

Chapter 3

DETERMINANTS OF ENTREPRENEURSHIP IN FRANCE

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3.1 INTRODUCTION

For a country like France, with a high rate of unemployment and a low rate of entrepreneurship, stimulating entrepreneurship is of major importance. However, for more than three decades the alleged control of the economy by a strong elite group, often referred to as a *meritocracy*, has inhibited the development of small and medium sized enterprises (SMEs). As one of the most interventionist, the French government created various institutions to guide the planning process with little room for entrepreneurial activity. At the summit of the European Union in Lisbon in March 2000, France has been regarded as European's laggard: "too stubborn to abandon its old statist ways, too reluctant to pursue market reforms and too proud to admit to the merits of American liberal economics" (*The Economist*, April 1st 2000, p.11).

Although highly criticized in the post-war period, the French economic pattern was later called the 'French exception', as recognition for the rapid

economic development. As Elsner and Groenewegen mention, France is definitely adapting to the new standards, albeit in its own way: *Changement à la Française* (Elsner and Groenewegen, 2000). In 2000 the growth rate in France is estimated between 3.5 and 4.2 percent whereas in 1999 annual growth rate was somewhat more than three percent (OECD, 1999b). The increasing growth rate has stimulated job creation. Since 1997 the French economy has created more jobs than the economies of Germany or the United Kingdom. The rate of unemployment is starting to diminish, albeit slowly, and consumer confidence is rising (*The Economist*, April 1st 2000).

French firms have been able to benefit from the recovery through their international competitiveness caused by the relative weakness of the French currency. Despite the high rate of government intervention, expressing itself through high taxes, 'red tape' and strict rules, the French business sector is prospering. The reason for this upsurge of entrepreneurial activity may be attributed to the necessity of 'forced creativity' that has helped French firms to survive during the period of the recession.

The purpose of the present chapter is to study the development of entrepreneurship in France and the factors that have had a major impact on this development within the period 1960-1998. Three questions are important. First, how did entrepreneurship develop in France? This entails a detailed look into the past state and development of entrepreneurship that led to today's situation. Second, what are the factors that have impacted entrepreneurial activity in France? A distinction is made between demand and supply factors. Third, what is the contribution of government policy, institutions and culture to the developments in entrepreneurship?

The structure of this chapter follows the *Eclectic Theory* of entrepreneurship as proposed in Chapter Two. However, this theory guides the present study in a loose fashion only. In Section 3.2 we investigate entrepreneurship in France. From a static perspective the state of entrepreneurship in France in 1999 is discussed, whereas from a dynamic perspective developments in entrepreneurship between 1960 and 1998 are dealt with. Section 3.3 describes various demand and supply side determinants of entrepreneurship in France and Section 3.4 and 3.5 deal with the influence of government policy and culture on entrepreneurship in France, respectively. It will be concluded that government intervention and culture appear important factors influencing entrepreneurship in France and that supply side factors seem to have only a minor or ambiguous influence on entrepreneurship.

3.2 STATE AND DEVELOPMENTS OF ENTREPRENEURSHIP IN FRANCE

3.2.1 State of Entrepreneurship

There are different ways in which the degree of entrepreneurial activity can be measured; in other words there are different indicators of entrepreneurship¹ (Wennekers and Thurik, 1999). The number of business owners in France amounts up to approximately 2.3 million in 1999 (OECD, 2000a and EIM, 2000). Using the number of business owners as an indicator of the degree of entrepreneurial activity however does not allow for a comparison between countries. The rate of business ownership within the labor force is 8.5 percent in France in 1998. From an international perspective the rate of entrepreneurship in France is very low: the business ownership rates in Italy, the United Kingdom, the Netherlands and the United States are substantially higher: 10.9, 10.3, 10.4 and 18.2 percent, respectively (EIM, 2000).

Box 3.1: The profile of the French entrepreneur

The typical French entrepreneur is a 35 year old man, with an average educational background, who previously worked in a small, private enterprise in a mid-management position, or as a skilled worker. Like in most European countries, the main motives for starting a business are self-fulfillment and the will to be independent (ENSR/EIM, 1995). The French entrepreneur fears social premiums, financial risk, a lack of capital, and market fluctuations.

