

ENCOURAGING ENTERPRISE IN THE 1980s

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Introduction

In a world under siege from changes of a kind that many of us would have difficulty in believing 10 years ago, it is critically important to try to understand these changes and manage our way through them. Whereas the dominant theme of the 1970s was the energy crisis, the overwhelming preoccupation of policymakers throughout Europe during the 1980s is the unemployment crisis. Since the trend in most countries, including Ireland, over the past 10 years has been that substantial job creation happened in small businesses, it is only natural that during the 1980s a great hope of almost all European countries, in terms of solving the biggest single problem they have, will be small business and the encouragement of new entrepreneurs.

Small Businesses and the Industrial Development Authority (IDA)

Since 1967, when it introduced its Small Industries Programme, the IDA has had a particular interest in and recognition for the role of small businesses in Ireland. In that first year the IDA supported 46 projects under its Small Industries Programme. In 1984 it supported over 600 small businesses under the same programme. There is no numbers barrier to the number of well thought out and soundly planned projects that may be presented to the IDA for grant aid assistance.

During the course of the 1970s the IDA recognised the need to have a new kind of incentive programme aimed at encouraging people of experienced management and academic backgrounds to start their own businesses. This recognition, supported by research, resulted in the establishment of the Enterprise Development Programme which was established in 1978. Under the Enterprise Development Programme during the past few years, the IDA has been supporting projects at the rate of roughly 35 a year. While the scale of projects backed under this programme tends to be substantially larger than the scale of those supported under the Small Industries Programme, the barrier to the number of such projects which can be approved is limited only by the number of soundly-based project applications received.

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Table 1: *Unemployment in the EEC (Greece Excluded)*

	1979-1984					
	1979		1982		1984	
	Unemployed		Unemployed		Unemployed	
	%	Nos	%	Nos	%	Nos
		000s		000s		000s
Germany	3.4	876	6.8	1833	8.4	2265
France	6.0	1350	8.8	2008	10.2	2309
Italy	7.5	1653	10.5	2379	12.9	2954
Netherlands	4.1	210	11.7	654	14.4	822
Belgium	8.7	352	13.0	535	14.4	595
U.K.	5.3	1391	10.6	2792	11.9	3160
Ireland	7.9	90	12.2	157	16.5	214
Denmark	5.3	138	9.5	253	10.0	271
Luxembourg	0.8	1	1.3	2	1.7	3

The International Economic Environment in the 1980s.

The most striking phenomenon for most European countries at the beginning of the 1980s is the absolute level and the general increase in unemployment, as evidenced by the data in Table 1. To make matters worse the growth in the active population in the EEC over the period 1980-1985 will be of the order of 1 million per year, so that just to hold unemployment at its current level would require an additional 1 million jobs per year, an almost hopeless task based on an historical performance of about 200,000 jobs a year during the 1960s.

Reviewing Industrial Strategies

Most countries are re-appraising their industrial strategies and trying to understand what is happening in the environment. Some factors they see are:

The trends towards market saturation in a growing number of products. Based on a survey of 600 European managers approximately 50% of European industries fall into this category.

A general *slowing in the rate of growth* of output, which has slipped in the EEC countries from 4.6% p.a. during the 1960s to 2.5% average during the 1970s and then to stagnation during 1980-1982. The medium term outlook offers little encouragement since forecasts of the rate of growth of output in the industrialised countries are of the order of 2% p.a.

On the bright side of the picture there has been an enormous explosion of *technological progress* over the past 20 years leading to two main kinds of phenomena:-

- (a) *Process innovation* – which has tended to characterise the maturity stage of many first generation industries as productivity improvements substitute capital for labour in sectors such as printing and publishing, automobile construction etc.
- (b) *Product innovations* – leading to new growth and employment, by generating new demands in sectors such as leisure and service technologies.

Increasing competition is occurring on an international scale, the most obvious indication being the appearance of a growing number of producers competing with more and more of our own Irish products and services. This competition leads to a loss of home and external markets for some manufacturers.

There is a temptation to move into *high technology products* but this may not be the full answer to competitive inroads made by low cost newly industrialising countries into basic products. Even in the 1990s technology products will represent no more than 10-20% of the market. It is a fact of life that mundane products will continue to represent the vast bulk of opportunities.

Traditional assumptions about the nature of competition are constantly thrown into question by a combination of economic and political forces. On the one hand, economies of the world are becoming increasingly “open” towards the external market – a car bought in Dublin may well be assembled in Japan with electronic components coming from Singapore, textiles from Korea, Austrian tyres, and German technology. On the other hand, many Governments are increasing their level of intervention in industrial trade. There is a growing evidence of non-tariff-barriers being used to protect or to develop home industries in some countries. The latter practice is more likely to be the result of ad-hoc short term searches for solutions to internal problems than any major move away from the concept of free trade.

