An Anthology of Enterprise Policy in Ireland

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ABSTRACT

Ruane and Gorg (1996: 37) remarked that 'any careful comparison of the Irish economy with other economies in the European Union immediately focuses on two key features of Ireland's pattern of industrial development: the enormous significance of foreign direct investment (FDI) and the very high export ratios in the Irish manufacturing sector among foreign-owned companies. These two features have not developed by accident, but are directly related to the industrial strategy which Ireland has pursued over the past forty years, namely, of promoting export-led growth in Irish manufacturing through various incentives and of encouraging foreign companies to establish manufacturing plants in Ireland, producing specifically for export markets'.

***Key Words*:** Enterprise Policy; Entrepreneurship; Foreign Direct Investment.

INTRODUCTION

This paper traces the development of enterprise policy in Ireland from the foundation of the state to the present day. It analyses and

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comments upon the rationale and thinking that have forged the creation and development of Ireland's enterprise policy in the modern era of a knowledge economy. The paper begins with a brief overview of the industrial scene in Ireland prior to the foundation of the state. Following the overview, the paper reviews the evolution of enterprise policy in Ireland from protectionism in the early 1930s, through the role of foreign direct investment (FDI) in developing the state's economy and shaping its enterprise policy, to a discussion about the dilemma between having a comprehensive support package for foreign-owned multinational corporations (MNCs) and support for indigenous enterprise. This is examined within the context of both the Telesis Report (1982) and the Culliton Report (1992). The change in policy emphasis in the early-to-mid-1990s is also explored and discussed. This is followed by a general overview of the relationship between policy and new firm formation, and why having policies on entrepreneurship is so critical in today's economy. In the final section, future enterprise policy in Ireland is considered based on the outputs from the First and Second Entrepreneurship Development Forums (held in 2004 and 2005). In summary, this paper is a commentary on the evolution of enterprise policy in Ireland from the foundation of the state to the present day.

INDUSTRY IN IRELAND PRIOR TO 1922

Traditionally businesses in Ireland have been associated with produce from the land such as brewing, distilling, milling, tanning and other agri-related businesses, with a considerable number of these enterprises being family businesses. While many family businesses dating from the eighteenth and nineteenth centuries still exist in Ireland today, such as Waterford Wedgewood (1759), Punch Industries Limited (1851), Johnson and Perrott Motor Group (1820), and the Musgrave Group (1876), the vast majority of family businesses with an existence of more than two generations are ones that have been founded since the creation of the Irish Free State in 1922 (Spillane et al., 2006).

While there is a long tradition of trade and commerce in Ireland, the vast majority of trade since Norman times (1300s) has been with England and her colonies. Up until 1922 Ireland was part of the British Empire and therefore much of Ireland's produce was exported to England to help support the English economy. Even during the famine years of the 1840s there was still a considerable amount of grain exported to England. For almost 800 years the economic structure of Ireland was dominated by landlords and businessmen who had their roots in England. While some of these landlords and businessmen settled in Ireland, they still considered themselves to be part of the British Empire and their profit and trade was geared towards 'the mainland' of England. Thus, in general terms, the Irish did not have a sense of trade or commerce in terms of business ownership, and those who did were very much limited to one market: Britain and its Empire. Although the British Empire was good to businessmen working and living in Ireland, as it was vast and it was much easier to work through the Empire's extensive trading network than it was to find new markets for oneself, Ireland was very much dependant upon its biggest trading partner. But all of this was to change with the founding of the new state in 1922.