3.2.2 Developments in Entrepreneurship

From Figure 3.1 it can be seen that the development of entrepreneurship in France in the period from 1972 through 1998 is characterized by a more or less continuous decline. The number of business owners as a share of the labor force diminished from 11.3 percent in 1972 to 8.5 percent in 1998. The magnitude of this decline in entrepreneurship has not been constant over time. Between 1984 and 1992 entrepreneurship in France stabilized and even showed a slight increase between 1986 and 1988. The number of entrepreneurs in France was in 1998 almost equal to that in 1972. In the period 1972-1984 the number of entrepreneurs in France decreases with 4.3 percent, in the period 1984-1992 the number of entrepreneurs increases by 1.5 percent and it decreases by 8.6 percent in the period 1992-1998.

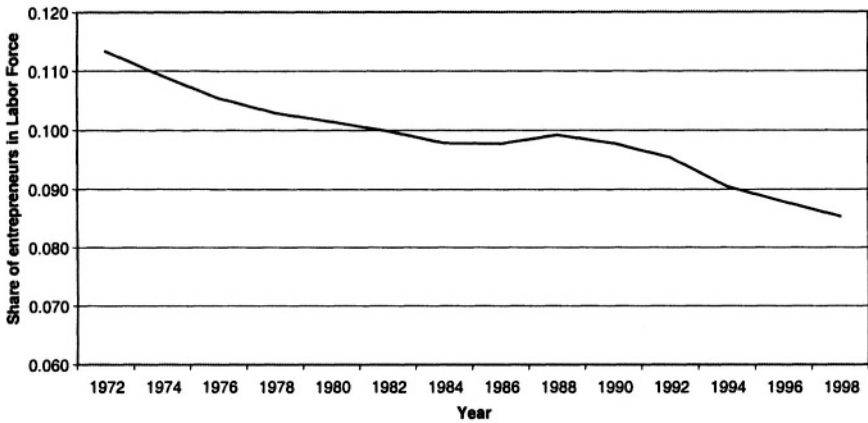


Figure 3.1. Developments of entrepreneurship in France in the period 1972-1998
 Source: EIM: COMPARative Entrepreneurship Data for International Analysis (COMPENDIA 2000.1)

Note: Entrepreneurship is defined including owners of both incorporated and unincorporated businesses, but excluding the so-called unpaid family workers and wage-and-salary workers operating a side-business as a secondary work activity. Agriculture, hunting and fishing are excluded.

As far as we know entrepreneurship data prior to 1972 are not available. However, two developments can be distinguished that are likely to have had a positive impact on the number of entrepreneurs. The first is the monetary and financial reform that was implemented by the French government in 1958, encouraging firms to expand their exports. The second is the influx of repatriates from North Africa in the early 1960s that caused an increase in population, followed by a sharp growth in the demand for consumer goods (OECD, 1963).

The development of entrepreneurship in France deviates from that in other countries. The development of entrepreneurship in most OECD-countries can be characterized by a U-shaped trend, with a decrease in entrepreneurship till the mid-eighties and an increase afterwards (Carree, van Stel, Thurik and Wennekers, 2001). At first sight this U-shaped trend does not characterize the development of entrepreneurship in France. However, it is possible that entrepreneurship in France will increase in the near future, showing a U-shaped development, albeit one that is initiated at a later point in time. This prediction is justified by the fact that, at present, hindering factors, such as the interlock of government and regulations as well as the domination of large firms, are being reduced thereby paving the way for entrepreneurship.

When discussing developments in entrepreneurship entry and exit rates need to be taken into account. With respect to exit rates a distinction can be made between business closures and failures.² According to the *Agence pour la Creation d'Entreprises* (APCE), the average annual number of closures in France, either voluntary or due to insolvency is approximately 280,000 per year in the period of 1987 through 1995 (APCE, 2000a). This practically equals the average number of start-ups each year within the same period. The number of business failures shows an increase before 1993 and a decrease after 1993. Since 1994 the number of start-ups has fallen steadily and, despite a slight recovery in 1999, the current level of start-ups is still below that of the mid-1990s (OECD, 2000c).

3.3 DETERMINANTS OF ENTREPRENEURSHIP

3.3.1 Introduction

In this section the determinants of entrepreneurship in France are discussed, both from a static and a dynamic viewpoint; the present state as well as developments of the different factors influencing entrepreneurship in France are dealt with. The analysis of entrepreneurial activity surpasses the borders of the economic discipline. The explanation of entrepreneurial activity in France is based on the *Eclectic Theory* as proposed in Chapter Two.

