Building the SME business development services market

Korsgaard, Steffen

Published in:
LEVERAGING BUSINESS DEVELOPMENT SERVICES FOR SME PRODUCTIVITY GROWTH

Publication date:
2018

Document version:
Accepted manuscript

Citation for pulished version (APA):
Korsgaard, S. (2018). Building the SME business development services market. In *LEVERAGING BUSINESS DEVELOPMENT SERVICES FOR SME PRODUCTIVITY GROWTH : International Experience and Implications for United Kingdom Policy* (pp. 54-65). OECD.
https://www.oecd.org/industry/smes/Final%20Draft%20Report_V11.pdf

“BUILDING SME DEMAND FOR BUSINESS DEVELOPMENT SERVICES AND A BUSINESS DEVELOPMENT SERVICES MARKET FOR SMES: A DANISH PERSPECTIVE”

Report prepared for OECD, Centre for Entrepreneurship, SMEs, Regions and Cities

Steffen Korsgaard, University of Southern Denmark and University of Oslo

INTRODUCTION

Just across from my office at the SDU university campus in Kolding the local incubator is located. As I drive past it every morning, it is difficult to overlook the large sign outside the incubator almost literally screaming “here business advice is free”. With its state of the art buildings near the local university, business college and design school, and close to the city center of what is otherwise a quite entrepreneurial provincial town in Denmark, one would expect entrepreneurs and SME owners, hungry for advice and assistance, to flock and benefit from the free-of-charge services. Yet, whenever I go there, I find a relatively quiet place, with very few visitors and many, many empty desks. The pictures above were taken on a typical Tuesday just before lunch. The visitors that day seemingly included only a couple of outside companies, leasing the small conference facility in the building.

This anecdotal story of the local incubator and business service center in Kolding describes well the paradox of business development services for SME’s and entrepreneurs. It looks great, especially on paper, and if asked whether they would like free advice to grow their businesses, most SME owners would probably say yes. Yet, when it comes to real life, the demand is not really there, as SME owners seem to be pre-occupied with the daily operation of their businesses. This state of affairs resonates with pretty much all the experiences of my colleagues in Kolding; recruitment, even for free-of-charge business development services is difficult and costly. The reasons for this can be many, but likely include (Bager, Jensen, Nielsen, & Larsen, 2015):

- Legitimacy issues for public operators, considered by many SME owners to be inefficient and incompetent
- Uncertainty and riskiness of the advice and growth process
- Lacking ambition to grow and develop the business on the part of the SME owners
- Unwillingness or inability to abandon everyday operational tasks to address strategic and managerial activities

In addition to this, the existing body of research into growth in small and new ventures suggest that growth processes are oftentimes random and unpredictable, and that identification of ventures with potential for growth is exceedingly difficult (Coad, Frankish, Roberts, & Storey, 2013). As a consequence, even if it were possible to cost effectively recruit SME owners and entrepreneurs for business development programs, it is not given that it is possible to actually deliberately and consistently produce positive growth outcomes.

All in all, publicly funded business development services is a risky and expensive proposition. And something that should be given careful consideration.

In this paper, I will outline some elements that I believe are important in the process of developing new policies and programs related to business development services for SME's and entrepreneurs. The elements address two components to be considered when developing new policies and program:

- Established knowledge of the target phenomenon, how to obtain it, as well as knowledge of the beneficiaries and their receptibility to policies and initiatives
- Political priorities and valuations of the trade-offs and opportunity costs of the policies or programs and relationship to other policy areas

These two components are addressed by drawing on insights from current research in SME's, entrepreneurship and regional development as well as experiences from the Danish context. In Denmark, the public business development service system has recently been evaluated and new guidelines for a revised system was released as I have been working on this paper (Forenklingsudvalget for erhvervsfremme, 2018).

On the basis of the exploration of the two overall components, I will develop a set of design principles and suggestions as well as two short case descriptions from Denmark, which in different ways exemplify the design-principles and offer partial answers to some of the questions of the current policy efforts, including:

- How to build demand for business development services?
- How to support businesses that would benefit from advice that do not get it?
- How to get businesses to see the opportunity and overcome barriers?
- How to nudge them into seeing what they need?

As will be clear from the discussion below of, I believe that these questions are extremely difficult and no easy solutions exist. Generating awareness of and demand for external advice and training – especially from public actors – is made exceedingly difficult by the characteristics of the individuals that self-select into SME ownership and entrepreneurship. Also, actually identifying the firms that will benefit the most and the mechanisms through which growth and performance improvements can be generated, is borderline impossible. Direct investments in business support are therefore likely a costly and uncertain endeavor, and there are serious risks of over- and misinvestments.

The outline of the paper is as follows. First, the two components of established knowledge and political priorities are addressed in sections on SME's and growth and the role of business services for SME's. Then political priorities are addressed in the section that points towards a new policy agenda for business services. Then a set of design principles and suggestions are outlined before three cases from Denmark are presented and briefly discussed. Finally, a brief summary is provided and a sketch for a two-tier system is presented.

SME'S AND GROWTH

SME growth is generally considered one of the most important drivers of economic growth at the national and region level. Particularly, the role of SME growth in generating new jobs has been highlighted continually, and SME growth and competitiveness is a key ambition for policy-makers at all levels of government, and remains a cornerstone in entrepreneurship and SME research and policy. To grow, SME's must invest in innovative projects and/or increased productivity. Such investments are associated with up-front costs, uncertainty, and risk. As a consequence, not all SME owners are willing to undertake such investments.