ENTERPRISE POLICY IN IRELAND SINCE 1922

Since its independence from Britain in 1922, Ireland has had a varying collection of industrial policies. During the first ten years of independence Ireland continued to operate a free trade policy under its new government, Cumann na nGaedhael. But during this time the main opposition party, Fianna Fáil, was proposing self-sufficiency and the imposition of high tariffs on imports. When Fianna Fáil came to power in 1932 it introduced protectionism, which virtually remained in place until the introduction of the Anglo-Irish Free Trade Agreement in 1965. Whereas protectionism and self-sufficiency might have been an ideal to pursue for nationalistic reasons (and the country did well from this policy during World War II), it had a devastating effect on the Irish economy. For example, the government 'had distorted the economy by wholesale subsidisation of economic activities, rather than letting entrepreneurial activity find the correct product for the correct market' (Garvin, 2004: 33). But this policy was more devastating for economic growth after World War II, as not only did it limit competitiveness through importation, but it also limited businesses to trading internally within the state, and thus the development of export markets was restrained. A key aspect of this stifling of export markets and support of the protectionist stance was the Control of Manufacturers Acts (1932). These acts provided for majority Irish capital holding in Irish companies and were aimed at eliminating British control of Irish industry (Garvin, 2004: 112). The acts were put in place because of the view held by some political parties in the early years of the new State that FDI meant UK-owned companies, the presence of which were seen by some to represent a failure of Ireland to establish itself as a viable economy entity (Ruane and Gorg, 1996). It was not until 1958 that the Control of Manufacturers Acts were repealed. However, because of pressure from local manufacturers the government of the day rescinded only the acts for industries that exported the bulk of their produce. Thus the title of the act was changed from the Repeal of the Control of Manufacturers Act to the Act for the Encouragement of Export (Garvin, 2004). It was also around this time that foreign-owed companies were encouraged to set up manufacturing facilities in Ireland with the specific aim of exporting most, if not all, of their outputs. Similarly acts such as the Shops (Hours Trading) Act of 1938, had a negative effect on business since the act was declaredly intended to limit trading hours by small family-run shops trading 'unfairly' against larger and more unionised concerns (Garvin, 2004). Not only did this have a negative effect on the smaller concerns, but it also removed competition to improve from the larger business concerns. However, during this period there was some FDI into Ireland, especially after the Industrial Development Authority (IDA) was set up in 1949. However, it was only after 1965 that FDI became significant due to the positive promotion of it as a key industrial policy by the Taoiseach (Prime Minister) of the time, Sean Lemass. The significant level of FDI achieved resulted in a large increase in the numbers of people employed in manufacturing industries in Ireland.

Sweeney (1999) stated that since 1973 the growth of employment in foreign firms has been very impressive.

> Therefore, even with the Irish recovery and trend reversal, it seems certain that, soon after 2000, the foreign MNC manufacturing sector will be a bigger employer of Irish workers than will Irish manufacturing firms. When internationally traded and financial services are added to these manufacturing jobs, the numbers in 1998 were 133,230 in Irish firms and 136,515 in foreign firms. Thus in 1998, for the first time, the number of jobs in

Table 1: Employment Growth from 1973 to 1998

	Irish	Foreign	Total
Employment, 1973	143,815	69,388	213,203
Employment, 1998	121,073	109,222	230,295
Net change, 1973–1998	–22,742 (–16%)	+39,834 (+57%)	+17,092 (+8%)

Source: IDA and Forfás Employment Surveys (Sweeney, 1999).

foreign firms in manufacturing and internationally traded and financial services exceeded the number of jobs in Irish firms (see Table 1) (Sweeney, 1999: 142).

This high level of FDI has helped Ireland shift away from its high dependence on the UK market. Thus in the case of Ireland, it can be seen how establishing the IDA to focus on attracting FDI has changed the country from being a rural-based economy to an industrial-based economy (Sweeney, 1999; Garvin, 2004).

In 1952, the IDA was split into the IDA proper (to promote new investment) and a new industry board (An Foras Tionscal), which assessed projects and made decisions on development grants (Garvin, 2004). According to Meyler and Strobl (2000), Ireland's enterprise policy in the early 1950s was very much focused on regional development in that they (the IDA) distinguished between *designated areas* and *non-designated areas*. The regions classified as designated areas were typically the least wealthy, least populated, least industrialised and most peripheral regions of Ireland. The first *designated areas* categorisation included Sligo, Leitrim, Roscommon, Mayo, Galway, Clare, Donegal, Kerry and west Cork. This focus on regions seems to vary from decade to decade. For example, the Buchanan Report in 1969 proposed a focus on nine regional development centres to support the regional growth argument of the 1960s. According to Meyler and Strobl (2000) the regional policy of the 1970s focused on two primary issues: (1) an attempt to avoid the rural–urban drift whereby workers migrate from rural to urban areas in search of higher paid jobs, and (2) an attempt to avoid an over-concentration of foreign-owned MNCs in certain areas.

The IDA's 'Regional Industrial Plans for 1973–1977' focused more on towns, albeit it targeted (designated) many more than nine centres for growth. In 1982 however, after the publication of the Telesis Report, enterprise policy emphasis changed from being predominantly regionally focused to being predominantly focused on attracting strategic industries into the State.

While there has been a continuing focus on regionality in successive enterprise policies in Ireland, the degree of emphasis on regional development has varied from decade to decade. For example, in the early 2000s anecdotal evidence existed to suggest that the number of MNC facility openings was far more numerous in the Greater Dublin Area compared to the rest of Ireland, and indeed that many indigenous companies were also locating themselves (and in some cases relocating themselves from the regions) into the Greater Dublin Area in order to serve the MNCs located there. This trend was of such concern to the government that Enterprise Ireland published a 3-year strategy document, 'Driving Growth in Regional Enterprise', in 2001. The main aim of this strategy was to encourage indigenous organisations, based in the Greater Dublin Area, to move out of Dublin and/or to set up subsidiaries in the regions. While the incentives offered were good, the actual uptake was poor.

