

Dreaming of EUtopia: Constructing a Vision of an Entrepreneurial Idyll



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Contents

Introduction	1
A Dystopic Reality.....	2
Aspiring to be Better? Ambitions of an Entrepreneurial EU	7
Utopian Thinking: Entrepreneurial Environments.....	11
Envisaging a Utopian Entrepreneurial Environment.....	14
Tabula Rasa – Creating Utopian Realities.....	23
References.....	25



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“We have to change innovation from a buzzword in Europe, to a by word for Europe.”

José Manuel Barroso,
President of the European Commission,
6th December, 2006.

Introduction

One of the greatest challenges facing the European Commission is the need to solve the so-called ‘European Paradox’, whereby, despite high levels of research, knowledge and institutional support, the European Union consistently lags behind the United States of America and Japan in terms of innovation and entrepreneurship. Without fundamental policy changes, and a cohesive approach between regions, nation-states and the EU itself, Europe will not only fail to ‘catch up’ the USA and Japan but also will also be caught and surpassed by emerging regions such as China and India. This will have serious implications for Europe as small and medium size enterprises (SMEs) are vital to its economic success as ninety-nine percent of all enterprises within the EU fall into this category, providing over seventy-five million jobs. Therefore, if levels of new entrepreneurial ventures fail to keep pace with other regions of the world then it is clear that the EU will also fall behind in economic terms.

The EU has long recognized these issues. In 2000 the Lisbon Agenda was launched with the aim of making the EU "the most dynamic and competitive knowledge-based economy in the world" by the end of the decade, its key driver to be increasing levels of innovation and entrepreneurship. By 2005 it was clear that it would be extremely difficult, if not impossible to realise the Lisbon Agenda’s intended objectives. Despite this, and on the verge of a ‘third industrial revolution’, the EU identifies innovation and entrepreneurship as integral to becoming the world’s most vibrant economy.

Given the unrelenting importance attached to innovation and entrepreneurship within the EU it is somewhat surprising that very little consideration is given to what constitute an entrepreneurial environment. It is given such an environment is characterised by pro-market, pro-innovation, pro-entrepreneurship policies, but these are too abstract. All too often entrepreneurial environments are alluded to in terms of best practice of particular variables or factors, but little attention is given to the nature of the entrepreneurial environment as a whole. With much discussion about how to create a more innovative and entrepreneurial Europe perhaps we need to ask a more fundamental question - What does the entrepreneurial idyll look like?



This paper seeks to advance a nuanced approach for considering entrepreneurial environments – utopian thinking. By considering what the entrepreneurial idyll looks like sees the policy discussion only then become how do we get there. This might appear a somewhat tautological argument, but utopia is an unachievable state, not least because of the number of competing interests, be they public or private, national or supra-national. The consequence of these competing interests is that collective virtues of utopia are displaced by the self-interest of individuals, industry and governments before the vision is even created. By refocusing the debate to construct an apolitical vision of the entrepreneurial idyll provides a benchmark against which the policies and politics of innovation and entrepreneurship can be judged and evaluated.

While not claiming to offer a comprehensive vision of utopia, this paper seeks to initiate a dialogue about what such an entrepreneurial environment might look like. The basis of the entrepreneurial idyll vision is founded on a review of existing literature and policy, and a survey of entrepreneurs and SME firms in the ICT sector in six European countries. Detailed in the accompanying report, the survey explores those factors which inform and affect innovative and entrepreneurial behaviour. It is from this foundation that this paper seeks to create a more comprehensive vision of utopia through engaging more stakeholders in debate, and only then can the route to utopia be meaningfully considered.

The following section provides some context as to the rationale for thinking about entrepreneurial environments, outlining the previous approaches of the EU and their failings. The second section highlights the diversity of the innovation and enterprise landscape in Europe, identifying some of the barriers to innovative and entrepreneurial behaviour within the EU and conversely how some policies have succeeded in stimulating SME creation and growth. The penultimate section details presents a new way of imaging entrepreneurial environments, by considering the policies that would be needed to create a utopian entrepreneurial environment. The paper concludes that imaging an apolitical entrepreneurial environment has the capacity to better understand existing policy and regulatory environments, and what is required to promote innovation and entrepreneurship.

A Dystopic Reality: The failings of the Innovating Regions in Europe approach and the Lisbon Agenda.

In the mid-1990s as the world economy moved towards a post-industrial globalized system, the EU began to prioritise SMEs, innovation and entrepreneurship as drivers of economic development (Jessop, 2005). The European Commission's Green Paper on Innovation, published in 1995, stressed that '[I]nnovation is an essential precondition for growth, maintaining employment and competitiveness'. However, the report went



on to note that the EU's innovation framework was 'unsatisfactory' and that one of Europe's major weaknesses was its inability to turn technological research into 'innovations and comparative advantages', this became known as the 'European Paradox'. While branded unsatisfactory the report never identifies what the ideal scenario would be, and only makes sweeping statements as to how to move forward. The role of this section is therefore to review the two main approaches adopted by the EU, the Innovating Regions in Europe (IRE) approach and the Lisbon Agenda, in its attempts to make Europe the world's leading knowledge economy.

European policy identified that increasing levels of innovation, entrepreneurship and SME growth would lead to the growth of the European economy, while also serve to eliminate, or at least reduce regional inequalities within Europe (Kaiser and Prange, 2005). This marked the region becoming the focus for implementing EU policy, and as MacLeod (2001) points out coming to be regarded as a key driver of economic development. The emphasis on the region and its significance, particularly in terms of high-tech firms clustering in regions such as Silicon Valley (Saxenian, 1994), has inspired the rise of 'new regionalism' within academia and policy spheres.

The EU, inspired by global successes such as Silicon Valley, assumed an explicit focus on regional policy in an attempt to boost innovation and entrepreneurship. Arguably the most prominent scheme has been the IRE (Innovating Regions in Europe) network, whereby the EU acted as a facilitator, developing networks, encouraging cooperation and the funding of projects to empower entrepreneurs at a sub-national scale, with the (Lawton *et al*, 2003). Advocating subsidiarity as the most efficient way of engaging policy the EU envisaged that 'best practices' would emerge which would be shared among regions and would, in turn, inform national and EU level policy from the bottom up. However, rather than culminating in a cohesive EU wide innovation policy the IRE saw competing policies/political bodies emerged at the regional, state and EU levels and a more fragmented system of multi-level governance prevail (Benz and Eberlein, 1999). Consequently rather than sharing best practice, countries and regions sought to compete against each other, and the overall outcome was that while inequalities between EU countries fell dramatically during the 1990s inequality between regions within states continued to rise (Puga, 2002).