The resource and policy environment of SME's plays a role in promoting growth in SME's and entrepreneurial ventures. Shortages of different forms of human, financial and social capital can inhibit new and small firms from growing, and as a consequence of this we generally see lower levels of growth in peripheral regions and localities compared to core-regions and metropolitan areas, where highly educated people, investment banks, venture capital funds, and research institutions tends to centralize. Also, the policy environment can influence the levels of growth, as e.g. low levels of bureaucracy, beneficial tax levels and incentives, individual freedom, a strong rule of law and stable economic conditions are all positively related to entrepreneurial outcomes such as startup and growth (Shane, 2003).

Notably, however, at the individual firm level, a multitude of factors influence whether and how much an SME firm or entrepreneurial venture grows. Of particular importance here is the attitude of the SME owner or entrepreneur. Economic theory presupposes that all actors seek to maximize their profit, and by implications firms will typically grow if they can. Empirical entrepreneurship research, however, have generated several findings that question this underlying assumption, and which therefore must be taken into account when developing policies for SME's and entrepreneurs. These include:

- Many entrepreneurs do not want to grow
- There are heterogeneous perceptions of what growth means for entrepreneurs, researchers and policy-makers
- At the firm level growth is a (partially) random phenomenon

In the following, I will briefly outline these findings and discuss how they influence policy development. Firstly, many entrepreneurs do not want to grow. This has been shown empirically in several studies of entrepreneurs in the 00's (Davidsson, Delmar, & Wiklund, 2006; Wiklund, Davidsson, & Delmar, 2003). A recent study in Denmark suggested that the so-called BMW syndrome, where entrepreneurs and SME owners stop pursuing further growth, when the company becomes successful enough to pay for an expensive car and other goods associated with an attractive life-style (Gramtorp, 2018). Anecdotal evidence from the study suggests that there may be several reasons for this. One overall reason is likely the hassle involved in recruiting more people if it requires more delegation, more managerial responsibility and less control over everyday operations and activities in the firm. Also, many SME owners and entrepreneurs consider themselves specialists and enter their entrepreneurial career from a specialist background (e.g. engineer and not entrepreneur) and feel more comfortable in the daily operations and details related to products or sales than with strategic and managerial work. Finally, many SME owners consider the freedom of the small business to be valuable and are willing to limit growth in order to maintain their experience of personal freedom. In conclusion, many entrepreneurs and SME owners do not consider growing their venture to be an attractive prospect, and rational arguments about positive personal and societal economic outcomes is unlikely to sway them. As a consequence, policies, if they seek to create more growth, must not only support the growth process, but also persuade entrepreneurs and SME owners to want to grow. The latter most likely being at least as difficult as the former.

Without the desire to grow, there is very little incentive for SME owners to invest in innovation and productivity. As such investments involve aspects disliked by many SME owners and entrepreneurs (costs, uncertainty, risk, delegation, focus on strategic issues), many will defer from them. The societal rationale of the necessity of SME growth, will have little appeal, as they well know that growth is risky and that engaging in risky growth processes will lead to failure for some.

Secondly, growth means different things for entrepreneurs, researchers and policy makers. For policy makers, with an eye on economic growth and job-creation at a societal level, growth is primarily considered to be the creation of new jobs at the firm level. Researchers adopt different growth measures including sales growth, turnover growth and other financial indicators as well as employee growth. For entrepreneurs and SME owners, growth is oftentimes a more complex and qualitative concept (Achtenhagen, Naldi, & Melin, 2010). In the recent Danish study by Gramtorp, several of the SME owners interviewed, referred to qualitative conceptions of growth suggesting that growth means becoming better at what they do, achieving higher levels of quality in their products, or personal development. All conceptions are largely dissociated with quantitative measures deployed by policymakers and researchers. This means that many SME's which appear stagnant, unproductive and short on innovativeness, may well be considered thriving and growing by the SME owner and employees themselves. Operating within the "comfort zone" of the SME manager, allowing a focus on product quality, customer service, employee well-being or personal development, is an attractive proposition for the SME owner, and associated with positive connotations. As a consequence, policy initiatives may need to not only persuade entrepreneurs and SME owners to grow, but also establish a shared understanding of growth that is acceptable to all stakeholders.

Thirdly, even if the SME owner or entrepreneur actively desires (employee) growth and is in a conducive environment, growth is an elusive goal. Recent debates in entrepreneurship research have grappled with the messy nature of growth and the antecedents of growth. A notable study by Coad and colleagues found growth patterns in new firms to be largely random with chance constituting a predominant component (Coad et al., 2013). Firms that grow consistently and linearly over time are few and far between, while most other firms experience incoherent and unpredictable growth trajectories. In this study factors related to human and social capital were found to have limited effect on growth. Consequently, the factors that lend themselves to manipulation through policy are not likely to have a major effect on growth. A responding study by Derbyshire and Garnsey (2014), using a different dataset challenges Coad and colleague's analysis as overly simplistic, arguing instead that variations in growth outcomes are not random, yet maintain a somewhat skeptical view of the ability to really predict and produce (e.g. through policy) consistent growth outcomes. An important policy implication of the messiness of growth patterns and uncertainty in identifying antecedents to growth, is that even if a situation emerges where entrepreneurs and policy makers agree on the nature and attractiveness of growth, it is extremely difficult, if not impossible to determine exactly, how policies and support program can actually create growth in the firms. The factors that can foster growth and be manipulated to produce it more consistently or effectively remain obscured and inaccessible.

It is quite likely, that many growth-resistant SME owners and entrepreneurs more or less intuitively recognize this situation. So even if they wanted to grow, they would not know how to do so, and perhaps more importantly, be rightfully skeptical of external service provider's (e.g. consultants and business development services) ability to provide effective advice, tools and methods for growing.