With the passage of time, even though regionality was still expressed in enterprise policy, there has been a greater emphasis on attracting and supporting foreign-owned MNCs, which by their nature have a tendency (or expressed desire) to locate in urban centres of large concentrations of population. However, pursuant of the Telesis Report (National Economic and Social Council, 1982) was the National Linkage Programme in 1985. According to the *Review of Industrial Performance and Policy* report (Department of Enterprise, Trade and Employment, 2003), the National Linkage Programme was established to develop a strong competitive sub-supply base in Ireland that would maximise local purchases of Irish materials, components and services by foreign-owned organisations located in Ireland. Based on the experience and observations of the authors of this paper, it is arguable that the programme was successful up to the early 1990s and then began to fade away. Part of the reason why the programme began to decline was that foreign-owned MNCs operating in Ireland insisted that their supply base would have the capability of supplying all of their (the MNCs') facilities throughout the world, which small local Irish companies were incapable of achieving. Also, the MNCs were 'comfortable' working with existing foreign suppliers, and in many cases encouraged their sub-suppliers to relocate some of their operations to Ireland.

There is much evidence to suggest that the IDA has performed well in identifying, pursuing and securing prestigious FDI since the early 1950s up to and including the present time. However, there are many commentators and researchers who question Ireland's over-dependence on the level of foreign multinationals in the country (see, for example, O'Hearn, 1998; O'Sullivan, 2000). During the late 1980s and early 1990s, many politicians (including the Taoiseach of the time, Albert Reynolds) expressed concern that the IDA was overly focused on the attraction and support of foreign multinationals to the detriment of indigenous industry. Reynolds, himself a successful businessman, made some key changes to address these concerns during his tenure as Taoiseach from 1992 to 1994. One of the most notable changes was the passing of the Industrial Development Act 1993. This act was influenced by the Culliton Report of 1992, which boldly suggested the need for a total restructuring of the IDA. The report urged the government to focus on Irish industry; it particularly suggested that a state agency be established to focus solely on indigenous industry (Sweeney, 1999). The Industrial Development Act 1993 established three industry support state agencies: Forfás, Forbairt (now called Enterprise Ireland) and the IDA. In summary, Forfás is the overall state agency that is responsible for enterprise policy and development in Ireland. The implementer of policy for indigenous enterprise is Enterprise Ireland (formally Forbairt), while responsibility for attracting 'industrial undertakings from outside the State' lies with the IDA.

Another very significant government intervention to boost indigenous industry in the early 1990s was the establishment of the City and County Enterprise Boards (CEBs). In 1992, against a background of chronic unemployment and vigorous representation by local politicians for the encouragement of enterprise development (particularly new start-ups), and partially because of the demise of a major multinational company (Digital Equipment Corporation) in the west of Ireland, the Irish government embarked upon a fundamental shift regarding industrial policy. For the first time in Irish economic history, policy moved towards a nurturing of the micro sector (fewer than ten employees) and embraced the services sector, which up to that time had been excluded from state aid. In 1993 the Irish government decided to establish a system of local enterprise agencies, where decision-making would be devolved to boards representative of local business interests, political representation, local government and social partners. These came to be known as CEBs and were established in every county and major city in Ireland (Hanley and O'Gorman, 2004).

Some businesses in Ireland did flourish during the twentieth century, but two major issues have impacted upon the longevity of these businesses: the economic policies of successive Irish governments and the growth in competitiveness and globalisation. As stated earlier, many of the older businesses were operating in traditional industry sectors. With the advancement of globalisation and increased competitiveness in the Irish economy, most of these traditional sectors came under threat in the last fifteen years of the twentieth century.

Table 2, taken from the *Review of Industrial Performance and Policy* (Department of Enterprise, Trade and Employment, 2003), summarises the evolution of enterprise policy in Ireland from the 1930s to 2000. It is the more significant and relevant policies that have been commented upon in this paper.

POLICY AND NEW FIRM FORMATION

One of the critical questions that emerges from this review is why economic policy is so relevant to the study of entrepreneurship in Ireland. In truth, there are many factors that encourage new firm formation, including government policy, economic conditions, the attitudes of entrepreneurs and the relative importance that the entrepreneurs place upon the factors affecting start-up (Corman et al., 1996). But as Birch (1987) famously pointed out, the key to job creation is entrepreneurial firms. It is now generally recognised that economies that provide the proper environment for start-ups and existing firms to expand will flourish, whereas those that fail to provide such an environment will languish. Stevenson and Lundström (2001: 17) informed us that 'historically, entrepreneurship was rarely a stated economic policy objective (of governments) – at best, it was