The EU's response to this fragmentation and intensifying competition from India and China, as well as that of the USA and Japan, was set out in the Lisbon Agenda by the European Council in March 2000.

It was explicit in its aim, setting a new strategic goal to become the most competitive and dynamic knowledge-based economy in the world, which is dependent upon innovation and SME development. Realising the goal of the Lisbon Agenda demanded cooperation between regions and states, and the EU was considered the most important scale for stimulating innovation (Sapir, 2003). Far from the emphasis of the





IRE networks on subsidiarity and the region, the central theme of the Lisbon Agenda was of collective action being greater than the sum of its parts. To achieve this the focus of policy has sought to:

- develop the coherence of innovation policies.
- establish a regulatory framework conducive to innovation.
- encourage the creation and growth of innovative enterprises.
- improve the key interfaces in the innovation system.
- foster a society more open to innovation.

The aim of these policies was to make the EU the world's leading knowledge economy by 2010. To monitor progress the European Innovation Scoreboard was developed and annual country reports to monitor how far individual states have moved towards these goals are produced (the project's website can be found at <http://www.proinno-europe.eu/trendchart>). To monitor progress towards the Lisbon agenda's key target of closing the innovation gap between the USA and Japan the following criteria are employed:

INNOVATION DRIVERS

- 1.1 S&E graduates
- 1.2 Tertiary education
- 1.3 Broadband penetration rate

INNOVATION & ENTREPRENEURSHIP

- 3.4 Early-stage venture capital
- 3.5 ICT expenditures

INTELLECTUAL PROPERTY

- 5.1 EPO patents
- 5.2 USPTO patents
- 5.3 Triad patents
- 5.4 Community trademarks
- 5.5 Community designs

KNOWLEDGE CREATION

- 2.1 Public R&D expenditures
- 2.2 Business R&D expenditures
- 2.3 Share of medium-high/high-tech R&D

APPLICATIONS

- 4.2 High-tech exports
- 4.5 Employment in medium- high/high-tech manufacturing

Figure 1. Lisbon Agenda score card categories

Such score carding allows for best practices to be highlighted and for countries which are failing to implement reforms to be visibly chastised.

The launch of the Lisbon Agenda unfortunately coincided with the end of the 'dot-com boom' and the collapse of the NASDAQ index, the worst time possible to be launching



a long-term economic development strategy founded on the development of a knowledge economy (Watson, 2001). While the global economic downturn was relatively short-lived, recovery in the EU was slower than in the USA and Japan and it became clear that the Lisbon agenda's goals would not be met (Archibugi and Coco, 2005). As well as the end of the dot-com boom there are numerous other reasons why the Lisbon agenda stalled. The most prominent criticism was that "[t]he Council failed to move beyond the level of aspiration to suggest a realistic strategy through which its aspirations could be realized in practice" (Watson, 2001).

The reliance on score-carding and reports to monitor progress allowed countries to be praised and shamed in a public manner but provided little incentive above this. The EC was unable to construct a framework whereby states would be punished for failing to comply with the agenda. For example, there was no linking of IRE funds to success in following the agenda, or conversely, the withholding of funds from regions/states that made little effort in complying. As Secchi (2007) notes, this inability to enforce the strategy was 'tragic weakness'.

The EC quickly realized that the agenda had been 'blown off course' (Barraso, 2004), and in response instigated a high level working party to explore how the process could be rejuvenated. In late 2004 Wim Kok, the then Prime Minister of the Netherlands, presented his report into the progress made in the Lisbon agenda. His conclusions were clear;

Member States have clearly themselves contributed to slow progress by failing to act on much of the Lisbon strategy with sufficient urgency. This disappointing delivery is due to an overloaded agenda, poor coordination and conflicting priorities. Still, a key issue has been the lack of determined political action... Europe has lost ground to both the US and Asia and its societies are under strain.

The report argued that the Lisbon agenda still had merit and that its goals could still be met. Thus the strategy was re-launched in early 2005. Pisani-Ferry and Sapir (2006) note that Kok's report called for a three-pronged approach to revitalizing the EU's aims;

1. Member states were asked to take ownership of the process and to commit themselves to delivering the agreed reforms by presenting national programmes, which should be subject to debate with national parliaments and social partners.
2. The Commission was asked to improve the peer pressure and benchmarking system by delivering "in the most public manner possible" an annual league





table of member state progress towards key targets. Stronger reliance on “naming, shaming and faming” was thus advocated.

3. The EU common policies – including the EU budget – were invited to reflect more closely the Lisbon priorities.

However, as Pisani-Ferry and Sapir (2006) state the agenda still had numerous weaknesses such as the sheer number of objectives and the lack of any guidance on how member states should prioritize them. Furthermore, they note that no real pressure can be put upon member states to implement the reforms necessary to meet the Lisbon objectives. Given the above problems in introducing pro-business reforms it is no surprise that innovation levels have not converged with the USA and Japan, in almost every indicator used by the EC to monitor progress in 2008 the EU states are behind the USA , and Japan (as the table below highlights).

What is perhaps even more worrying is that there is little impetus for further reform and projects, such as the Lisbon agenda, seem to be running out of steam. Leblond (2008) refers to this stasis as the ‘fog of integration’, whereby differing groups, such as states or enterprises, are unable to see what the long-term benefits of ‘integrating a particular policy area’ are. Therefore, without a coherent long-term vision it is difficult to see how the aim of closing the innovation gap will be achieved.

However, it must be noted that in the table below European ‘Innovation leaders’ are identified and often their results are better than those for the USA and Japan. Therefore, it is clear that innovation potential does exist within Europe but that it is fragmented between countries. This is arguably a legacy of the regional development policy previously followed and the desire to succeed in scorecard reports whenever possible (in other words rather than developing an overall approach states concentrate on what they do best). This report argues that a still more coherent approach to stimulating innovation is required and one which is depoliticized and does not encourage regional competition. Therefore, this report calls for the creation of an ‘ideal entrepreneurial environment’ against which policy formulations can be benchmarked, rather than comparing the progress of individual countries against each other. Before discussing the key ingredients of such an environment the report now turns to further examine some of the key areas where pro-innovation policy lack integration while also detailing some of the positive steps EU states have made.



Aspiring to be Better? Ambitions of an Entrepreneurial EU



The characteristics of SMEs varies across Europe. In some countries, such as Italy and Poland, micro-businesses (i.e. firms that employ fewer than 10 people) dominate the commercial landscape whereas in the United Kingdom, larger SMEs preponderate. Common to all SMEs is the rationale behind their start up location, with --- percent of respondents stating that they are based where they are simply because it is their home town. Furthermore, only ten percent of firms had relocated after start up. This helps explain why the EU's regional policy had little impact on innovation levels as it can be suggested that entrepreneurs locate in a region they know well rather than migrating to take advantage of incentives. The survey also indicated that factors such as taxation, stability, interest rates and inflation were not significant in the decision to start a new venture.