On the more positive side there is a new emphasis being placed internationally on the concept of *entrepreneurship* as the engine which will help on the road to general economic recovery.

The Role of Entrepreneurship

Entrepreneurship itself is not new, but during the past few years it has been a subject that has come into greater prominence. More people seem

to be interested in it and certainly more governments and government agencies are actively encouraging it. This trend may well be influenced partially by the recessionary years we have been experiencing during the past decade, when people who were working in what seemed to be secure employment realised that their security could be tenuous to say the least.

The United States tends to be exemplified generally as the home of entrepreneurship and free enterprise. Various levels of government, from the Federal to the State and indeed the County, in the US, have been involved in the creation of special programmes to assist entrepreneurs and people starting new businesses, and numerous colleges are now offering courses on how to operate small businesses. It is fair to say that the same trend is evident in Ireland, though obviously on a much smaller scale. The IDA and SFADCO (Shannon Development) are operating specific investment programmes aimed at new small business start-ups set up by people from a wide range of backgrounds. Third level colleges during the past few years have been taking a greater interest in and putting more emphasis on the development of business related studies. In addition, a number of consulting firms along with AnCO, the Industrial Training Authority, have been and are involved in the setting up of "Start Your Own Business Courses". The Youth Employment Agency has also been taking an active role in encouraging the concept of young people starting their own businesses as an alternative to seeking employment in other companies. There is clearly a lot happening in the area of entrepreneurship, but there is room for a lot more to happen.

Ireland's Industrial Policy

Historical Perspective

The three main directions of Irish industrial development policies in the seventies were:-

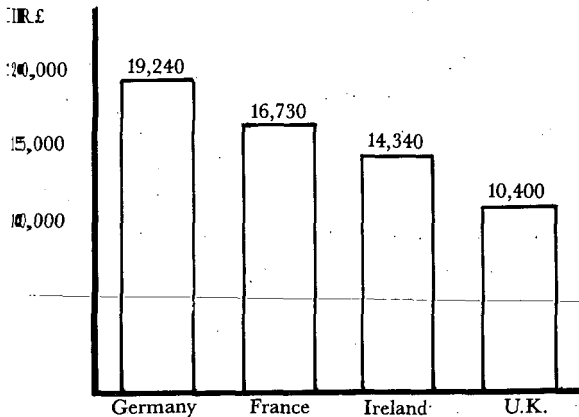
- job creation with a special emphasis on regional job creation, mainly by the attraction of new foreign investment;
- job maintenance through the re-equipment of Irish-owned industry to meet free trade conditions; and
- stimulation of very small businesses.

Much of the employment growth which occurred in Ireland in the 1970s was due to the "adding on" of two new high growth sectors, electronics and chemicals, rather than to the expansion of employment in the existing manufacturing base. The main employment implication for expanding industrial output (up to 62% over the decade), plus growth in agriculture, was that it should support an additional 100,000 jobs in services over the period. The main engine for that performance was the growth of new overseas investment in Ireland. A major difference between now and the

past, however, is that, as noted earlier, all developed countries have similar problems of high unemployment, and as a result competition for international mobile investment is more intensive than ever before. Many countries have re-organised their agencies along the lines of IDA and, when it comes down to bidding for international projects, have the strength to put many more dollars on the table.

Looking at prospects for the 1980s, the implications for Ireland of the international trends described earlier are favourable provided companies follow the correct strategies to ensure *rapid productivity growth as a means of achieving competitiveness and increased output*. We bucked the trend in the 1970s in terms of employment growth and exports and can do the same in the 1980s in relation to productivity where we still lag behind our EEC partners (see Figure 1).

Figure 1: *Net Output Per Man in Manufacturing Industry in 1983*



Source: OECD.

In the period 1980-1983 output per man in manufacturing industry in Ireland increased by almost 26% when the corresponding figure for Germany was 7%. This demonstrates that there exists the capability to increase productivity significantly.

New Industrial Strategies

In the IDA, development policies are now in place which put a growing emphasis on competitiveness, based on productivity growth, as a means of maintaining and increasing output growth in manufacturing industry. To implement this the IDA is taking a much more supportive and active approach to the ongoing development of both native Irish industry and overseas companies in Ireland. The strategies can be divided into three groupings:-

- (i) medium-to-large Irish companies.
- (ii) overseas companies in Ireland, and
- (iii) development of small businesses.