Table 2: The Evolution of Enterprise Policy

1930s–1950s	1960s–1980s	1980s–1990s
1932 – Large increase in tariffs on a wide range of imported goods.	1961 – Application made to join the European Economic Community.	1986 – Industrial Development Act provides new statutory framework for enterprise support.
1932–34 – Control of Manufactures Act restricts foreign ownership of new Irish factories.	1963 – EEC application withdrawn after collapse of talks between Britain and EEC.	1987 – Financial Services Act establishes International Financial Services Centre (IFSC). Profits from eligible activities undertaken in the Centre qualify for 10% tax rate until 2005.
1933 – Establishment of Industrial Credit Corporation to provide finance for native industry.	1965 – Anglo-Irish Free Trade Area Agreement requires phasing out of tariffs on most British Goods within 10 years.	1987 – Programme for National Recovery negotiated between Govt. and social partners.
1950 – Establishment of Industrial Development Authority to promote industrial development.	1969 – Industrial Development Act merges the IDA and An Foras Tionscail.	1987 – First Minister of State for Science and Technology appointed, and Science and Technology Development programme initiated.
1952 – Establishment of An Foras Tionscail to give grants of up to 100% of cost of land & buildings and 50% of cost of machinery to companies setting up in under-developed areas of the country.	1969 – Export profit tax relief extended to 1990.	1989 – First EU-funded Industry Operational Programme launched.

(*Continued*)

Table 2: (*Continued*)

1930s–1950s	**1960s–1980s**	**1980s–1990s**
1956 – Industrial Grants Act provides that grants of up to 2/3rds of cost of land & buildings can be given for new industry in all parts of the country.	1973 – Ireland joins EEC. Tariffs on imports of almost all manufactured goods from EEC member states to be phased out over five years.	1993 – Single Market in goods, services, capital and labour takes effect in European Union.
1956 – Finance Act gives 50% remission on tax on profits from exports. Finance Act 1958 increases export tax relief to 100%. Finance Act 1960 extends export tax relief for 15 years with tapering relief for a further five years.	1981 – Industrial Development (No. 2) Act enables grants to be paid for designated internationally traded services. IDA establishes International Services Programme.	1993 – Industrial Development Act establishes 3 Agencies: IDA Ireland for overseas industry; Forbairt for indigenous industry; and Forfás as an advisory and coordination body.
Economic Development 1958: ‘sooner or later protection will have to go and the challenge of free trade be accepted.’	1981 – Export tax relief replaced by a 10% tax on all profits in manufacturing sector, but remains in force until 1990 for companies already qualifying.	1998 – Agreement with European Commission on 12.5% standard corporation tax rate from 2003.
1958 – Easing of restrictions on foreign ownership of industry in Control of Manufactures Acts 1932 & 1934. Acts repealed in 1964.	1982 – Review of industrial policy by Telesis criticises excessive reliance on foreign industry. Proposes reduction in grant aid to foreign firms and greater emphasis on building up strong indigenous firms.	1998 – Industrial Development Act establishes Enterprise Ireland as a new development agency for indigenous industry incorporating Forbairt, An Bord Tráchtála and some activities of FÁS.

(*Continued*)

Table 2: (*Continued*)

1930s–1950s	1960s–1980s	1980s–1990s
1959 – Shannon Free Airport Development Company (SFADCO) established to promote industrial development in the Shannon Area.	1984 – White Paper on Industrial Policy proposes greater focus on developing indigenous industry.	1999 – Commencement of Economic and Monetary Union (EMU) and euro. Changeover to € to be completed by February 2002.
		2000 – Government approves €646m Technology Foresight Fund and sets up Science Foundation Ireland to manage it.
		2000 – Establishment of InterTrade Ireland to promote all-island trade and enterprise development.

Source: Department of Enterprise, Trade and Employment (2003).

a by-product of the economic development process'. However, they further stated that 'government attention to the SME policy agenda was considerably heightened following the breakthrough research of Birch (1979) in which he discovered that over 80 per cent of new jobs were being generated in small rather than large US firms and that, in fact, new young firms were the engines of growth in the US economy' (Stevenson and Lundström, 2001: 17).

Recently SMEs (small to medium-sized enterprises) are being given more and more attention by governments because of their importance to local and national economic development. Indeed, many researchers and economic research organisations have written about the significant economic importance of SMEs (OECD, 1998; European Commission, 1992, 1998; Lauder et al., 1994; Verheul et al., 2001; Jenssen and Havnes, 2002; Massey, 2003 are just a few examples). Lauder et al. (1994), in their comparative study analysing the support systems and institutions for SMEs in the United Kingdom and Germany, noted that approximately 66 per cent of businesses in Germany and 60 per cent of businesses in the United Kingdom employ less than 500 people. Stevenson and Lundström (2001), in their research examining the patterns and trends in entrepreneurship and SME policy and practices in ten different national economies, demonstrated that over 98 per cent of private sector organisations are SMEs, and that these figures are fairly representative of countries across Europe. Verheul et al. (2001) informed us that government intervention within the field of entrepreneurship has been inspired by the importance of the small business sector for economic growth and job creation.