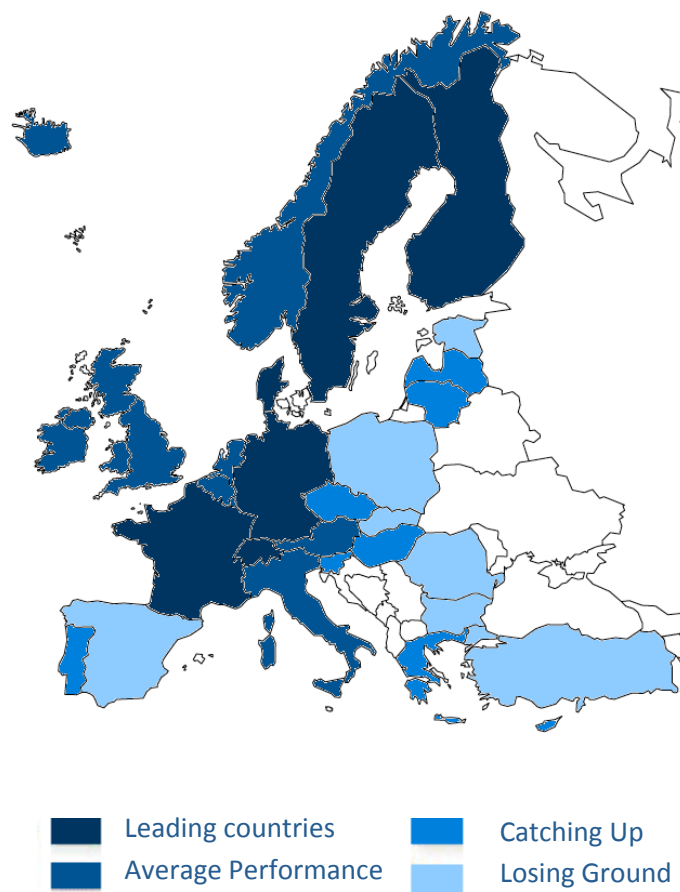
	EU	US	JP	European 'Innovation leaders'		
INNOVATION DRIVERS						
1.1 S&E graduates	12.9	10.6	13.7	IE (24.5)	FR (22.5)	LT (18.9)
1.2 Tertiary education	23.0	39.0	40.0	FI (35.1)	DK (34.7)	NO (33.6)
1.3 Broadband penetration rate	14.8	18.0	18.9	DK (29.6)	NL (29.0)	IS (28.1)
KNOWLEDGE CREATION						
2.1 Public R&D expenditures	0.65	0.69	0.74	IS (1.17)	FI (0.99)	SE (0.92)
2.2 Business R&D expenditures	1.17	1.87	2.40	SE (2.92)	FI (2.46)	CH (2.16)
2.3 Share of medium-high/high-tech R&D	85.2	89.9	86.7	SE (92.7)	DE (92.3)	CH (92.0)
INNOVATION & ENTREPRENEURSHIP						
3.4 Early-stage venture capital	0.022	0.035	--	DK (0.051)	UK (0.047)	FI (0.044)
3.5 ICT expenditures	6.4	6.7	7.6	BG (9.9)	EE (9.8)	LV (9.6)
APPLICATIONS						
4.2 High-tech exports	16.7	26.1	20.0	MT (54.6)	LU (40.6)	IE (28.9)
4.5 Employment in medium-high/high-tech manufacturing	6.63	3.84	7.30	DE (10.75)	CZ (10.33)	SK (9.72)
INTELLECTUAL PROPERTY						
5.1 EPO patents	128.0	167.6	219.1	CH (425.6)	DE (311.7)	FI (305.6)
5.2 USPTO patents	49.2	273.7	274.4	CH (167.5)	FI (133.2)	DE (129.8)
5.3 Triad patents	19.6	33.9	87.0	CH (81.3)	DE (53.8)	NL (47.4)
5.4 Community trademarks	108.2	33.6	12.9	LU (902.0)	CH (308.3)	AT (221.5)
5.5 Community designs	109.4	17.5	15.2	DK (240.5)	CH (235.7)	AT (208.8)

Table 1. Differences in EU-US and EU-Japan Performance by Indicator





Despite their common characteristics there are still there are wide variations in entrepreneurial activity and innovation levels within the EU, as the table shows. Furthermore, it demonstrates that numerous EU states have higher innovation levels than in the USA and Japan, which indicates evidence of successful pro market, pro-innovation and/or pro-entrepreneurship polices already operating within the EU. However, while there are some strong examples of best practice there is no unified trend in innovation and entrepreneurship performance as illustrated by the map below. For example, it could be assumed that Europe's post-socialist countries would hold a similar position but as the map shows that while some are nearing the EU average others are falling further behind. At the same time the map shows that some countries, such as Finland, Sweden and Germany are implementing pro-innovation policies, such as increased state spending on R&D. Overall, however, this demonstrates that notwithstanding the EU's single internal market individual state policy is still crucial, and that regulatory approaches to cultivating and supporting entrepreneurship vary widely between countries.



Map 1. Innovation performance between EU states.



The significance of the state, while central to developing more innovative and entrepreneurial national economies potentially stifles the capacity for growth and development outside national markets. Survey respondents cited the complexity, and compliance costs, of multiple tax regimes for their unwillingness to expand outside their country. They also noted that recruiting skilled employees and securing IP protection across the EU was also unnecessarily complex and time consuming. Virtually all respondents felt that that administrative simplification would encourage entrepreneurship and that their national government and the EU could (and should) do more to protect national economic interests and support fledgling SMEs.

On this basis it is much harder for SMEs to negotiate the regulatory and political landscape within the EU than for larger enterprise, with a recent EU study showing that compliance costs for SMEs in cross border taxation can reach 2.5 percent of turnover, compared to less than 0.02 percent for multinational firms. This sentiment was reflected in the comments of Meglena Kuneva, the European Consumer Commissioner, who found results of the Eurobarometer to show the European market is still very much divided along national lines, which despite the ambition of SMEs is a trend perpetuated by a lack of a clear and coherent rules . The survey found that SMEs lacked information about the opportunities presented by the Single European Market, as well as details of tax and employment regulations as well as financial support and incentives. Consequently the difficulties of cross border innovation and entrepreneurship have seen the market restricted, so making it difficult for SMEs to develop into multinational firms.