The three abovementioned problems create an extremely complex and difficult situation for policy makers seeking to improve the overall growth and competitiveness of SME's and entrepreneurs. There are risks of overinvestment and misinvestment in policies and programs as they may well be considered irrelevant or unappealing for the recipient SME owners and entrepreneur, fail to address a meaningful growth concept for the SME owners or entrepreneurs, or fail to be effective as they target mechanisms of little or no effect in generating growth.

Deriving implications from this is a complicated task. Yet, it is possible to make a strong case for these results posing a challenge to targeted strategies aiming to "pick the winners" and support only those firms with a high growth potential. Given the indeterminance of growth patterns, policy might instead be broadly accessible and aim to "not get in the way of the businesses". Such development programs and policies might be related to general business support and efficient services in terms of case handling related to e.g. taxation, permits, reviews; i.e. areas where the public agencies are necessary interaction points for the SME's and entrepreneurs.

THE ROLE OF BUSINESS DEVELOPMENT SERVICES FOR SME'S

Existing research suggests that taking advice and partaking in training programs seems to benefit SME owners and entrepreneurs (K. Mole & Capelleras, 2018; K. F. Mole, Hart, Roper, & Saal, 2011; Seo, Perry, Tomczyk, & Solomon, 2014). This is not surprising from an overall perspective, considering the complexities of running and growing a business. Indeed, many entrepreneurs and SME owners may well be high on practical or technical competencies but short on business and management skills.

A set of factors, however, negatively impacts the likelihood of SME owners and entrepreneurs seeking out and heeding advice and training from outside actors. Indeed, it is likely that the group of individuals that are most likely to self-select into entrepreneurship and SME ownership is also one of the groups least likely to seek out external advice and training. In a review of the existing research evidence Shane (2003) identifies a set of psychological and cognitive factors that are associated with a positive likelihood of engaging in entrepreneurship. These include:

- Desire for independence which entails e.g. that you are willing to defy other people's judgment
- Overconfidence, which entails believing in your own judgment without collecting evidence
- Representativeness, which entails a willingness to generalize from small samples that are not representative
- Intuition, which means believing that your accuracy in judgment is too high given the data

As such characteristics are associated with a higher likelihood of becoming an entrepreneur, it is unlikely that this group of people will be willing to spend time taking and advice and training based on what other people think that they should do. Quite the contrary.

As for SME owner's, some studies have suggested that there are other inhibitors related to the take up of training activities. Bager et al. (2015) suggest that SME owner's may be uncomfortable with "going back to school", unwilling to put the firm through an uncertain development process, or give priority to the concerns of the employees for steady and reliable employment. In their studies of enrollment to SME training program Bager and colleagues (Bager et al., 2015; Nielsen, Jensen, & Bager, 2018) have indeed found strong self-selection biases. Enrolled SME managers were thus better educated, younger and with less managerial experience. So, those with much experience and less formal education are less likely to seek training. Overall, we may be confronted with the paradoxical situation that those SME owners and entrepreneurs that need or could benefit the most from training and advice are the ones least likely to seek it, leading to a high risk of over- or misinvestment in publicly funded programs.

Bager et al. (2015) explains how these complex factors intersect and create problems. They report on a Danish program that invested 15 million Euros in a three-year training program for growth oriented SME managers. The program sought to enroll 600 SME managers in the training program which was offered mostly free of charge. Despite the provision of high quality training for free, the program struggled to recruit enough managers and ended up relaxing the inclusion criteria to include SME managers which were not growth oriented, and were perhaps not even lacking in the relevant skill set, but instead used the program for other purposes such as networking and career advancement. This story cautions future efforts in a number of ways. Firstly, it shows the difficulties in recruiting SME managers and owner for programs. Secondly, it shows the structural problem in setting up this kind of program. Once the program is set up, the operator is obliged or incentivized to conduct the promised activities, even if the target group shows limited interest. As a consequence, original recruitment and success criteria are relaxed, leading to the expenditure of resources, that could have been better spent elsewhere.

Several of the challenges and pitfalls found in the extant research on business development services have been present in the Danish Business Development system. This system was evaluated in 2016, and several relevant and interesting observations can be made from the evaluation (Forenklingsudvalget for erhvervsfremme, 2018; Ingstrup, Damgaard, & Evald, 2017; McKinsey & Company, Struensee & Co, Damvad Analytics, & Landfall Strategy Group, 2016). Overall the evaluation found the Danish system to be overly complex, resulting in difficulties for companies to access appropriate services, difficulties in coordinating efforts across levels and regions, and overlapping efforts and services.

In total, more than 250 actors are involved in the Danish Business Development, system organized across three government levels (state, regions and municipalities). Consequently, there are evidence of overlapping activities and programs. Examples include:

- Local services at the municipal level overlapping with specialized services at the regional level
- Thematically similar projects undertaken in different regions in parallel
- Thematically overlapping cluster efforts
- Similar efforts to supply capital at regional and national levels

From the perspective of the companies the system also appears complex. There are too many access points into the system and they appear to be offering similar services. This leads to inflated transaction costs for the companies when engaging with the public business development system. Also, there are indications that the services are driven more by supply than demand (McKinsey & Company et al., 2016).

Roughly, the evaluation indicates an oversized and uncoordinated system, driven by internal interests rather than demand and political priorities. There are probably many reasons for this. Clearly, the number of actors and levels of government is a large part of this. It may be speculated, as this is not part of the evaluation, that there is a shortage of political priorities in play so that any kind of business development service is considered positive as the political mandate is to broadly promote growth through business development. Furthermore, the inherently project based nature of business development activities, where money is allocated to projects, has led to the proliferation of actors and activities, without concern for the overall coherence and efficiency at the system level (McKinsey & Company et al., 2016).