3.3.2 Demand Side Determinants

Introduction

There are specific factors within the demand side of entrepreneurship in France that influence the level of entrepreneurship. Important factors are associated with the industrial structure such as the size of businesses and patterns of cooperation between large and small businesses and the government. Moreover, the universal process of technological development and how this advancement is fostered is also likely to have impacted the demand for entrepreneurship in France. In subsequent sections these factors are dealt with in more detail.

Technological Development

The systematic relationship between output and productivity growth rates suggests that technological progress is not a random process but rather one guided by market forces (Acs et al., 1998). There are several relationships between entrepreneurship and technological development. On the one hand, technological developments increase the competitiveness of small and new businesses (creative destruction) whereas, on the other hand, technological developments are often absorbed more swiftly by small businesses, since there is more room for flexibility than in large businesses (Carlsson, 1989). Moreover, small businesses often serve niche markets, which often arise at the start of a period of new technological developments.

To obtain an impression of the level of technological development in France, the 'innovation index', as developed by Porter and Stern (1999), can be used. The 'innovation index' is calculated including different factors related to R&D.³ The 'innovation index' is used to rank countries according to the degree of innovative capacity in the years of 1980, 1986, 1993 and 1995. It can be concluded that for the period of 1980 through 1995 the innovative capacity of France has remained fairly constant and it is not among the highest in the OECD-countries (OECD, 1999b).⁴

With respect to the type of technological development French technology excels in systems engineering and the construction of large-scale, applied technological systems for the military.⁵ This can be attributed for a large part to the large systems that are bought by state military and civilian bureaucracies (Salais and Storper, 1997). The large scale of the technology systems in France leaves little room for small businesses because of the large investments needed and the large scale of production.

The French technology industry can be described as a *colbertist*⁶ industry, as technology businesses rely heavily upon state purchases (domination by public orders)⁷ and financing destined for technology-intensive activities (Pavitt and Patel, 1990). An example of the heavy state intervention in the technology industry in France is the concept of the Scientific City such as the *Cité Scientifique Sud* situated to the south of Paris. Numerous publicly funded research labs and agencies that develop high-tech products are brought together to stimulate innovative activity. The government commissions most R&D within technology clusters in France. This limits the room for (small-scale) innovation for commercial ends.

Industrial Structure

Service Sector and Hypermarchés

Businesses within large parts of the service sector are typically small-scale operating entities because the initial capital requirements are low and there are many opportunities to serve niche markets. A high share of the service sector in an economy is often accompanied by a high level of entrepreneurship. The importance of the service sector in the economy can be established using the number of businesses, the share of employment and the value added. Like most countries France experienced an industrial shift from manufacturing towards services. In 1998 the service sector in France accounted for 26.6 percent of total employment and 38.7 percent of value-added.⁸ Furthermore, in 1999 this sector accounted for 32.7 percent of the total number of businesses.⁹ The number of start-ups in the service sector increased in the period 1994-1999, whereas that of failures decreased.

Unlike in other countries and contrary to what is generally believed the industrial shift in France was accompanied only to a small extent by growth of the small business sector. A salient feature of (developments in) the French economic structure is the growing number of *hypermarchés*, i.e., large supermarkets (Reijmer et al., 1997). This growth can be attributed to their use of low prices exploiting scale effects and the political support for price competition to protect the French purchasing power. Between 1990 and 1996 the number of *hypermarchés* in France increased from approximately 800 to 1,100 (Van der Brugge, 1997). Most of these large supermarkets belong to (large) retail enterprises, such as Leclerc, Carrefour, Géant and Casino.

The Law *Royer* introduced in 1973 deals with the regulation of (the consequences of) *hypermarchés* and was changed in 1996 and renamed the Law *Raffarin*. This law is a reaction to some negative effects of the *hypermarchés*. These negative consequences include both air pollution and traffic congestion caused by the necessity of consumers to use their cars as these *hypermarchés* are usually situated within the periphery of cities. Moreover, the so-called 'skyline pollution' of the large supermarkets and the fact that these supermarkets negatively affect the number of business start-ups in the countryside have also contributed to the proposition of this law. The Law *Royer/Raffarin* aims at reducing these negative consequences for instance through operating-hours restrictions. The measures are likely to increase the number of opportunities for SMEs, albeit not by compensation for the strong price competition of the *hypermarchés*.