One telling example of the fractured EU regulatory framework is its system of IP protection. EU based innovators have two patenting, either to file national patents in individual countries or apply for a 'European Patent' (EP) which according to the EC, is 'essentially a bundle of national patents'. While the EP saves the patentee from filing multiple applications, to become legally binding the EP has to be translated into the language of each country they require protection in which is both time consuming and costly. Furthermore, disputes are considered through national courts, each adhering to different legal systems. Within Europe filing a patent can take takes twice as long to complete, 44 months, than in the USA and Japan, and as table 2 shows the application process is more significantly more expensive than. These factors are impediments, and arguably deterrents to innovation and entrepreneurship in Europe.



	Filing and search fees	Examination fees	Grant fees	Renewal fees	Translation costs	Agent's fees	Total
EPC (Average)	810+532	1 431	715	16 790	12 600	17 000	49 900
US	690	-	1 210	2 730	n/a	5 700	10 330
Japan	210	1 100	850	5 840	n/a	8 450	16 450

Table 2. Comparison of costs and fees (in Euros) payable for obtaining patents in the EU, the United States and in Japan (in 2000)

Recognizing that the cost of filing a patent and its lack of Europe-wide applicability was stifling innovation in 2000 the EC called for the creation of a Community Patent. By early 2003 the EC had reached agreement on its framework, but legal discussions have delayed its implementation. This impasse still exists in 2008, and in addition to impeding innovation and entrepreneurship undermines the credibility of the Lisbon Agenda to make Europe the most competitive economy in the world by 2010. Indeed from this example it is no surprise that the innovation gap between the EU and the USA and Japan is no nearer to being bridged than it was in 2000 when the Lisbon agenda was launched.

While the patent debacle is testament to the bureaucracy that plagues Europe, individual countries have managed to successfully reduce national regulatory clutter. In many cases the stimuli to reducing bureaucracy is some form of economic 'shock', such as a deep economic recession or fundamental political change. For example, between 1990 and 1993 Finland experienced a fall in GDP of over 10 percent and a rise in unemployment to almost 20 percent. In response the Finnish government slashed bureaucracy, encouraged foreign investment and moved to diversify the economy. State spending on R&D increased from one of the lowest amongst OECD countries to the third highest in the world at almost 3.5 percent of GDP. Furthermore, significant resources were devoted to the education sector and the country regularly comes top of global league tables for mathematics, science and literacy skills. While the Finland has been comparatively successful in transforming its political and regulatory environment, the SMEs survey identified problems to persist with respect to over regulation – particularly with respect to employment legislation. Despite Finland's



position as an innovation leader in Europe it continues to endure regulatory problems like all other countries.

The clutter of policy and regulatory landscape hampers all countries to different degrees. Of the countries which have not undergone such widespread reforms as Finland there are unsurprisingly similar issues. Amongst French respondents fifty percent of respondents believed that the French government should do more to protect national economic interests and 70 percent felt the EU should protect European economic interests more. The founders of French ICT SMEs were also scathing about the effect of national legislation on product development, with 80 percent reporting that legislation hindered the development of new equipment, software, or services. Consistent GDP growth has meant there was not the impetus for the French government to implement large-scale reform. Unions and state bureaucracies remained powerful, as unemployment was relatively low, and attempts to introduce reform aimed at increasing the economy's dynamism are met with resistance. Witness the street riots of 2007 when attempts to alter the labour rights of young people were introduced. This has resulted in tension between paradigmatic and incremental approaches to economic change and reform within the EU.

Overall there is evidence that the EU is indeed aspiring to be better in terms of innovation policy, but little evidence this has been translated into success. Such aspirations are routinely thwarted by the actions of individual states, often condemning such policies to failure or sidelining them. It is no surprise, therefore, that neither the IRE approach nor the Lisbon Agenda have had the desired impact of turning the EU into a world leading knowledge economy. It is on this basis that this paper, and the accompanying report advances an alternative approach to move the EU towards its goals.

Utopian Thinking: Entrepreneurial Environments

Within Europe there have previously been two major initiatives to stimulate economic growth and competitiveness. With a focus on innovation and entrepreneurship, both the EU's regional approach and more recently the Lisbon Agenda have failed to achieve their goal of making Europe the world's leading knowledge economy. Thus, this paper argues, addressing the question of how to create (more) entrepreneurial environments demands a paradigmatically different approach. Rather than profiling innovation and entrepreneurship, and then comparing regions and countries, we need to think beyond the current and best practice. Such an approach could be the creation of an ideal entrepreneurial environment, or utopia, against which policy suggestions and contestations could be judged.



At present ‘success’ in adhering to the Lisbon agenda is measured by scorecarding, as table two above shows, in cross country comparisons. While this reveals trends it does not define what ‘success’ is. For example, if we take broadband penetration levels we can see that Denmark is an ‘innovation leader’, with a higher score than the USA average, and is performing much better than France. This does not tell us, however, how near Denmark is to the level of broadband penetration that will help drive innovation. In other words it is far more beneficial to benchmark against an ‘ideal’ score rather than against other countries. This will still allow for countries to be ranked against each other, and for laggards to be admonished, but it will also provide a marker against which policy reforms can be judged. For example, if a country wishes to deregulate the broadband provision they would be able to judge how nearer their reforms would get them to the ‘ideal’ score, rather than trying to ascertain how it will compare to the performance of other countries.

A range of such scores, or goals, would provide policy makers with a framework within which they can judge how far reforms would encourage entrepreneurship and innovative behaviour. Such a framework would help depoliticize policy formulations as those who try and water down, or block, reforms would clearly be trying to stop the ‘ideal’ being reached. This framework would also benefit attempts to create pan-EU regulations, such as a streamlined IP system, as if an ideal is created then it would be clear that those states blocking reform are acting in a manner which will impact negatively on entrepreneurship. This would enable the EU and other member states to exert pressure on them and to reveal the causes of the ‘fog of integration’.

Logically the most successful entrepreneurial environments are those where the policy and institutional environments do not impede entrepreneurs. Economic freedom is a key factor in promoting effective and productive entrepreneurship, but a successful entrepreneurial environment is more than simply a laissez-faire economy. Indeed governments, both national and European are fundamental to an entrepreneurial environment, as even where reforms may appear laissez-faire governments perform a deliberate decision in their implementation, or not. Furthermore, innovators require regulatory protection, such as IP protection and contract enforcement, in order to be willing to ‘take the risks’ associated with entrepreneurial behaviour. Therefore, the utopia does not call for a withdrawal of the state but rather that it is streamlined and willing to adopt, and support, pro-innovation policies.