It is also no surprise that the European Commission is currently placing more emphasis on entrepreneurship, enterprise creation and SME development. Some of the key EU policy documents have come from the Amsterdam Summit (1997), which made a significant breakthrough in linking economic and employment policy into the same agenda. The core policy of the Amsterdam Summit focused on employability, entrepreneurship and adaptability (Henriksen, 1999). More recent EU policy comes from the Lisbon and Barcelona Agendas (2000 and 2002). In 2000, the European Union Heads of Government met in Lisbon to discuss the economic future of Europe, resulting in a set of ambitious policies and reforms directed at both national and European levels. The main focus of these policies and reforms was to develop an effective internal market by boosting research and innovation through supporting education. The overall objective of the Lisbon Agenda was to shape Europe into 'the most dynamic and competitive knowledge-based economy in the world by 2010' (European Union, 2000). These policy objectives were reiterated at the 2002 Barcelona meeting of European Union Heads of Government, with a particular focus on upgrading 'knowledge' and increasing technology diffusion at the regional level in the belief that this may prove to be a particularly efficient route to economic growth (European Union Research Advisory Board, 2004). However, between 2000 and 2005 very little progress had been made on the

Lisbon Agenda, and therefore the European Commission aggressively re-launched the Lisbon Agenda in 2005 by setting up the Competitiveness and Innovation Framework Programme with a budget of €4.2 billion. The overall aim of this Framework Programme was to increase indigenous competitiveness and innovation across the regions of Europe through research, education and technology diffusion.

The dual mandate of most governmental policies towards entrepreneurship is to increase innovation and to reduce levels of unemployment. In the view of some experts, these aspects are closely linked. For example, according to Henriksen (1999: 216), 'there is no doubt that if the job challenge is to be met, we must stimulate the growth of firms. We should target our support at small firms…'. According to Stevenson and Lundström (2001), not only are new firms necessary to replace businesses and jobs which are lost due to the disappearance and downsizing of existing businesses, but also they are critical to innovation activity, 'as entrepreneurship is considered by many to be a recipe for economic prosperity, there is an obvious need to increase the supply of entrepreneurial talent to create and grow new businesses that will generate employment and create wealth for the local economy' (Henry et al., 2003: 5). Wennekers and Thurik (2001) and De (2001) also argued that another key role for government was in stimulating culture or social capital and creating the appropriate institutional framework at the country level to address the supply side of entrepreneurship (i.e. focusing on the number of people who have the motivation, the financial means and the skills to launch a new business).

Market forces obviously have an impact on the level of entrepreneurial activity within a national economy. However, government policy-makers and politicians are aware of the critical role SMEs and new ventures play in national economies, and therefore governments are inclined to intervene in market conditions in an attempt to stimulate entrepreneurial activity and growth. But, according to Jenssen and Havnes (2002), if governments want to promote entrepreneurship they have to focus on the factors that make individuals entrepreneurs, and not just focus on the traditional approach of financial assistance. Equally, there seems to be a belief that 'entrepreneurship can be developed and fostered by government action so that even the most economically deprived regions can be developed' (Henry et al., 2003: 5).

Even though the European Union has provided an overall framework for entrepreneurial activity and support (and in particular it has articulated a set of policies and objectives aimed at stimulating further wealth creation in Europe and its regions through entrepreneurial activity, research, innovation and new venture creation), each country has its own set of policies. Policies at national level are influenced by many factors such as a nation's wealth, culture and politics. An example of the variances in national-specific policies is demonstrated by Lauder et al. (1994) in comparing the systems of supports for SMEs in the United Kingdom and Germany. Their paper, primarily based on secondary data, found that policies towards SMEs in both countries share the common objective of maintaining a healthy and competitive SME sector within a free market economy. However, there are differences in the policy instruments employed to achieve these goals. While German policy-making is based on attempts to improve economic efficiency by compensating SMEs for recognised disadvantages of small scale, British policy-making is based on the belief that intervention is only justified when it is used to remove, or to compensate for, perceived market imperfections. As previously mentioned, there was little defined, focused policy for SMEs in Ireland until the early 1990s (most of the emphasis was on attracting FDI), and support to small businesses until that time was extremely fragmented, and very much focused on large businesses with export potential. It was only in the early 1990s that there was a much more concise focus on SMEs and micro-enterprises, and in particular there was a move away from solely supporting enterprises qualifying under national policy criteria to a more regionally based dimension aimed at supporting and developing local economies (Hanley and O'Gorman, 2004).