Groups d'Entreprises

There is a strong tendency for economic activities to take the form of localized geographical clusters or agglomerations. This geographical proximity of firms performing different - but linked - functions in the production chain can reduce transaction costs. Geographical clustering also creates intangible benefits. From an economic perspective an appropriate labor pool is developed whereas from a socio-cultural perspective there is social and cultural interaction, i.e., people are communicating and there is collective learning, enhancing knowledge and innovation (Storper and Salais, 1997).

In addition to the relatively high number of large firms, the French industrial structure is characterized by *groups d'entreprises*, i.e., clusters. This feature of the industrial structure has developed in the last 15 years. The number of clusters has increased rapidly between 1980 and 1995, from approximately 600 to more than 5,000 (Vergeau, 1997). Interesting characteristics of these *groups d'entreprises* are that they usually consist of both French and foreign firms and sometimes have a foreign business as the leading firm within the cluster. *Groups d'entreprises* account for a large share of small business employment and this share tends to increase (Hecquet and Laine, 1999). Most regional clusters account for more than 40 percent of the employment within their region, whereas clusters in the Alsace and Picardie account for more than half of the employment within the region (Hecquet and Laine, 1999).

In France clusters of research-intensive SMEs abound. This type of cluster develops an innovative environment in which the scientific community and other intermediate organizations play a 'temporary' role, in addition to SMEs. These innovative clusters are often referred to as *technopoles*. Within these *technopoles* numerous publicly funded research labs, universities and agencies, that develop high technology products and skilled workers, are brought together. Often small businesses gain from joining these clusters because spin-off effects, technological dynamism and informational advantages create opportunities for small and new firms. Also, small businesses tend to better support technological developments because of the niche focus and the high risks involved. However, the positive impact of the *technopoles* on small businesses cannot be fully supported since characteristics of the actors within the *technopoles*, i.e., large firms, government research centers and educational institutions, inhibit the development of opportunities for SMEs.

The large firms within *technopoles* in France tend to follow a pattern of aloofness vis-à-vis their immediate environment; they are more likely to engage in international alliances within a global strategic framework than in

intra-regional linkages. This complicates the development of horizontal industrial contacts and inhibits technological cross-fertilization.

Government research centers connected to these *technopoles* are secluded because of the proud isolation of the French public research system, which traditionally avoids contact with the private sector and the university system. Also, there are the tight security procedures linked to the military programs. This limits the spin-offs and the transfer of knowledge to small businesses (Castells and Hall, 1994).

Box 3.2: Examples of French *technopoles*

- **Sofia-Antipolis** on the Côte d'Azur is a deliberately developed high technology business area resulting from government- or university-related initiatives. The park has a dual structure: on the one hand there are multinationals and on the other hand there is an incubation centre for SMEs (Castells and Hall, 1994). The first attracts established firms by imitation, reinforcement and image and has provided most of the jobs. The second depends upon 'collective apprenticeship' through communication and through launching new projects and has not been very successful in generating small business employment. Within the Côte d'Azur the high-tech industrial sector is developed weakly; there is a lack of basic services, like testing laboratories, risk capital and marketing tools. This scarcity reduces the competitiveness of SMEs. Moreover, since large firms provide generous pay and facilities, researchers do not have the inclination to break away and start their own firm. Although the structures of incubation are in place, their operation is corroded by the regulations of the national government.
- **Cité Scientifique** situated southwest of Paris is a high-technology agglomeration that includes numerous publicly funded research labs and agencies that develop high-tech products. However, the 'Scientific City' has not become a genuine innovative *technopole*, since it lacks the necessary synergy between science and industry and between large and small firms (Castells and Hall, 1994).

Historically, the culture of the *Grandes Écoles* was built upon the social and scientific superiority of the elite group they created and reproduced, thus aiming to increase their power and influence within the French economy and society and precluding any parochial preference for neighboring firms or institutions (Storper and Salais, 1997).

French *technopoles* are often characterized by high costs, lack of services, a lack of synergy between large and small firms within the clusters and a lack of cross-fertilization of knowledge (Castells and Hall, 1994). These characteristics reduce the competitiveness of established SMEs and the incentives to start up new firms. However, times are changing and, at present, both the national and the regional government (*départements*) have acknowledged the importance of (innovative) clusters for the economy and

they increasingly support the development and sustainability of these innovative business areas (De Koning and Snijders, 1990).