On the basis of the accompanying report and the existing literature this section begins to construct a vision of what such an entrepreneurial idyll may look like. Again in imagining such a utopia it should be stressed that this vision is an imaginary concept that is to be used as a benchmark. It is also intended to stimulate thought provoking debate about what constitutes such an idyll. Arguably the most significant to the



creation of (more) entrepreneurial environments is the role of regulation and public policy. The issue here is more than simply advocating deregulation, with entrepreneurial environments benefiting from pro-market reforms which are reinforced through public policy and the regulatory environment. Governments have a veritable toolbox of policy and regulatory measures by which they can engineer a more entrepreneurial economy and society. One mechanism by which this can most readily be achieved is through taxation, as this can be an incentive, or disincentive to pursue entrepreneurial behaviour in those countries where policy and/or regulation brings additional bureaucracy. In a utopian environment there is a need for policy and regulation to support entrepreneurs and nascent ventures - the challenge is creating an environment which is straightforward to navigate and is not overburdened with bureaucracy.

A significant role of governments in creating the utopia is the allocation of budgetary resources which have the capacity to shape this environment. One key sphere of the institutional environment is the educational system, with education and skills training recognized as a priority. The emphasis here is not on 'entrepreneurial education' specifically, but education more generally. Another important aspect of the education system are universities, both as a teaching institution but also in terms of contributing to the knowledge base through research. Indeed the focus recent public policy in this sphere has sought to realise the socio-economic potential of universities and academic research by promoting collaboration and links with industry as well as academic entrepreneurship through spin-offs and licensing.

In addition to a pro-market regulatory and policy environment, a pro-enterprise culture is fundamental to such a utopian environment. Culture is a somewhat ephemeral concept which is inherently social. Nurturing such a pro-enterprise culture demands new norms and values that support and promote entrepreneurial behaviour as well as celebrating and rewarding success. An entrepreneurial culture can be primed by raising the awareness and visibility of entrepreneurs and their ventures and (re)engaging them as mentors for prospective entrepreneurs in broader social networks. Furthermore, an entrepreneurial culture can be forwarded by reducing bureaucracy, for example moving towards E-governance for business registration etc, as it allows innovators more time to concentrate on their goals rather than filling in forms. There is also a need to ensure that the entrepreneurial environment rewards entrepreneurs suitably so as entrepreneurial endeavour justifies the risk - that is to say entrepreneurs are rewarded for real successes not mediocre performance. This seems an obvious point, but is important nevertheless. Ensuring the so called 'risk/reward ratio' is appropriate is integral to the vision of the entrepreneurial idyll

The emphasis on increasing competitiveness of entrepreneurs and SMEs within utopia is critical to entrepreneurial success, however this cannot be achieved by engineering



the utopian environment alone. The utopian state is part of a regionalising and increasingly globalising world, and so its success is affected by how it competes and engages across borders. This is more than a question of harmonisation, and demands a greater degree of integration between policy and regulatory environments. It is not possible to integrate some policy and regulatory environments, such as tax; others are becoming more integrated, such as higher education, while others, such as patenting, need to be integrated further. Integration is contentious issue as while governments play a significant role, entrepreneurs and private enterprise are recognised to play a significant role in the process. With economic interests often providing a rationale for integration there is a common goal, although often no common course to achieving it. It is envisaged that adopting a policy, or vision, of moving towards an entrepreneurial utopia would also the EU, and its member states, to 'see through' the 'fog of integration' which currently envelopes it.

The aim of this section has been to initiate what an entrepreneurial utopia may look like by identifying those measures, policies and institutional arrangements which promote entrepreneurialism with a view to realising economic growth and competitiveness. It is over-governance and intervention that is potentially detrimental to establishing (more) entrepreneurial environments, so national governments and the EU would play a significant role. Moreover the nature of intervention needs to be coordinated across and between institutions and scales so as to maximise the impact in creating entrepreneurial environments, and as such the dialogue of what constitutes the entrepreneurial idyll needs to be constructed by all those stakeholders with an interest in it.

Envisaging a Utopian Entrepreneurial Environment

This final section is to provoke discussion rather than provide a definitive blueprint – while the utopian environment will have similar characteristics across Europe it must be recognised that starting conditions vary between, and within, countries. Also different regions will have specific skill sets, networks and embedded knowledge, such as Munich's auto manufacture region, and will therefore have varying needs. However, an overall vision can be identified which can be adapted as needs differ.

Common across the surveyed countries was the message that while states, and the EU, did not actively discourage innovation and entrepreneurship within individual countries they could do much more to encourage it. Furthermore, the main problems appear when SMEs move to trade and/or expand outside of their home state. As discussed above many of the surveyed countries do some things very well but not one country could be considered to be an ideal environment. This demonstrates that such utopian thinking is not just fanciful, as it is evidenced in singular processes (i.e.



taxation or labour policies), and that it is possible for governments to remove regulatory clutter. The ideal environment does not call for the removal of the state but for a state which is less bureaucratic and one which facilitates, encourages and protects entrepreneurs

The ideal environment also has to be grounded in political realities as, for example, in the current social and economic climate it would be impossible for the EU to implement as Europe wide taxation system. However, it is possible for states to remove barriers to paying taxes and for cross border tax systems to be made easier for SMEs to operate within.

The framework

The utopian Entrepreneurial Environment would have a very specific interface. Much time is wasted by SMEs in dealing with governments so the ideal environment would have all of the 'straightforward' functions, such as registering a business, obtaining licenses, paying taxes etc, available to complete online. Such portals would fulfil a 'one shop' function through which all SME-state contact would be conducted. Also key to the environment would be a reduction in the number of hours it takes to complete such functions. As the below discussions show within the EU the time taken to register a property, for example, varies wildly. Time spent on such tasks is obviously an unwanted distraction for entrepreneur.

These spaces would also serve as an arena for discussion and the sharing of ideas. Forums would allow potential entrepreneurs to seek advice from established SMEs on the practicalities of setting up their business. This would also allow long-standing entrepreneurs to act as mentors for new entrants. This would encourage knowledge flows and rapidly alert people to opportunities. Such a framework would encourage transparency and therefore trust in the state. Figure 2 presents a conception of such a utopian environment in diagrammatic form before discussing each point in more detail.