Even though enterprise policy is influenced by a nation's specific needs and by global competitiveness at a given point in time, Verheul et al. (2001), in their paper dealing with the determinants of entrepreneurship, developed an eclectic theory that provides an integrated framework which enables a better understanding of the different roles that entrepreneurship plays in different countries at different times. In their paper they argue that government is able to influence the rate of entrepreneurship through five different groups of determinants of entrepreneurship:

G1: Government intervention on the demand side of entrepreneurship – influencing the number and type of entrepreneurial opportunities.
G2: Government intervention on the supply side of entrepreneurship – influencing the number and type of potential entrepreneurs.
G3: Government policies aimed at influencing the availability of resources, skills and knowledge of individuals. These policies generally deal with the input factors of entrepreneurship (i.e. labour, finance and information).
G4: Government policies aimed at influencing the preferences (i.e. values and attitudes) of individuals.
G5: Government policies (directly) aimed at the decision-making process of individuals. Given certain opportunities and individual characteristics, this type of government intervention directly influences the risk–reward profile of entrepreneurship.

Traditionally the Irish government has been involved with G2 and G3 type policies, and in more recent times (2004/2005) has got more involved with G4 type policies. However, policy in Ireland is still centralised and while there may be some element of local interpretation of national policy by regionally based policy implementers to meet regional specific needs, the degree of interpretation does not stray much beyond national policy guidelines (Hanley and O'Gorman, 2004).

As previously stated, policy means different things to different governments. Therefore, in order to fully comprehend, develop and implement policy, it is necessary to understand the context of policy in different country settings (Gibb, 2000). Arguably it is true to say that there are some commonalities and underlying principles within policy, such as creating and maintaining a sustainable healthy and competitive SME sector within a free market economy

(Lauder et al., 1994). Stevenson and Lundström (2001) identified entrepreneurship policy as:

- policy measures taken to stimulate entrepreneurship;
- that are aimed at the pre-start, the start-up and the post-start-up phases of the entrepreneurial process;
- designed and delivered to address the areas of motivation, opportunity and skills;
- with the primary objective of encouraging more people to start their own businesses.

This generic understanding of entrepreneurship policy is widely accepted, but it does not convey the reality in most countries where the focus is on those firms that have the ability to succeed. For example, the focus of Enterprise Ireland (Ireland's main state agency responsible for supporting the creation and development of indigenous enterprises) since they were officially formed in 1992 has been on high potential start-ups (HPSUs), high-growth enterprises with significant export potential. In fact, Enterprise Ireland's recent publication, 'Transforming Irish Industry: Enterprise Ireland Strategy 2005–2007', remains expressly focused on HPSUs with internationalisation and export growth potential.

The concept of state enterprise support agencies 'picking winners' is not isolated to the Republic of Ireland. This strategy appears to be the pattern in most European countries that have government agencies supporting enterprise development. For example, Hart et al. (2000), in their study on public policy and SME performance in Northern Ireland, used a database of 1,600 firms, comprising of growth and established clients of the Local Enterprise Development Unit, and found that a greater concentration of effort on firms with growth potential would appear to have been successful. They also reported that one way for the state enterprise support agency in Northern Ireland to maximise the benefits of its resources was to support firms who have demonstrated some degree of movement along a growth trajectory. Even though there is no general agreement among researchers as to the validity of supporting just the 'high flyers', many enterprise support agencies are focusing more on ‘picking winners’ (Freel, 1998). As Freel points out in his study analysing the sensibility of picking winners, there are innumerable factors influencing the growth of firms at different times of their development. While his research was based on a longitudinal study of a small sample size of six firms, he demonstrated that developing a predictive model was implausible, but yet public policy continues to be developed based upon the increasingly untenable proposition that one can ‘pick winners’. Thus, is it a case that firms that use assistance programmes do become more effective and contribute to the economy as a whole (Massey, 2003), is it that market forces are not working efficiently with regard to new business development (Jenssen and Havnes, 2002), is it that these firms are going to succeed anyway and therefore supporting these firms gives them an unfair advantage over others (Storey, 1992), or is there a need for intervention in the process of new venture creation (Henry et al., 2003)? This is an extremely difficult question to answer because there is general lack of clarity on policy objectives and an even greater lack of defined methodology to measure these objectives (Storey, 1998), and the lack of business-specific performance measures only serve to complicate further the evaluation process (Henry et al., 2003). Spilling (1998), in his review on the effectiveness of public measures designed to stimulate entrepreneurship, questioned the effectiveness of such interventions. Jenssen and Havnes (2002) suggested in their study of three Norwegian entrepreneurs that these same entrepreneurs would have done without the support of the (enterprise support) programmes, if necessary. They concluded in their extensive literature review of public intervention in the entrepreneurial process that the focus of public policy towards entrepreneurship should be aimed at:

- entrepreneurs in general, or targeted groups of entrepreneurs, in the idea development, the planning and/or the establishment phase(s);
- newly established businesses/small businesses of entrepreneurs in general or of targeted groups of entrepreneurs;
- the national, regional and local entrepreneurial environment (culture and infrastructure).