TOWARDS A NEW POLICY AGENDA FOR BUSINESS SERVICES

Entrepreneurship and SME growth has been associated with national and regional level economic growth (Audretsch & Thurik, 2001). This correlation has been the cornerstone of SME and entrepreneurship policy for the past couple of decades. Several economists as well as entrepreneurship and regional development scholars have questioned this growth paradigm, particularly in the wake of the 2008 financial crisis, and the environmental challenges facing countries and economies globally (Hudson, 2005; Raworth, 2017). While there is severe disagreement in terms of what the social and environmental challenges mean for SME and entrepreneurship policy. Many entrepreneurship scholars continue to call for deregulation of markets as they see social and environmental problems as results of shortage of market incentives. Others suggest that solving social and environmental challenges by necessity involves giving up the prospect of continued economic growth. Finally, some suggest an agnostic approach where some solutions may be conducive to economic growth while others may not. What is clear from this, is that from a policy perspective it would be negligent to not consider whether all growth is equally beneficial to society, whether all SME’s and entrepreneurial ventures are equally valuable from a societal perspective, and whether all new jobs represent the same return on investment from a regional and welfare perspective?

Certainly, these questions are being considered across a range of disciplines. In the following, I will consider two areas where such questions arise, and have significant implications for policy and program design in relation to business development support. The purpose of this is not to promote a specific policy agenda with a specific set of priorities regarding the value of different groups of SME's and new jobs. Rather, the aim is to demonstrate the importance of having a set of politically defined priorities that allows for i) target initiatives that seek to maximize societal value, and ii) promote cross sectoral considerations such that business development policies are not formulated in isolation from other policy areas. The resilience and social entrepreneurship/enterprise ideas presented below, may thus be considered examples that illustrate the need for *some forms of* political priorities, rather than a specific set of political priorities.

In regional development research, a recent trend has been a shift in thinking from competitiveness to resilience. For the past three decades, a competitiveness paradigm has dominated regional development policies. Essentially, based on Porter's (1996) analysis of regional competitiveness, policies have sought to increase the integration in global markets with the hope of short term economic growth. The aim was open regional economies, seeking the objective being "the creation of economic advantage through superior productivity performance, or the attraction of new firms and labour" (Bristow, 2010: 153). The competitiveness thus sees new businesses, SME growth, and the attraction of outside investments as the key drivers of economic growth, and thus seeks to create the best possible conditions for businesses. Although Porter's analysis emphasized the importance of clustering and local resource bases, the competitiveness paradigm has been criticized for pursuing a needlessly and problematically narrow conception of growth and development. According to the critics this became apparent during and after the crisis in the financial system in 2008-2009 which demonstrated the dangers of adopting a competitiveness approach as the increased integration into global capital flows exposed the regions to fluctuations in global markets completely out of the control of regional and local actors. The attempt to create short term optimisation made the regional economies highly fragile towards unexpected outside shocks (Hudson, 2010). In addition to increased vulnerability the results of the regional competitiveness strategy have been a homogenization of places and a general lack of resilience – the ability to recover from external shocks (Hudson, 2010).

Regional development scholars have responded by invoking the resilience concept as a response to the perceived failure of the competitiveness strategy adopted to address economic, environmental and socio-spatial problems (Bristow, 2010; Christopherson, Michie, & Tyler, 2010; Hudson, 2010; Simmie & Martin, 2010). In their insightful book on resilience Zolli and Healy (2012) argue that resilience at all levels of analysis incurs costs compared to strategies of optimization – of which competitiveness is an example. Resilience imposes real costs, such as when firms, for the purpose of creating local value and lessening environmental footprints of production, acquire local resources that are more expensive than what can be accessed in the global market. Resilience will also decrease the peak efficiency of local economies because resilience requires significant slack resources (Zolli and Healy, 2012) and continuous exploration (as opposed to optimizing exploitation) with these slack resources. The upside to this pattern is that resilient systems are less fragile to unexpected events such as the financial crisis or natural disasters (Hudson, 2010; Zolli & Healy, 2012). The effects of a global financial crisis is lesser if a region is less dependent on global factor markets for resources and if local resources are used to target differentiated product markets. Simmie and Martin (2010) demonstrate this effect in their comparative study of two regional economies in the UK. While the Cambridge region focused on building internal capacities on the basis of existing resources, the Swansea region created bursts of rapid growth on the basis of direct foreign investments. In the Swansea region, however, the foreign investments disappeared the moment labor costs made it more economically viable to produce elsewhere, leaving the region severely lagging. The Cambridge region, focusing on localised resource bases, proved much less vulnerable to global shifts in market conditions (Simmie & Martin, 2010).

The notion of resilience thus introduces the possibility of thinking more holistically about regional development and embedding business development services into a multidimensional policy landscape, where issues related to inclusion, variety and ecology becomes part of the set of criteria for allocating limited resources to policy areas (Korsgaard, Anderson, & Gaddefors, 2016).

By emphasizing, a regional or local perspective and seeking more resilience through a focus on local resources, the role of e.g. local business services, changes somewhat. From a focus on increasing the competitive force of individual firms through investments and management training, local policies and programs might want to target groups of firms all building on a specific set of resources, e.g. by facilitating local networking activities. This kind of activity is widespread in local business support of e.g. local food systems or other kinds of clustering and specialization strategies.