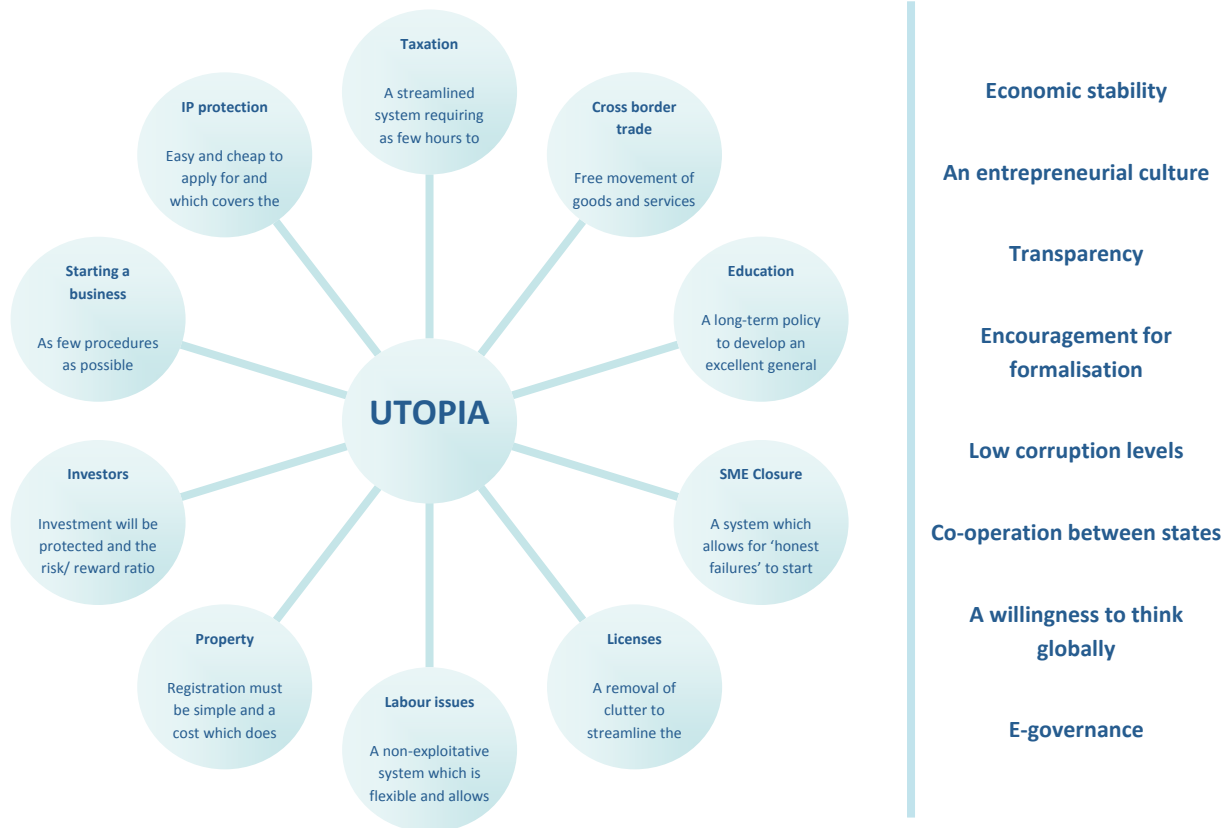


Figure 2. Conceiving Utopia

Taxation

The idea environment will have a streamlined, online, tax system. While of course taxes must be paid to ensure the running of the country the percentage of profit that SMEs have to pay is not the only issue that must be considered. The number of payments, how they are paid and, perhaps most importantly, the number of hours it takes to do so are all central to entrepreneurial environments. For example, Ireland, according to the World Bank's ease of doing business survey, has the 6th most efficient taxation system in the world. The overall tax rate (approximately 29 percent) is not the lowest but there are only 9 payments to be made, all of which can be completed online, and overall the taxation process should only take 76 hours to complete. Whereas in Poland, ranked 121st, 41 payments have to be made and only one of them can be made online. The whole process takes around 418 hours and the overall cost is around 38 percent of profit. Even in Germany where one would assume that such payments would be efficiently handled there are 16 payments, taking 196 hours.



Therefore in the utopian environment the taxation system would be streamlined in such a way that as few payments as possible are called for by the state (once collected the state can distribute the revenue as they see fit) and that online filing is used to reduce the time spent in completing the documentation. Such a tax system would encourage SMEs to pay taxes, thus increasing revenue and in turn allowing the state to invest in the areas identified below such as education. The tax system would also be one which rewarded entrepreneurship by recognising the risks that innovators take. This would include tax breaks for fledging innovative firms, for individuals willing to take on mentoring roles and incentives to encourage firms to grow in size (for example, reduced rates of social security contributions for new members of staff as the SME is expanding).

Intellectual Property

For the EU to even consider catching up with the USA and Japan a single IP protection scheme must be put in place. The utopian ideal would be a scheme whereby innovators can apply for IP protection in one country, online and at a minimal cost, which offers immediate protection across the environment. There would be a central IP mitigation centre, acting independently of state/intra-state influence, where there are clear guidelines on how to appeal against IP infringements. Within a multi-lingual environment translation is clearly an important issue but costs would be kept to a minimum by only requiring translations for the countries where the infringement is argued to be taking place. Alternatively, to attract applications from the USA and Japan, and given its status in global business, English could be adopted as the *lingua franca*.

Trading across borders

The benefits of free trade are well recognised and documented in the literature, and trading across borders is integral to this. Despite the known virtues of free and cross border SMEs continue to commonly encounter numerous barriers to importing and exporting goods which can negatively affect trade. A utopian entrepreneurial environment would seek to reduce barriers impeding free trade so making it more competitive in global markets.

Greater cross border trading can be achieved through more efficient customs systems and fewer document requirements which make the import/export process easier to comply with and with it both faster and cheaper. In Europe import and export requirements vary from Denmark which demands 4 documents for import and 4 documents for 3 exports and takes 5 days incurring a cost of \$540 to while Slovakia



which demands 8 documents for import and 6 documents for exports and takes 25 days incurring costs in excess of \$1000. SMEs currently account for c.30 percent of trade across borders in the EU, and through simplifying and harmonising the import/export process would undoubtedly increase this.

Starting a business

The ease of starting a business can significantly impact on innovation levels. It is no surprise that Europe's least innovative countries have the most complicated and lengthy procedures for registering a business. For example, in Poland to complete the registration ten procedures must be completed which takes at least thirty days. That it can cost around \$7000USD to complete them must be a significant barrier to entry for many people. Furthermore, if there is more than one shareholder then the agreements must be notarised which can cost more than the above costs in legal fees.

On the other side in the more innovative Ireland there are only four procedures which take ten days to complete at a cost of around €100. In Australia the process is even quicker as the two procedures can be completed within one day at cost of around €200. As these systems obviously work it is clear that in the ideal environment should have as few procedures as possible, at a low cost so as not to detract potential entrepreneurs.

Education

While there are of course examples of successful entrepreneurs who have no formal qualification who have successfully pursue a new venture, this does not mean education is unimportant. Indeed with the level of formal qualifications held by new business owners greater than those of the average of the adult population, it suggests that general education is an important factor. Entrepreneurs identify soft skills such as management and interpersonal skills to be more important than hard or technical skills such as method etc. Increasing the standards and levels of education would be beneficial to developing a more entrepreneurial environment.