While this may be so, sometimes it appears as if governments view entrepreneurship and the entrepreneurial process as a separated, corralled, measurable entity. From the research for this paper, a complete comprehensive, seamless, all-embracive enterprise support policy (except maybe in the case of Switzerland as reported by Gibb (2000)) does not appear to exist. Certainly in the case of Ireland, while there are different policies for different aspects of the entrepreneurial process, enterprise policy is not fully integrated into the nation's economic fabric, nor are all the various aspects of policy fully comprehensive, coherent or compatible with each other.

ENTERPRISE POLICY IN THE TWENTY-FIRST CENTURY

It is now generally accepted that the principal industrial policy issue currently facing Ireland is its overdependence on FDI and the fact that 90 per cent of exports emanate from these foreign companies. Should these companies leave Ireland for more competitive labour nations such as China, India and some of the Baltic states, then Ireland will struggle economically as its indigenous industry is considered weak and lacking in research, innovation and international marketing capabilities. There has been little export growth from indigenous firms over the last fifteen years while Ireland's labour costs have continued to rise sharply (with the second highest minimum wage in the European Union).

There is no doubt that Ireland has benefited from the policies that it has pursued in relation to FDI. Equally there is no doubt that Ireland should continue creating an environment whereby foreign-owned companies are encouraged to set up facilities in Ireland. As Ruane and Gorg (1996: 71) stated, 'what many people would like to see is the *absolute* importance of FDI continuing to increase while its *relative* importance declines' (emphases in original). However, as indicated in the Telesis (1982) and Culliton (1992) Reports, there is a need to target FDI investment that will not alone create additional employment but will also increase the value-added and knowledge base of Irish industry. The Culliton Report further suggested that indigenous industry must be nurtured at the same time as wooing investment from foreign-owned businesses, and that an element of this nurturing must be concerned with increasing the value-added and knowledge content of indigenous operations. This can be achieved through creating an enterprise environment with relevant infrastructures and employees with relevant skills, and developing owner-managers with both the relevant skills and the capacity to build international operations.

While Ireland's overdependence on FDI is considered the principal issue facing Ireland's ability to grow economically, many other areas of concern also exist. These issues include a poor transport infrastructure with a cumbersome planning process, question marks over Ireland's pro-enterprise policy, an evermore intrusive set of labour relations regulations, an incoherent national public policy and a critical need to secure a strong counterpoint to Dublin. The Enterprise Strategy Group report (2004) identified two further critical areas requiring urgent attention if indigenous industry is to become the centrepiece of economic development in Ireland. These are: (1) a greater focus on research and development (R&D) within indigenous industry as well as enabling technology transfer and more interactive links between industry and R&D capability in both public and private sector organisations; and (2) a greater capability and focus on international marketing and sales thus positioning indigenous industry to maximise both its exports and positioning in the global economy. While Ireland's achievements over the past decade have been widely acknowledged, unless the issues highlighted are addressed then the country faces a difficult future. The report of the Small Business Forum (2006) highlighted that the 'government should formally adopt a National Entrepreneurship Policy focused on optimising the number of start-up businesses, and in particular on maximising the number of start-ups aspiring to and achieving high-growth'. The report further identified three specific platforms on which the policy should be built:

- stimulating latent entrepreneurship potential
- reinforcing entrepreneurship in the education system
- enhancing the culture for entrepreneurship

The report further argued that existing initiatives aimed at stimulating entrepreneurship should be incorporated into this policy to ensure a cohesive, coordinated approach (Small Business Forum, 2006).

At the Second Entrepreneurship Development Forum ('Creating a High-Tech High-Growth Economy', 2005) many similar concerns were raised by the entrepreneurs, policy-makers, academics and financiers who attended the forum. These concerns varied in terms of the intensity and depth of the debate and contributed significantly to the recommendations brought forward at the end of the event. The primary recommendations illustrated the need to find a model that can reach across many different perspectives and that can offer benefits to those having alternative world-views. The following recommendations capture the key suggestions for continued growth and sustainability of indigenous industry in Ireland as proposed at the Forum:

1. There is a need to have a clearly stated vision for the future of the economy.
2. Enterprise planning should be focused on local, regional and national terms, and there must be counterpoints to the Greater Dublin Area.
3. Ireland should seek to achieve a 'brain gain' by bringing in the best people from around the world.
4. Enterprise in Ireland should more effectively tap into its diaspora.
5. There is a critical need to reform the education system (including increasing people's language capabilities) to achieve the goals of the future.
6. FDI targets as regards both investment and technology should be clearly stated and pursued by the relevant state agencies.
7. Ireland needs to be branded effectively internationally.
8. Enterprise must be facilitated to increase its R&D capabilities.
9. Promoting entrepreneurship throughout all sectors of Irish society is a must.
10. There is a need to develop an effective process to get capital and other funds into firms.