Similar, in recent developments in the entrepreneurship and innovation field where the concepts of social entrepreneurship, social enterprise and social innovation have been used to signify the role of entrepreneurship and businesses in meeting not just economic needs and goals but also social and environmental ones (Kickul & Lyons, 2012). Entrepreneurship has traditionally been associated with the pursuit of profit and economic growth of firms. Critics have referred to this as “opportunistic entrepreneurship” and questioned the extent to which all entrepreneurial ventures represent equal value from a societal perspective, and even gone so far as to suggest that this form of entrepreneurship has contributed to the creation of the financial crisis of 2008-9 as well as many of the environmental problems currently faced globally (Korsgaard et al., 2016; Rae, 2010). Entrepreneurship can thus be productive, unproductive or even destructive from a societal perspective (Baumol, 1990), and policy and regulation must be active in channeling entrepreneurial “energy” towards the attainment of productive goals. The UN global goals for sustainable development represent a recent and operational perspective of what such productive goals might look like (George, Howard-Grenville, Joshi, & Tihanyi, 2016). Notably, much of the SME and entrepreneurship policies have targeted “only” goal 8 (good jobs and economic growth) without necessarily considering whether some forms of jobs and economic growth might inhibit or foster positive contributions to other goals (cf. Ingstrup et al., 2017).

From this perspective, political priorities are called for in terms of valuing firms and jobs, and consider whether some firms and some jobs are more valuable from a societal perspective, and therefore merit investments of tax funding to a higher degree.

While the recent developments in regional development and social entrepreneurship research point to specific policy directions, that may or may not be in line with the political visions of any given government, they point to the need for political decisions and priorities that consider the connection between business development policy and other policy areas.

DESIGNING EFFECTIVE AND EFFICIENT BUSINESS DEVELOPMENT SERVICES

Having outlines above the complexities of firm growth, the challenges of recruitment and uptake of advice among SME owners and entrepreneurs, as well as outlined some lessons from the recent evaluation of the Danish business development system, and the necessity of political priorities, it is now possible to outline some tentative design principles for an effective and efficient business development system.

Principle 1: Don't overinvest

Key lessons from the review above suggest that resistance towards growth, a limited demand for services such as advice and training, and risks of self-selection of "the wrong" SME owners and entrepreneurs into programs entail a significant risk of over-investments in programs that look great on paper and promise abundant growth, but are extremely costly and fail to realise their promise. Growth programs, in order to succeed in realizing growth among SME's that would not grow anyway or would not seek relevant advice and training from professional consultants would most likely carry the cost of building demand (advertising), recruiting the right SME owners and entrepreneurs (sales) and running the program. A costly enterprise for sure, with uncertain outcomes given the complexity and randomness associated with growth patterns. Notably, the program reported by Bager et al. (2015) spent a staggering 187.000 DKK of public money per participant in the training program, and recent evaluation of the regional business centers in DK (væksthusene) indicated that the efforts of the regional business centers generate approximately 656 new full time jobs, but that this effort involves 250 employees working in the business centers; a good output by at a steep price (IRIS Group, 2013). In developing business development services, it is therefore important to avoid overinvesting, and consider that public money spent on business services could be spent elsewhere, and probably with better overall effects for society.

In making decisions about possible policies and service programs, policy makers would be helped by distinguishing between need to have services and nice to have services. While this may differ across regional and local contexts, high quality case handling services related to taxes, zoning, various kinds of local permits etc. are need to have services, which, if they do not function properly can get in the way of startup and growth. Expensive incubators[1] and targeted training programs for SME owners who would need substantial persuasion to join are probably nice to have. Whenever the local, regional or national government or administration is an "obligatory passage point" as is the case with tax payments, permits etc. the business service should be top quality. Examples of such business services from a Danish setting might include the inspectorate activities undertaken by the local municipalities related to e.g. compliance with environmental regulation or the webpage virk.dk where companies can make all the necessary reporting. Notably, the virk.dk website will likely be the platform from which the new IT based business development service platform in Denmark will be based.

Design principle 2: Leverage existing touch points

As most SME owners and entrepreneurs are unlikely to really demand business services, even if they would benefit from them, significant effort is involved in getting them to seek out services. Here existing touchpoints can serve an important and cost-efficient way of "nudging" the SME owners and entrepreneurs.

Existing touchpoints includes bankers, accountants and employees. SME owners and entrepreneurs are more likely to take advice from people that are familiar with their businesses (K. Mole & Capelleras, 2018). Building the kind of long standing, trusting and knowledgeable relationships with SME owners and entrepreneurs is costly. Engaging with these actors would likely be a much more effective way of generating interest. Training and education of bankers, accountants and employees could thus be an indirect but highly effective way of nudging.

[1] Notably, publicly funded incubators have become a standard in most Danish cities. While from a standpoint of growth and entrepreneurship, they are likely not good investments, they can serve other relevant and appropriate purposes in terms of e.g. branding a city, creating interesting and functional public and social spaces, or create opportunities of marginalized groups to gain meaningful work experience.

Add to this that public sector service providers in some aspects suffer from legitimacy issues, as many SME owners and entrepreneurs consider publicly employed business service providers to be unfamiliar with the demands of the private sector, as well as ingrained with a bureaucratic and inefficient mode of operation that is sometimes associated with the public sector.

Notably, the existing touchpoints of the SME's are not necessarily equipped to offer good business advice beyond their expertise in accounting, banking etc. There may, therefore, be a need to engage in various forms of competence development or competence supplement. Competence development might be done through "train the trainers" activities, where the accountants, bankers etc. could be given training in how to help SME's become more productive or innovative. As many of these accountants and bankers are experienced already, it should be possible to leverage these existing competencies in the development of business development competencies. For many unproductive and less innovative SME's even relatively simple tools and methods might provide significant benefits. Competence supplement might be achieved by supplementing the competences of the SME's existing touchpoints with outside consultants, business developers or other specialists. The springboard format might be an appropriate model for this. The existing touchpoints might even be able to assist in the identification of SME's with potential for growth, as well as stimulating demand among their SME clients by introducing and promoting the idea of business development for innovation and productivity. Furthermore, if these activities were integrated with the existing services of the banks and accounting firms, a certain level of cost-sharing might be achieved between the public and private operators.