In addition to geographical clusters or *technopoles*, there are important industrial and financial clusters in France. These clusters consist of firms related through economic 'make-and-buy' decisions, financial, personal and institutional, i.e., *grands corps*, relations. Just like the *technopoles* these clusters are characterized by large firm dominance, economic isolation (*créneaux*) and a lack of opportunities for small business development.

3.3.3 Supply Side Determinants

Introduction

In addition to factors on the demand side supply side factors influence the level of entrepreneurship in France. These factors refer, for a large part, to the size, spread and composition of the population. This section deals with the impact of population growth, density and mobility, age structure and unemployment and immigration, respectively. It should be born in mind that interrelationships exist between some of the supply side factors. These interrelationships are to some extent taken into account in the present section. By and large, the influence of the supply side factors on entrepreneurship in France seems to be ambiguous.

Population Growth, Density and Geographic Mobility

The pace of the population growth in a country can positively influence the number of entrepreneurs.¹⁰ In addition to the growth of the population, its density, as expressed by the urbanization rate, can have a positive impact on the number of entrepreneurs.¹¹

Between 1968 and 1999 the French population grew with almost 21 percent. Although fairly constant, the growth rate decreased slightly between 1992 and 1996. The growth in population was accompanied by developments in population density and geographic mobility. Rural areas near urban areas show an increase in population, whereas those far from urban areas show a decrease (INSEE, 1999). As can be seen from Table 3.1 the French rural population decreased whereas the urban areas attracted people,¹² leading to an increase in the share of the urban population. At present the urban population in France is still increasing, whereas the suburbs are becoming less attractive as residential areas (Chavouet and Fanouillet, 2000).

At first sight the population growth in France does not seem to have stimulated the number of entrepreneurs. Despite the growth of the French population, this number decreased (see Figure 3.1). It should be noted that there are other factors that could have influenced this relationship and that there may be a time lag between population growth and growth in the number of self-employed people. Moreover, population growth has stimulated the population density in France and it is possible that the scale effects of a dense population, affecting the small business sector negatively, have outweighed the positive effects of the attractiveness of entrepreneurship within the urban areas.

Table 3.1. Developments in the rural and urban population of France

	1968	1975	1982	1990	1999
Population (x 1,000)	49,712	52,592	54,335	56,615	58,518
Urban	34,834	38,351	39,861	41,898	44,197
Rural	14,878	14,241	14,474	14,717	14,321
Percentage of the urban population	70.1	72.9	73.4	74.0	75.5
Urban area (km ²)	68,880	76,281	83,352	89,649	100,041

Source: Chavouet and Fanouillet (2000)

Age Structure

The age structure of the population can impact entrepreneurship through the likelihood of people of a certain age to become self-employed. Storey (1994) argues that people between the age of 25 and 40 are most likely to become self-employed. Why people within this age category are more likely to become entrepreneurs than people of other age categories is not fully disclosed. It is possible that factors, such as capital accumulation, experience and risk aversion, interact with age.

As can be seen from Table 3.2 a (relatively) low percentage of the population is within the age category of 20-39 years old. However, the differences are not considerable. Moreover, it can be argued that young people (under 20 years) and old people (over 60) are less likely to start or run a business than people of other ages. As compared to other countries France is characterized by a (relatively) high proportion of people under the age of 20; within Europe only three countries are characterized by a younger population: Ireland, the United Kingdom and Finland. As compared to other countries France takes an average position with respect to the number of people aged 60 years and older. However, like in other countries, the French population is aging (Madinier and Courson, 2000). In 1999 approximately 12.5 million people in France are over 60 years old; this represents an

increase with 1.2 million as compared to 1990. In 1999 21.3 percent of the French population is 60 years or older as compared to 19.9 percent in 1990 and 18.5 percent in 1982 (Madinier and Courson, 2000).¹³ The high percentage of old people in France however may be offset by the (relatively) high proportion of the population within the age category younger than 20 years old. The effect of the French age structure on entrepreneurship is not likely to change in the near future.