The perceived limitations that may hold back the successful implementation of enterprise policy that were highlighted by the attendees at the Forum included:

1. That Irish people still retain an 'islander mentality' in that they do not look beyond the shores (of Ireland) and specifically do not recognise the markets that Europe offers.

2. That Irish people have an 'ostrich mentality' and fail to acknowledge the challenges that face the country economically.
3. The willingness/unwillingness to 'kick on', that Irish firms/people reach a comfort zone and do not want to grow from there but instead enjoy the fruits of their labour.
   (O'Gorman and Cooney, 2006)

As can be seen from the recommendations and limitations highlighted, the challenges that Ireland faces in terms of developing appropriate industrial policy retains many of the same challenges that it faced in previous times. There is a need to begin by identifying a clear vision of the future and then developing industrial policies to make that vision happen. It is arguable that the vision offered by many governments has not extended beyond their term of office and so the country moves from one short-term solution to another. From a government perspective, pursuing a long-term vision may be tantamount to political suicide.

CONCLUSION

Ireland is currently in transition to becoming a knowledge-based economy. While low value-added activities continue to migrate to lower economies with lower costs, the economy has become increasingly knowledge based. Recent evaluations of this situation have concluded that a greater proportion of the country's wealth will need to be generated from indigenous enterprise. In order to grow the economy in this way policy measures in the fields of innovation and entrepreneurship must be developed as well as further defined to progress towards adopting a comprehensive growth policy.

There is currently no comprehensive policy for entrepreneurship. Following recommendations in the report of the Small Business Forum (2006), an entrepreneurship policy is currently being developed. The policy will aim to deliver an Ireland that is characterised by a strong entrepreneurial culture, recognised for the innovative quality of its entrepreneurs and acknowledged by entrepreneurs as a world-class environment in which to start and grow a business.

There is a very low uptake of R&D and innovation activities. New initiatives have been launched to encourage micro-enterprises and SMEs towards innovating activity. Innovation vouchers and knowledge acquisition grants are intended to enable companies to develop new services and products, to adopt new business models, cut costs and exploit new technologies. These supports have been designed to encourage innovation and the awareness of its benefits throughout enterprise whilst increasing the levels of R&D active companies in Ireland.

The links between innovation and entrepreneurship are often implied in government strategy statements but never formally defined. Current strategy shows no sign of consolidating the areas into a more comprehensive growth policy. A more cohesive approach to entrepreneurship and innovation policy is needed to optimise the return on investment in both areas as well as sustaining growth in the economy. Policy documents overlap in both areas without the strategic coordination necessary for a comprehensive approach to growth policy. Innovation and enterprise policy documents maintain an over-emphasis on FDI and require a new strategy to further develop an innovative entrepreneurial culture and climate.

The initiatives of government bodies and agencies involving growth policy are often duplicitous. This overlap in the main activities for policy and sub-policy areas reduces the effective management of resources and does not facilitate a balanced approach to regional development. Local agencies frequently duplicate the grant aid services offered at regional and national levels, when localised soft supports would be more successful for sustaining high levels of innovative entrepreneurship.

The current policy relating to the fields of entrepreneurship and innovation fails to provide an adequate number of targeted initiatives for underrepresented groups. Increasing resources invested in the promotion and research of both innovation and entrepreneurship could positively influence the comprehensiveness of government initiatives for target groups such as youths, women, disabled persons and ethnic minorities. Diversity in entrepreneurship and innovative entrepreneurship is essential for uncovering dormant activity. The rate of entrepreneurship could be greatly influenced by an expansion of policy measures to facilitate underrepresented groups.

It is difficult to identify weaknesses in particular policy areas. Given that there is not a formal entrepreneurship or innovation policy, the areas are embedded in other frameworks and could be regarded as being sub-policy and therefore become difficult to trace. For that reason calculating the budget or evaluating the use of resources within innovation and entrepreneurship policy implementation is complex and difficult to state. The focused nature of entrepreneurship or start-up-related policy is significantly different to that of a very broad-based government approach to innovation (e.g. at all stages of business). For this reason innovation may have been portrayed by the comprehensiveness index as weaker than it is in reality.

The conclusions of this paper highlight the need for a more focused approach to growth policy. Entrepreneurship policy has reached a turning point and is currently under development, yet the promotion and encouragement of an innovative culture amongst entrepreneurs is in need of evaluation. The lack of systematic and frequent monitoring of policy measures for innovation and entrepreneurship hinders the development of indigenous enterprise and, given the advantageous context, the level of growth activity is not realising its full potential.

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