Design principle 3: Target areas and industries with direct societal, environmental or local impact

While promoting growth in SME’s and entrepreneurial ventures as a means to increase societal wealth is a worthy endeavor, it is not clear that it is always a good investment of tax-money. The effect and outcome of direct investments are uncertain and unpredictable and based on Danish experiences probably quite modest. Investing with SME and entrepreneurial growth as a primary and sole purpose is perhaps therefore not the best approach for government policy.

A new job is not just a new job, and a new firm is not just a new firm. Some jobs are more valuable to society than others, and some new firms are more valuable than others. A new job created in an area with low or negative employment growth is more valuable than a job created in an area with positive employment growth, so new jobs created in e.g. peripheral areas or in urban areas with high unemployment are relatively better than elsewhere, especially if the job is taken by a previously unemployed or hard-to-employ person, or makes a highly-educated person move from an urban area to a peripheral area.

Similarly, new firms or growth in existing firms may be relatively more valuable to society if they e.g. grow market share in foreign rather than domestic markets, or if they help solve difficult infrastructural, social or environmental challenges; i.e. new firms or growth in firms that help address e.g. the UN sustainability goals.

It may therefore be worthwhile considering the integration of business development services with other policy agendas and concerns. Targeting SME’s and entrepreneurial ventures that create direct impact in the form of new green technologies, social innovations and employment of hard-to-employ groups or that support development in peripheral areas is a sound policy choice. And ideally such targeted investment will create direct as well as indirect positive value as the investments also helps the firms in question grow in traditional terms (employment, productivity etc.). Yet, even if no indirect growth materializes, impact has been made directly.

Examples of such investments include targeted investments in green tech ventures, social entrepreneurial ventures, social enterprises, export seeking ventures etc. The recent trend towards impact investment suggests the feasibility and desirability in making investments with multiple aims (social or environmental AND economic returns). And notably, impact investments seek first and foremost direct social or environmental impact and subsequently (and perhaps slightly less likely) economic returns.

Design principle 3: Draw on external sources and partnerships

Building the (specialized) capacity to support a wide variety of different SME's and new ventures is an extensive task. Especially for a public sector operator that might have difficulties competing with private sector operators for competent business developers and advisors. Public operators may also have difficulties obtaining the same flexibility and agility as private sector operators as they operate under political governance. In addition, public sector operators, even when highly competent, might struggle to achieve legitimacy with SMV's and entrepreneurs due to pervasive myths and perceptions of public sector operators as inefficient and incompetent.

In many cases, it will therefore be better to collaborate with external partners for specialized services and services where the targets are not likely to actively seek public sector support. Private sector operators can achieve high levels of specialization and legitimacy (see e.g. case #1 below). Further, hiring in private sector operators for targeted and specialized services might shift some of the administrative costs to the private operators.

Also, partnering with private or non-profit sector financers can be beneficiary. By developing specialized services that are co-financed by public and private sector money (see case #1 below) can increase the overall effect through a higher expenditure and help ensure that there is a real demand for the service. So whenever aligned with political priorities partnering with private finance can help target and increase the effect of public spending.

CASE # 1: THE SOCIAL CAPITAL FUND (DEN SOCIALE KAPITALFOND)

The Social Capital Fund (SCF) is an impact investment fund that creates social impact by creating employment for hard-to-employ individuals. This is done through the instrument of investments in SME's that take a social responsibility for employing hard-to-employ individuals. In addition to the direct investments in socially responsible SME's, SCF develops training and acceleration programs in collaboration with primarily public organizations and disseminates research and information about socially responsible organizations and investments.

The fund was founded in 2011 by Lars Jannick Johansen, based on an investment from the Tryg Foundation, a private fund that supports social initiatives in Denmark. Later activities were realized in the 2013 with a publicly funded accelerator program for socially responsible SME's, in 2014 with a privately funded social startup program, in 2017 a second social investment fund partly funded by Vækstfonden, a Danish publicly funded investment fund, and finally in 2017 a second accelerator program, experimenting with a "payment by results" scheme and developed in collaboration with private foundations as well as a number of Danish municipalities.

While SCF is not a public policy or program, the history, purpose and the nature of collaborations with various public sectors actors exemplifies some of the design principles mentioned above. Firstly, the SCF targets a specific social goal in its business development work; the creation of new jobs for hard-to-employ individuals. Unemployment has significant economic and individual costs, and represents one of the biggest expenses on municipal budgets. Moving an individual from unemployment to employment thus reduces municipal expenses in unemployment benefits, creates new tax revenue from the new job, and creates value for the now employed individual leading to long term social benefits for the individual and perhaps the family of the now-employed. The creation of new jobs for hard-to-employ thus represents a significant value for society. By investing in socially responsible SME's SCF creates direct social value as well as support (indirectly) the growth of the SME. Such investments hold the possibility for dual benefits.

The collaboration with an external partner also allows for a specialized effort by investors that have extensive experiences and networks that support business development in SME's. SCF thus partners with leading consultant and accounting firms on a pro-bono basis to offer the SME's top quality business development services.