(i) Here, the IDA is encouraging Irish companies to take a strategic view of the development of their business and to identify opportunities for expansion. The IDA's range of incentives and its network of overseas offices are available to companies to help them to identify and evaluate viable development opportunities. The IDA's approach is tailored to the capabilities and needs of individual companies. In some cases it co-operates with companies in development audits, which is a very intensive involvement, and helps the company to identify its capability for development. In others, the managements already know where they want to go and their need is for promotional assistance in acquiring technology, joint ventures, or market opportunity. Securing new overseas companies to locate in Ireland continues to be a major IDA programme.

(ii) Here, the focus is on encouraging new and existing overseas companies to develop total business units in Ireland. This involves the promotion of functions additional to manufacturing such as, permanent research and development, local purchasing, and marketing responsibilities. The purpose of this is to ensure that the Irish subsidiaries develop the capability to remain competitive in the European environment and create within themselves the ability to grow rapidly.

(iii) Finally, for very small businesses the approach is:

(a) continue to provide substantial assistance for new start-up businesses so as to make manufacturing at least as attractive as other less risky forms of investment.

(b) having "grown" a large number of new businesses, then provide different levels of support – both financial and non financial – depending on the company's ability to grow and become strong competitive exporting businesses.

(c) regionalise to 9 different regions of the country the complete responsibility for small firm development; to be effective, policies for small firm development must be operated close to the client companies in an easy to understand and clear way.

(d) select for particular attention the top 10-20% of small firms and work closely with them to develop strategies along the lines outlined above.

Table 2: *Employment by Sector 1982 (percentages)*

	Agri. Forestry Fishery	Industry	Services	Total
Ireland	17.3	31.1	51.6	100
USA	3.6	28.4	68.0	100
Sweden	5.6	30.3	64.1	100
Netherlands	5.0	28.8	66.2	100
Denmark	7.5	28.5	64.0	100

Furthermore, a doubling of manufacturing output by the end of this decade (an ambitious but attainable target) would lead, through wealth creation, to many jobs in spin-off service industries. Here too, there is substantial scope for following the path of the more developed and high income countries.

From Table 2 it can be seen that there is substantial scope for the development of services employment resulting from greater wealth created in our productive sectors – mainly manufacturing. Ireland has a unique strength in the youth of its labour force, while European countries have to struggle with the problem of an ageing labour force becoming redundant.

White Paper on Industrial Policy

The White Paper published last July, was the conclusion of four years intense policy discussion within the country and has the objectives of doubling manufacturing output over the next ten years, of maximising the “value added” from industry and international services and of capturing, within Ireland, the wealth thus created.

While manufacturing industry will be the major force for economic growth, employment in industry itself will not grow sufficiently rapidly to absorb the prospective growth in the labour force. It is likely therefore that manufacturing industry’s share in the growth of employment in Ireland in the 1980s and 1990s will not be as great as it was in the 1960s. But industry will make an increasing contribution to employment growth through bought-in services and investment expenditure. The international experience shows marked rises in employment in services flowing from the expansion of industrial output. And this should benefit the encouragement and development of small industries (not just in manufacturing) to a significant extent.

The objectives of industrial policy adopted in the White Paper include the following:-

- to create and maintain the maximum number of sustainable jobs in manufacturing and international services;
- to maximise value-added in industry and to retain the wealth created for further employment-creating investment;
- to develop a strong, internationally, competitive industrial sector in Ireland made up of both Irish and foreign investment;
- to promote the rapid development of our natural resource-based industries;
- to integrate foreign industry into the Irish economy through greater linkage with Irish industry and the educational institutions.

To achieve these objectives, new approaches supported by some new incentives are being introduced and are dealt with in the following sections.

New IDA Initiatives

Company Development Plans

In this initiative, the IDA is adopting a catalyst role to encourage and assist a company to examine the many issues it will face in the future and to prepare a strategy to ensure the company's development. The IDA then assists the company to implement the development plan. This includes assistance for feasibility studies, product and process development (R & D), new technology acquisition, finding joint venture partners, linkages development and aid from other State bodies e.g. CTT on marketing. The company development initiative is being applied to companies which are adjudged to have development potential. A modified form of the approach will be applied to small industries.

Technology Transfer

The product and process development undertaken by Irish companies can be supplemented by technology transfer. This involves the transfer of technology from overseas by joint ventures and licensing. The development potential of this approach was recognised by the White Paper on Industrial Policy which indicated that new legislation would be enacted to enable IDA to grant aid acquisition of new product or process technology from abroad.

To this effect the IDA has introduced a new Technology Transfer Programme. Under this programme companies have been identified as having the capability to introduce new technology through the negotia-

tion of licensing or joint venture agreements with overseas firms. IDA overseas executives are seeking to match these companies to opportunities with relevant overseas companies.

National Linkage Programme

Industrial linkage between large and small industry is one of the key elements in retaining value added in the economy. The White Paper on Industrial Policy recognises this and highlights the need for and importance of the National Linkage Programme. The IDA has been given responsibility for the development and implementation of this programme. The programme will initially concentrate on the electronics sector, which has annual raw material/component requirements of over £400m. of which only 16% is supplied by Irish firms.