Table 3.2. Age structure of the population in selected countries within the European Union, January 1st 1999 (as percentage of the total population)

	< 20 year	20 – 39 year	40 – 59 year	> 60 year
Austria	23.0	31.0	26.2	19.8
Belgium	23.7	28.7	25.8	21.8
Denmark	23.6	29.3	27.5	19.6
Finland	24.8	26.8	28.9	19.5
France	24.6	28.1	26.0	21.3
Germany	21.4	29.6	26.7	22.3
Greece	22.3	29.8	25.0	22.9
Ireland	31.4	30.3	23.2	15.1
Italy	20.0	30.5	26.0	23.5
Luxembourg	24.3	30.4	26.3	19.0
The Netherlands	24.4	30.5	27.1	18.0
Portugal	23.9	31.1	24.5	20.5
Spain	22.2	32.4	23.9	21.5
Sweden	24.3	26.8	26.8	22.1
The United Kingdom	25.4	29.1	25.1	20.4

Source: Eurostat (2000)

Female Labor Force Participation and Entrepreneurship

In 1999 the number of female participants in the labor force is 12.2 million as compared to 14.3 million male participants. At present the number of female workers is still increasing, albeit at a slower rate than in the 1990s. The participation rate of women in the French labor market has been increasing from the 1960s (Bourlès and Courson, 2000). However, the share of female entrepreneurs has increased less than the share of self-employed women in France. In terms of the population the number of female business owners has increased. However, relative to the labor force, female business ownership has decreased, since more women tend to be wage-employed than self-employed.

In 1998 30 percent of the businesses in France, approximately 320,000 businesses, were owned and managed by women (Orhan, 1999). This percentage bears close resemblance to the average of one-third of the businesses run by women in the European Union (OECD, 1998a). Men are

more likely to start up a business than women in France. When comparing female and male entrepreneurship it can be said that the average turnover of women-owned businesses is lower than that of male-owned businesses. This is due for a large part to the smaller size of the businesses run by women (Orhan, 1999). Survival rates are lower for women-owned business than for male-owned businesses. In 1992 the survival rate after five years of activity is 60 percent for men and 54 percent for women (EIM/ENSR, 1996). This difference in survival rate is likely to be activity-related rather than gender-related, since female entrepreneurs tend to establish and run businesses within the service sector that are characterized by low initial capital requirements and by fierce competition and high failure rates. In case of lower survival rates of women-owned businesses a higher proportion of female entrepreneurs is likely to negatively affect the level of entrepreneurship in France. With respect to women-owned start-ups it can be said that there is no quantitative financial discrimination by banks: 23 percent of the women and 22 percent of the men started a business with bank credit (ANCE, 1996). It is possible however that female entrepreneurs are required to pay a higher price for these credit facilities (Verheul and Thurik, 2001). When women experience problems in the start-up phase of their business, this is likely to also negatively affect the general level of entrepreneurship since it might also discourage male nascent entrepreneurs.

Unemployment and Immigration

According to the margination theory both unemployment and immigration can serve as push factors to entrepreneurship. Dissatisfaction¹⁴ is the mechanism by which these factors exert influence on entrepreneurship. The margination theory states that dissatisfaction reduces the opportunity costs of self-employment. In this case both unemployment and immigration have a positive impact on the number of entrepreneurs. Moreover, it is said that a high level of unemployment can also have a negative impact on entrepreneurship because it may coincide with a depressed economy and a lack of opportunities for entrepreneurship.

In 1996 approximately 2.8 million immigrants of 15 years and older were living in France (Gross, 1999). From the 1970s onwards there has been a substantial increase in the number of ethnic entrepreneurs in France. As can be seen from Table 3.3 the number of immigrant (independent) business owners has increased from 4,000 in 1982 to 6,600 in 1990. This excludes the so-called naturalized immigrants who experienced an increase from 5,000 in 1982 to 6,700 in 1990. In 1982 the share of non-French business owners, including both naturalized French and immigrants, was approximately seven

percent of the total number of French business owners and in 1990 this percentage increased to over eight percent. At present the share of non-French business owners is 9.5 percent (Lacroix and Ma Mung, 1999).

Table 3.3. Independent business owners in France in 1982 and 1990 (as percentage of the population)

	1982	1990
Native French	93.3	92.5
Naturalized French	3.7	3.8
Immigrants	3	3.7
Total	100	100

Source: Recensements de la population, INSEE (1982, 1990).

The impact of immigration on business ownership in France is complex and ambiguous. A distinction can be made between a direct and indirect effect of immigration on the number of business owners. The indirect effect works through the level of unemployment. Moreover, both positive and negative effects on the level of business ownership can be distinguished.