Finally, the collaboration with SCF as an external partner allows for the gearing of public money with private money. The investments made by Vækstfonden and the municipalities are combined with money from private foundations to enhance the possible effect of the activities. Also, parts of the administrative burdens are shifted to the external partners.

CASE # 2: LANDDISTRIKTSVÆKSTPILOT (RURAL GROWTH PILOTS)

Rural Growth Pilot (RGP) is a recent program under the public Danish Innovation Fund (Innovationsfonden). It is built on experiences from previous projects, where the recruitment of academics (individuals with a master degree from universities) was found to have a positive impact on the growth of SME's that did not have academics on staff previously. In the original overall initiative (akademikerkampagnen), the idea was simply to support SME's and create jobs by getting academics into SME's. Most academics in Denmark are hired by the public sector or large companies, and about 80% of the Danish SME's do not have an academic employee (Epinion, 2017). Yet the benefits of academic skillsets in SME's may be quite significant. In particular, the hiring of the first academic employee was emphasized as valuable. A report published in 2017 suggested that these benefits resulted in increased likelihood of firm survival (2.2%), employee growth (4.5) and value added (38%) over a three year period (Epinion, 2017).

The effect of the recruitment of (the first) academic is suggested to be created by the infusion of new and complementary skills sets into the SME. This is assumed to lead to innovation and productivity gains, as new ideas and perspectives emerge not only from the new skills and competences, but the meeting of the academic skills with the practical skills and experiences of the SME owners and non-academic employees. Notably, the recruitment of academics may also create an internal pressure for development and growth, which may help to create awareness of and demand for outside business development services.

In the RGP program this idea is extended to SME's in rural areas, where growth and innovation levels are considered lower than non-rural areas. The infusion of new skills and knowledge in the form of an academic employee is thus considered to be possible a source of innovation and growth alongside the benefit of creating new employment for academics in rural areas where academic jobs are fewer, possibly contributing to counter-urbanization which a considered a positive policy outcome in Denmark.

The program supports businesses by providing financial support over a one-two year period to hire an academic. The support amounts to 150.000 DKK (20.000 Euro) per year for a maximum of two years. The support is premised on an application where the firm provides an idea for a new product, market, production methods or service as well as a description of the role of the academic in the development of this. It is a requirement that the academic hire has a different skillset from the current employees.

A total of 40 mio. DKK (5,3 mio. Euro) has been allocated to the project over a four-year period. The firms can get assistance with development of the project and application in the local business support center (væksthuse) and for recruitment from a network campaign designed to bridge academics and SME's.

Evaluations from similar projects suggest that the process of developing the application is manageable for the SME's, and that there is a reasonably high success rate on the applications.[2]

The RGP exemplifies some of the same design principles as the abovementioned cases, yet does so in a program that is specific publicly funded and operated program. Firstly, it directly a set of policy goals that are considered important in the current Danish political arena. Job creation in rural areas to counter urbanisation, and the creation of jobs for academics. These goals are then combined with the goal creating SME growth. Notably, this is done in a way that is based solid experiences from previous programs and a carefully crafted theory of change that sees the infusion of new skills and knowledge into SME's a driver of innovation and growth. Furthermore, the program has a built-in function to offset overinvestment, as firms self-select into the program. If too few companies apply to spend the full amount, they (presumably) remain in the system for other business development purposes.

LESS IS MORE AND MORE OF LESS: A TWO TIER MODEL OF BUSINESS DEVELOPMENT SERVICE

One way of roughly outlining a business development service system that cuts through this highly complicated set of factors and inhibitors in a way that does not invite over- and misinvestment with the aim of (solely) creating economic growth is to install a simple two-tier model of i) a basic "need

[2] https://innovationsfonden.dk/da/nyhed/fondsprogram-booster-virksomhedernes-behov

to have" business service structure that delivers fast and efficient case handling and as such makes sure that public service and government regulation does not "get in the way" of businesses if they are compliant with the regulation, and ii) a set of highly specific services and policies that target firms and job categories that are aligned with political priorities and takes a holistic policy perspective.

Basic business services have a set of characteristics that are important to highlight:

- SME's and entrepreneurs seek them out by necessity when the services are needed (in case of relevant case handling)
- They involve basic services that most SME's and entrepreneurs will need at some point
- There are no alternatives to public services (only public services collect taxes, decide on zoning permits etc.)
- Public services do not compete with private sector offerings.

Experiences from the Danish business service system suggest that such services can best be offered as one-stop-services where all the relevant offering and services are accessed from one entry point (Forenklingsudvalget for erhvervsfremme, 2018; McKinsey & Company et al., 2016).

Specialized programs and policies on the other hand may carry costs in terms of recruitment and marketing of programs. Further suggestions related to such services are:

- Developed and coordinated across policy areas
- Pursue SME growth indirectly through direct value creation related to other policy aims (e.g. UN development goals)
- Developed in collaboration with and operated by specialized external partners

- Co-financed with private or non-profit sector investors.
- Subject to deliberate, accountable and explicit policy priorities

REFERENCES

Achtenhagen, L., Naldi, L., & Melin, L. (2010). “Business Growth”—Do Practitioners and Scholars Really Talk About the Same Thing? *Entrepreneurship Theory and Practice, 34*(2), 289-316. doi:10.1111/j.1540-6520.2010.00376.x

Audretsch, D. B., & Thurik, A. R. (2001). What's New about the New Economy? Sources of Growth in the Managed and Entrepreneurial Economies. *Industrial and Corporate Change, 10*(1), 267-315. doi:10.1093/icc/10.1.267

Bager, T. E., Jensen, K. W., Nielsen, P. S., & Larsen, T. A. (2015). Enrollment of SME managers to growth-oriented training programs. *International Journal of Entrepreneurial Behavior & Research, 21*(4), 578-599. doi:doi:10.1108/IJEBR-12-2014-0224

Baumol, W. J. (1990). Entrepreneurship - Productive, Unproductive, and Destructive. *Journal of Political Economy, 98*(5), 893-921.