To achieve the objectives of the programme a new linkage team to co-ordinate State support has been established. A senior executive has been recruited from the electronics industry who will have detailed knowledge of both purchasing and supplier operations. Liaison with the electronics industry has been improved with the support of the Federation of Electronic and Informatic Industries (FEII). Industry Regional Committees have now been formed as part of the support structure. These operations should represent significant opportunities for small businesses as sub-suppliers. An indication of what can be achieved by effective linkages is the £20m. worth of new business secured by State agencies for small industries in 1982.

Natural Resource Development

Industries based on natural resources tend to be especially significant for regional development in that they are widely dispersed, reflecting the dispersal of the natural resources on which they are based. Over 67,000 people are employed in 1,700 firms in these sectors.

The IDA's Natural Resources Division is responsible for the development and implementation of policy related to natural resource based industries. The division has prepared and published a series of policy documents which outline the IDA's plans for the development of the major natural resource based industries. These cover the timber industry, the agricultural processing industry, and consumer foods.

Small Business and Competitiveness in the Changing 1980s

Small Business Development

During the coming decade there are high hopes that the small business sector will be a prime mover in the economy for innovativeness, employment growth and building strong competitive export orientated firms.

Only a percentage of the small firms will attain this latter position and they will be the ones with the ability to predict, adapt and stay competitive during series of changes in their market place.

In 1984 the IDA paid out more than £21 million to new and expanding businesses in every corner of the country. Small industries are a critical factor in the provision of new jobs; between them in 1984 they created 3,000 first time jobs and managed to sustain their overall level of employment despite the difficult economic climate and there are plenty of ideas still out there. The level of enquiries at the IDA Walk-In Information Centre in Dublin is evidence that there is a still large pool of entrepreneurial interest which could play a major role in the development of small business.

The Feasibility Grants Scheme is also playing a very important role in assisting potential entrepreneurs develop their ideas to the commercial stage.

Small Business and the New Technologies

Only a relatively small number of Irish-owned high technology businesses have emerged to-date. These are the firms which have the best chance of faster growth and long term success. They are the firms which will be critical if we are to achieve the White Paper targets of retaining in Ireland the maximum level of value added from manufacturing industry.

When IDA set up its Enterprise Development Programme in 1978, it was in recognition of the need to stimulate entrepreneurship from those individuals – experienced graduates and senior Irish managers – with the ability to establish technology based industries but who had not been attracted by the incentives offered by the Small Industry Programme. Some 70% of the promoters supported under this programme have been educated to third level (University, NIHE, Professional Institutes). So far over 300 entrepreneurs have established and are operating 139 projects under the Enterprise Development Programme. Between them they employ over 2,000 people and have the potential to employ almost 5,000 at full production. Among these there is an exciting core of small Irish owned high technology companies to spearhead us in the decade ahead.

Entrepreneurs of the Future

One of the key sources of entrepreneurship for the future, are students and graduates; they have the skills, drive, youth and the confidence to succeed, and yet they have not traditionally looked to industry as a career. A survey by the HEA of the first destination of award recipients shows that for the year 1982-3 out of a total of 5,800 primary and post graduates, less than 10% entered industry. On the other hand, on the basis of experience

during the first year of the Student Enterprise Award it is clear that a vast pool of ideas – either to convert into projects themselves or under licence – exists and that students can be encouraged to think in terms of entrepreneurship as an employment option.

In its first year, 1983/84, the entrants to the Student Enterprise Award Scheme came primarily from Business Studies/Commerce Faculties with only a few cross disciplinary entries. However, for the future it is vital to see the scientists working with the accountants, the engineers with the marketing specialists, and the computer analysts with the financiers. Enterprise development courses, if they are to be successful, must facilitate this team-building process and so students in the various faculties should be exposed to them. Schemes like the Student Enterprise Award are the ways of sowing seeds for future entrepreneurs and innovators. It is a first step on the road to getting people to think of starting their own business. The seeds thus sown will hopefully bear fruit in future years when with the addition of work experience they will be fully prepared for entrepreneurship.

Planning for the Future

Small business can through planning and with innovation, take advantage of the new market forces brought about by change. The small company must identify the core of its competitive advantage – whether it be a technological, market, locational or other advantage and a strategic plan aimed at maintaining this advantage is a pre-requisite to success.

Conclusion

While there are many problems to be faced in the years ahead it is clear that many new business opportunities exist for manufacturing industry. There is a substantial range of programmes, advice and incentives available which can result in the further development of industry and can especially help to tap the substantial pool of potential entrepreneurs.