The recently popularised entrepreneurship education has been the focus of recent debate, and as to whether entrepreneurs are born or made, or can in fact be taught. What exactly constitutes entrepreneurial education is unclear, but may include a combination of soft(er) skills including opportunity recognition, risk assessment/management and instruction in business management processes. However, this is less central to creating entrepreneurial environments than more general education. That said any complimentary education that provides education



business planning, capital development, marketing, and cash flow analysis, whether provided by under the guise of entrepreneurship education or otherwise is not a bad thing.

Licenses

As with all of these bureaucratic procedures licensing plays an important role in a functioning economy. Without them, or if they are easily bypassed through corruption, it becomes much harder for SMEs to compete against larger firms. They are also a prime example of how important the state is in facilitating entrepreneurial behaviour as the differences in licensing behaviour differs greatly between states. For example, in Holland it takes a minimum of 84 days to complete the 18 procedures required to be allowed to build a new warehouse. The total cost of this is approximately €26,000. Whereas in Germany the whole process takes at least 45 days to complete only 12 requirements, at a cost of around €18,000. In Finland the process takes only 12 days to complete as many of the requirements are passed onto those who will be carrying out the work. For example, it is the responsibility of the electrician to submit the wiring plans to the central authority, not the entrepreneur's. This reduces the red-tape as the electrician will be well aware of the requirements needed for a successful application, where they need to apply to, and, perhaps more importantly, will know what to do if there is a problem. Even Europe's most efficient states in this area have some way to go as in New Zealand to complete the same process as in Holland takes only 30 days at a cost of €5,000.

The ideal environment would therefore have as few procedural steps as possible, while of course not comprising safety, and entrepreneurs would be offered as much support as possible by experts in each step filing the required papers. Utility companies would be encouraged to keep initial costs down to a minimum, allowing for their outlay in connecting the property to the central grid, for example, to be recouped via future bills. As much as possible the process would be online and standardised regulations would be introduced. Similar to the USA and New Zealand the introduction of zoning regulations, whereby the entrepreneur knows immediately whether it is possible to build a factory or an office in a certain location without having to undergo a lengthy planning process. 'Off the shelf' applications would also be developed for certain zones to shorten the process even further.



Labour issues

The original intention of labour law was to reduce the inherent socio-economic inequalities, by preventing exploitation of employees and define entitlements. The evolving nature of the economy characterised by rapid technological progress, heightened global competition, changing consumer demand and the growth of the services sector requires have shown the need for increasingly flexible labour policies. A utopian environment would embrace this flexibility, with a variety of employment contracts that businesses need to remain competitive at minimum cost. This is not intended to reduce protection but rather develop a more dynamic labour market which is more competitive and with greater employment opportunities.

Central to creating a more flexible labour market is reducing the difficulty of hiring and firing employees, furthermore a more entrepreneurial environment would benefit from less rigid working hours and greater employment flexibility so as firms can react to the economic conditions. In addition to the flexibility of the labour market another aspect is reducing the non-labour and associated cost. These factors are compared in Figure 3, which compares the implications of employment laws and labour regulation in Spain, Czech Republic and Denmark – n.b. the entrepreneurial idyll would not show in Figure 3 as there would be not associated costs or difficulties.

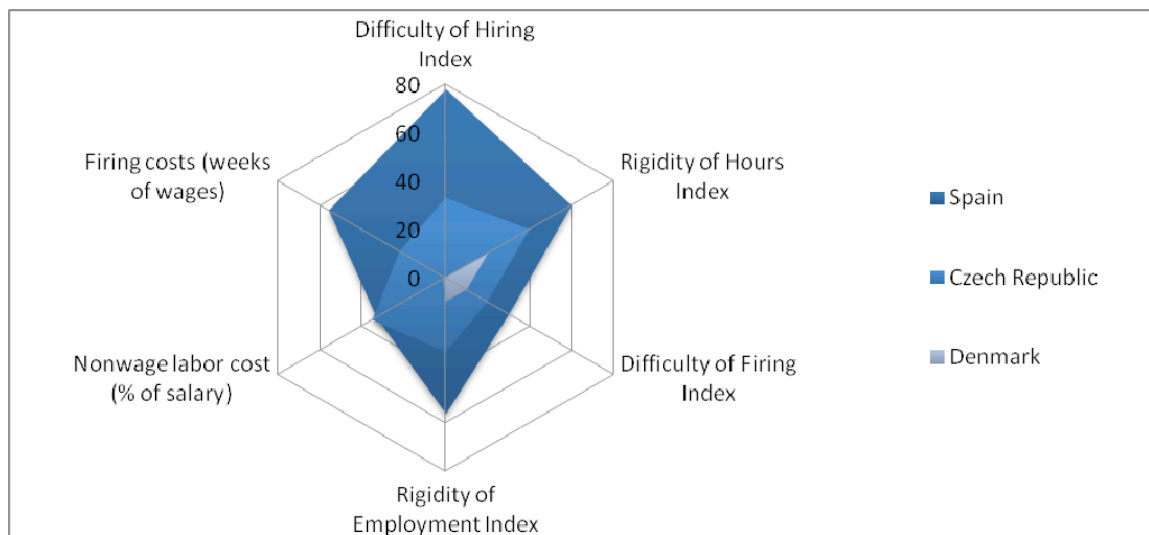


Figure 3. Comparison of labour market flexibility in Spain, Czech Republic and Denmark

Registering property

After purchasing a property in Sweden it takes one day to complete the single procedure needed to complete the registration process. This does not involve a



notary and costs 3 percent of the purchase price. Whereas in Germany while there are still only 4 procedures they take 15 days to complete at a cost of over €13,000 even before 4.5 percent of the purchase price is paid. While ownership of property is not a key driver of entrepreneurship such disparities highlight the differences between countries. It is also argued that over cumbersome and expensive systems will stifle SME growth therefore in the ideal environment procedures must be kept to a minimum in terms of both cost and number.

Investment and Investor protection

Innovation and entrepreneurship require investment, and this is an integral feature of growing a more entrepreneurial economy. A utopian environment needs to be able to stimulate inward investment, but also ensure that the risk/reward ratio is not deterring entrepreneurial behaviour. The environment needs to be investment ready as well as having access to finance, this means removing obstacles including a lack of financial assistance, lack of information and simplifying regulation about investment. Furthermore, heightened investor protection can also be desirable as it can increase inward investment, with better protection (better risk sharing) resulting in a larger demand for capital and the development of financial markets. Figure 4 shows the investor protection index in Europe.