Bristow, G. (2010). Resilient regions: re-'place'ing regional competitiveness. *Cambridge Journal of Regions, Economy and Society, 3*(1), 153-167. doi:10.1093/cjres/rsp030

Christopherson, S., Michie, J., & Tyler, P. (2010). Regional resilience: theoretical and empirical perspectives. *Cambridge Journal of Regions, Economy and Society, 3*(1), 3-10. doi:10.1093/cjres/rsq004

Coad, A., Frankish, J., Roberts, R. G., & Storey, D. J. (2013). Growth paths and survival chances: An application of Gambler's Ruin theory. *Journal of Business Venturing, 28*(5), 615-632. doi:https://doi.org/10.1016/j.jbusvent.2012.06.002

Davidsson, P., Delmar, F., & Wiklund, J. (2006). *Entrepreneurship and the Growth of Small Firms*. Cheltenham: Edward Elgar.

Derbyshire, J., & Garnsey, E. (2014). Firm growth and the illusion of randomness. *Journal of Business Venturing Insights, 1-2*, 8-11. doi:https://doi.org/10.1016/j.jbvi.2014.09.003

Epinion. (2017). *Værdien af ansættelsen af den første akademiker i SMV'er*. Retrieved from

Forenklingsudvalget for erhvervsfremme. (2018). *Fokuseret og fremtidssikret*. Retrieved from

George, G., Howard-Grenville, J., Joshi, A., & Tihanyi, L. (2016). Understanding and tackling societal grand challenges through management research. *Academy of Management Journal, 59*(6), 1880.

Gramtorp, A. (2018). *I krydsfeltet mellem passion og cool cash.* (Ph.d), University of Southern Denmarkq.

Hudson, R. (2005). Towards sustainable economic practices, flows and spaces: or is the necessary impossible and the impossible necessary? *Sustainable Development, 13*(4), 239-252. doi:10.1002/sd.282

Hudson, R. (2010). Resilient regions in an uncertain world: wishful thinking or a practical reality? *Cambridge Journal of Regions, Economy and Society, 3*(1), 11-25. doi:10.1093/cjres/rsp026

Ingstrup, M. B., Damgaard, T. M., & Evald, M. R. (2017). Tre pejlemærker for fremtidens danske erhvervsfremmesystem. *Mandag Morgen (online)*(35).

IRIS Group. (2013). *Evaluering af væksthusene*. Retrieved from

Kickul, J., & Lyons, T. (2012). *Understanding social entrepreneurship: The relentless pursuit of mission in an ever changing world* (2nd ed.): Routledge.

Korsgaard, S., Anderson, A. R., & Gaddefors, J. (2016). Entrepreneurship as Re-sourcing: Towards a new Image of Entrepreneurship in a Time of Financial, Economic and Socio-spatial Crisis. *Journal of Enterprising Communities, 10*(2), 178 - 202.

McKinsey & Company, Struensee & Co, Damvad Analytics, & Landfall Strategy Group. (2016). *Eftersyn af Erhvervsfremmeindsatsen*. Retrieved from

Mole, K., & Capelleras, J.-L. (2018). Take-up and variation of advice for new firm founders in different local contexts. *Environment and Planning C: Politics and Space, 36*(1), 3-27. doi:10.1177/2399654417691514

Mole, K. F., Hart, M., Roper, S., & Saal, D. S. (2011). Broader or Deeper? Exploring the Most Effective Intervention Profile for Public Small Business Support. *Environment and Planning A: Economy and Space, 43*(1), 87-105. doi:10.1068/a43268

Nielsen, P. S., Jensen, K. W., & Bager, T. (2018). SMV'er på skolebænken. In K. Klyver, P. R. Christensen, & P. V. Freytag (Eds.), *De mørke sider af ledelse og drift af mindre virksomheder* (pp. 15-24): Syddansk Universitetsforlag.

Porter, M. E. (1996). Competitive Advantage, Agglomeration Economies, and Regional Policy. *International Regional Science Review, 19*(1-2), 85-90. doi:10.1177/016001769601900208

Rae, D. (2010). Universities and enterprise education: responding to the challenges of the new era. *Journal of Small Business and Enterprise Development, 17*(4), 591-606.

Raworth, K. (2017). *Doughnut economics: seven ways to think like a 21st-century economist*: Chelsea Green Publishing.

Seo, J. H., Perry, V. G., Tomczyk, D., & Solomon, G. T. (2014). Who benefits most? The effects of managerial assistance on high- versus low-performing small businesses. *Journal of Business Research, 67*(1), 2845-2852. doi:https://doi.org/10.1016/j.jbusres.2012.07.003

Shane, S. (2003). *A General Theory of Entrepreneurship: The Individual-Opportunity Nexus*. Cheltenham: Edward Elgar.

Simmie, J., & Martin, R. (2010). The economic resilience of regions: towards an evolutionary approach. *Cambridge Journal of Regions, Economy and Society, 3*(1), 27-43. doi:10.1093/cjres/rsp029

Wiklund, J., Davidsson, P., & Delmar, F. (2003). What Do They Think and Feel about Growth? An Expectancy-Value Approach to Small Business Managers' Attitudes Toward Growth. *Entrepreneurship: Theory & Practice, 27*(3), 247-271.

Zolli, A., & Healy, A. M. (2012). *Resilience: Why Things Bounce Back*. New York, NY: Free Press.