The direct effect of immigration on business ownership in France consists of a negative and a positive component. On the one hand, immigration is likely to be accompanied by an increase in the demand for culture-specific products and services on the intra-community market, creating opportunities for ethnic entrepreneurship. This demand for culture-specific products and services is augmented by the growing interest of the native French population for exotic products. This is due to an increased exposure to these products caused by globalization processes (Lacroix and Ma Mung, 1999). On the other hand, since ethnic entrepreneurs tend to serve their own ethnic group within the community, this can lead to 'supersaturation' of specific markets, negatively affecting the survival rate of immigrant businesses (Van den Tillaart and Poutsma, 1998).

Since the positive direct effect, consisting of both the push effect of dissatisfaction and the reinforcement effect of serving the intra-community market, probably exceeds the negative direct effect, as represented by the 'supersaturation' of the intra-community market, it can be argued that immigration has a positive direct influence on entrepreneurship in France.

In addition to the direct effect, immigration can indirectly influence entrepreneurship through unemployment. French unemployment has increased in the last two decades. At the end of 1996, unemployment in France was 11.6 percent, as compared to 2.7 percent in 1972 (Flockton and Kofman, 1989). The most substantial increases in unemployment can be attributed to the two oil shocks in 1972 and 1979, the decrease in domestic demand and industrial cutbacks in 1984 and the economic recession in the

early nineties. Developments of unemployment in France for the period 1974-1998 are presented in Figure 3.3.

The high rates of immigration and unemployment in 1996 gave rise to a discussion of the impact of immigration on unemployment. As in other countries immigration in France pushes up unemployment, since immigration leads to a larger labor force. In 1999, the unemployment rate of the immigrant population was 21 percent whereas the unemployment rate of the total French population was twelve percent¹⁵ (Thave, 1999). It should be noted that there might also be a reverse causality since a high level of unemployment in France is likely to discourage immigrants due to a lack of labor market opportunities.

The impact of unemployment on entrepreneurship in France is ambiguous. At the micro level (the risk of) unemployment can push people into self-employment, whereas at the macro level unemployment can be associated with economic recession and a lack of entrepreneurial opportunities. In France, 33 percent of the enterprises are started by someone who was previously unemployed²⁹, as compared to 29, 16, and 0.6 percent in Sweden, Italy and Luxembourg, respectively (EIM/ENSR, 1995). However, when comparing developments in entrepreneurship (Figure 3.1) with developments in unemployment (Figure 3.3) it seems that the unemployment rate had a negative effect on entrepreneurship in France. Whereas the level of entrepreneurship shows a continuous decrease, the level of unemployment increases within the same period. In this case the negative effect of unemployment on entrepreneurship exceeds the positive effect. It should however be born in mind that entrepreneurship is not determined by a single factor, such as unemployment, but is the result of a combination of many factors.

Assuming a positive effect of immigration on unemployment and a negative effect of unemployment on entrepreneurship, it can be concluded that immigration has a negative indirect effect on entrepreneurship in France. The total effect of immigration on entrepreneurship in France is unclear, since the positive direct effect of immigration is, to some extent, weakened by the negative indirect effect of immigration, through unemployment. Additionally, the positive effects of both unemployment and immigration, as predicted by the margination theory, are weakened by the high level of French unemployment benefits and the guaranteed minimum income, lowering the incentives of both employed and unemployed to start their own business.

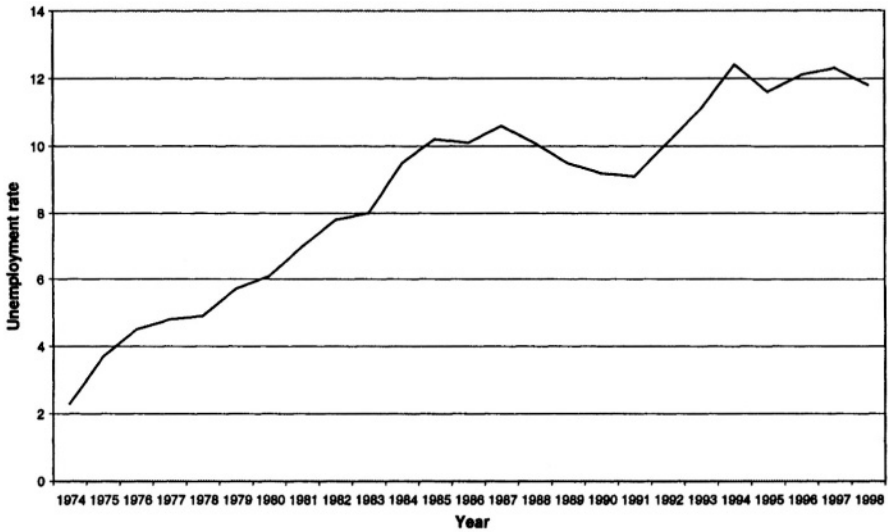


Figure 3.2. Developments in unemployment in France in the period 1974-1998

Source: OECD Labor Force Statistics of 1994 and 1999

The impact of immigration, both indirectly, through unemployment, and directly, on entrepreneurship in France is presented in Figure 3.3.

