact in encouraging further growth amongst such businesses, particularly given its explicit focus upon potential high growth businesses. This is a result of the strategic priority set in the policy. Policy delivery assessment suggests the impact of local

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institutions upon new business formation is uncertain despite its wide range of activities. At provincial level, the effectiveness of the new Small Business Agency of Ontario and Small and Medium Enterprise Division is yet to be assessed. Indeed, there is limited formal programme assessment, particularly at Small Business Enterprise Centre level. While the ‘softer’ forms of support utilising information sources and websites are less costly, it is unclear whether they are more effective. The multi-level federal system operates at different geographical scales, national, sub-national and local. Co-ordination and integration questions between the different levels remain, especially between Ministries at the Federal level and between the federal level and the provinces. Fragmentation on departmental lines remains evident.

The new strategy has underpinned institutional reorganisation for policy delivery at the provincial level. Total budget for the Ontario Ministry of Economic Development and Trade was C$264m (€186m) for 2002-03 of which C$40m (€28m) (15% of the total) was allocated to competitiveness and business development, including the main entrepreneurship programmes. Within the Ontario Ministry of Economic Development and Trade, Small Business Central links and signposts small business services, including on-line registration, renewal and reporting services through the Ontario Business Connects website. The Small Business Agency of Ontario is newly established and comprises representatives of Ontario’s business community and Members of the Provincial Parliament in Ontario. It aims to champion the small business agenda, provide a voice and direct connection to province-level policy development and decision-making, reduce regulatory and administrative burdens and improve small business to government interactions. A new Small and Medium Enterprise Division has also been established within the Ministry of Economic Development and Trade to address small business needs and champion small business across the provincial government.

5. Considerations for adoption of this approach in the two districts

The Ontario experience suggests a number of issues for Altenburger Land and Mittweida that reinforce the main recommendations, including:

- strategy building and institutional innovation in the need for a small business and/or entrepreneurship strategy and institution within government at the national federal and sub-national Land levels to give strategic priority and champion issues across government Ministries

- institutional integration and co-ordination in the need to develop strong relations and co-ordination between the Districts and the Land and Federal levels, and between Districts within the Land

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- policy co-operation and co-ordination in the potential benefits from closer alignment between entrepreneurship and innovation policies.

6. Contact details and website for further information:

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