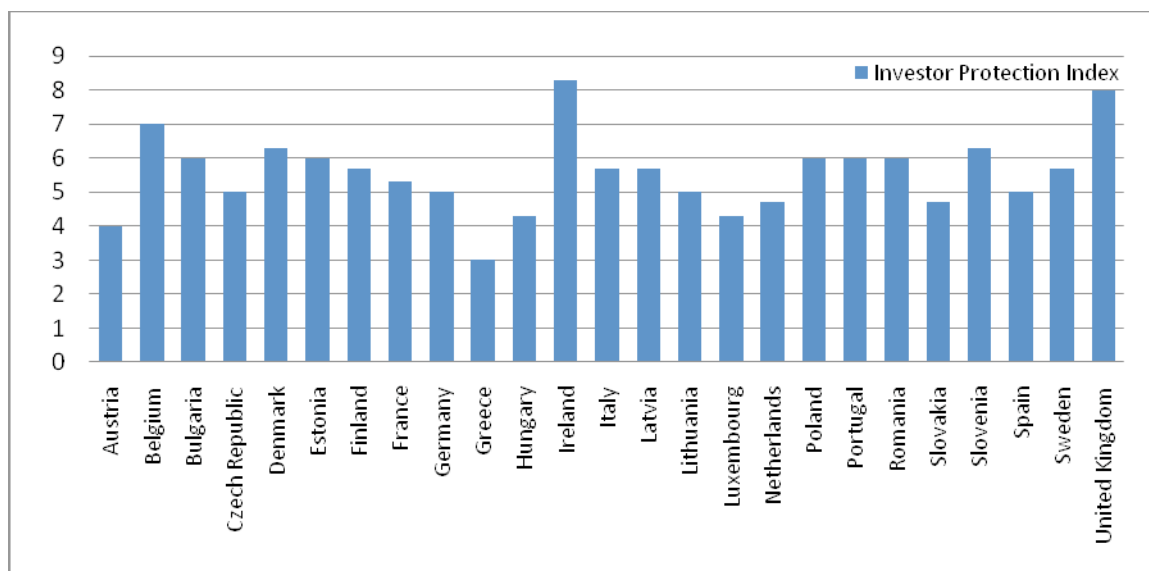


Figure 4. Investor protection index in Europe



Closure of SMEs

Enterprises do fail and there is the need in the ideal environment for entrepreneurs to not be unfairly stigmatized by a venture not succeeding. This is not to suggest an abandonment of protection for investors and creditors but to argue that if an entrepreneur realises a venture is not going to succeed then it is straightforward how they can close it down in the most efficient manner for all concerned. It is no surprise that it is the most innovative countries in Europe, such as Finland, Ireland and Denmark, who have the quickest, and cheapest, procedures for closing a business. It is also in the countries that creditors can expect to see the highest levels of protection, which is vital for a functioning economy. In Ireland it is possible to close a business in under five months with recovery rates of just under 90 percent. Whereas in Czech Republic the same procedure normally takes over six and a half years and creditors can expect to a recovery rate of just over twenty percent. Such a long delay will obviously impact on the entrepreneur's ability to start a new venture. Also within the ideal environment there is the need to reduce the stigma of bankruptcy. For example, in the UK changes to enterprise legislation, in 2004, allowed for people to be free of the penalties of bankruptcy after a year instead of three, in order to reduce the stigma attached to the 'honest failure' of enterprises. In the ideal environment there needs to be a system, similar to the USA's 'Chapter 11', whereby firms can be afforded time to restructure and/or seek new funding rather than been forced into administration and/or bankruptcy.

As well as these more technical points the ideal environment would also need these more intangible factors to be balanced towards creating the ideal entrepreneurial spaces:

Economic stability – to encourage innovation

An entrepreneurial culture – to promote the positive aspects of an entrepreneurial lifestyle and to encourage the general public to see such behaviour in a much more positive light.

Transparency – That the state is seen to be acting in the best interests of SMEs and that tax regimes are seen to encourage entrepreneurial behaviours by increasing the risk/reward ratio.

Encouragement for formalisation – Many of the firms surveyed conducted a portion of their business in an informal manner when they started up. Therefore, the state needs to have in place schemes where SMEs can easily formalise all of their operations without the risk of punitive punishments.



Low corruption levels – Within many of the new accession states corruption is still a major problem with many state actors demanding bribes in return for licenses, for example, or to ‘solve’ tax problems. Such behaviour provides a major barrier to innovation and to the development of SMEs.

Co-operation between states – Countries within the EU tend to take a protectionist viewpoint which hampers SME growth and innovation. There needs to be a change in thinking to recognise that the creation of an ideal environment would lead to long-term growth for the region as a whole.

A willingness to think globally – As with the above there needs to be more consideration to the ways in which globalisation can benefit the region as a whole, such as the movement of skilled workers, finance and ideas.

E-governance – Central to all of the above is the need to remove regulatory clutter and confusion. One process that is crucial to its success is to move SME – state interactions online to reduce the amount of time that is spent on non-entrepreneurial activities.

All of the factors discussed here cannot be addressed in isolation and need to be considered collectively to realise (more) entrepreneurial environments. This section outlines what are some of the key variables in defining what an entrepreneurial environment may look like, but moreover it represents the basis for further utopian thinking and developing a more comprehensive vision.

Tabula Rasa – Creating Utopian Realities

The intention of this think piece is not to present a political message but rather an apolitical one. The reality of an entrepreneurial idyll is, unattainable, however, there is scope for countries to get closer to such a utopian environment. This paper argues that rather a single or unique route to establishing a (more) entrepreneurial environment there are likely to be numerous paths towards utopia. Identifying the traits characteristic of an entrepreneurial idyll is the first phase in this de novo research agenda - what constitutes an amenable environment for entrepreneurship is the arguably the easy bit - we all know how to stimulate economic growth and competitiveness.



Academics and practitioners have previously approached the question in terms of what we should do next with respect to policy to develop entrepreneurial environments, a question we argue to be misplaced. Instead this question should (re)consider utopia and how individual country policy and institutional environments differ from it. Considering the entrepreneurial idyll as a benchmark against which to evaluate national environments against provides a clearer understanding as to the strengths and weaknesses of current national policy and institutional arrangements. Indeed countries should be able to explain and justify those policies and institutional arrangements that diverge from the vision of the idyll, as it is these which potentially disaffect entrepreneurial environments.

This paper, and the accompanying report, lays the foundations of this de novo research agenda, but demands further research, which is crucial to quantify utopia and the case studies to benchmark existing policies and institutional arrangements against. It is only when we can identify what such an entrepreneurial idyll looks like and how different countries relate to it can we meaningfully return to the question of what we should do next with respect to developing a more entrepreneurial environment. The primary argument of this paper is a simple one - to create an entrepreneurial environment, or at least a more entrepreneurial one; we need to know what one is. Then, and only then, can we make real progress, however this represents a paradigmatically different approach to the conceptualisation and development of policy and institutional environments.



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