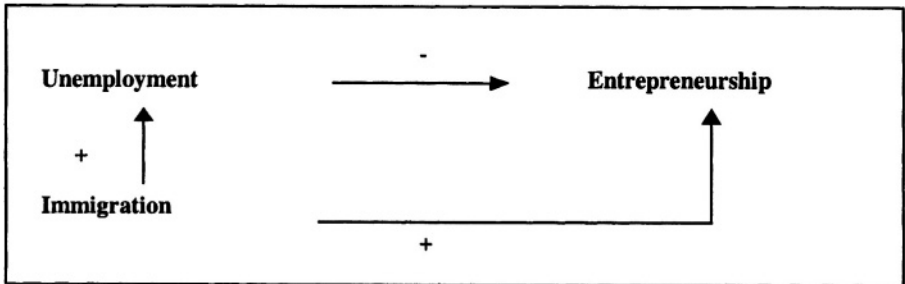


Figure 3.3. Effect of immigration on entrepreneurship in France

3.4 GOVERNMENT INTERVENTION

3.4.1 Introduction

In this section the role of government intervention in the French economy and its effect on entrepreneurship is discussed. Government policies in France are studied both from a static and a dynamic viewpoint. The discussion on the impact of government policy on entrepreneurship in

France is largely based on the *Eclectic Theory* as proposed in Chapter Two. In Section 3.4.2 the history of government intervention (in general) in the French economy is discussed, whereas Section 3.4.3 deals with specific types of government policies and their effect on entrepreneurship. Subsequently, the impact of macro-economic policies, viz. taxation, labor market regulation, social security and income policy; regulation of dynamism, viz. establishment and bankruptcy legislation; deregulation and simplification; input-related policies and specific policies, on entrepreneurship are discussed.

3.4.2 History and Current Situation of Government Intervention in France

Since World War II the French government has implemented nine National Plans, with the Ninth National Plan being active through to 1988. Industrial policy influencing the industrial structure has always been part of these national plans, whether successful or not. Up to the Fourth Plan (1962-1965) objectives were mainly sectoral and the government realized them by influencing the behavior of the entrepreneurs. The Fifth Plan (1966-1970) induced a change. This plan was guided by projections instead of objectives. Entrepreneurs were considered responsible for the development of the industrial structure. The task of the government was to create favorable conditions for industrial development. Up to the Fifth Plan, entrepreneurs were accustomed to the protection of the French government when developing new products. The Fifth Plan stimulated entrepreneurs to adequately respond to the open frontiers by pursuing an aggressive market strategy directed towards enlarging market shares and making profit. The government stimulated mergers, i.e., concentration, in order for efficiencies of scale to emerge. The Sixth Plan (1970-1975) was more or less a continuation of the Fifth Plan. In the Seventh (1976-1981) and the Eight Plan (1981-1985) special attention was paid to those sectors where the government, because of her huge demand, had a considerable influence. Investments in the machine tool industry were made for strategic reasons. Stimulation programs existed but these were merely aimed at individual, often large, firms that were considered of strategic and national importance. The Ninth Plan emphasized the importance of undertaking initiatives coordinating economic policy in the European Union and the OECD. National solidarity was stimulated through reductions in income inequality, a focus on environmental issues and renovation of rural areas. The modernization of industry required investments in research and development and education. Moreover, it was considered important to have a balance of

payments and an inflation rate that corresponded with trade partners. The measures proposed within the Ninth Plan were all directed towards improving employment (Groenewegen, 1989).

Plans concerning SMEs have not been very successful in France. After the trend towards nationalization in the 1980s the Mitterrand government attempted to stimulate large firms in promoting small business involvement in new technologies and foreign markets through the so-called *Contrats de Plan Etat-Régions*.¹⁶ This incentive for small business development failed because large global firms did not want to give up their independence. Also the plan of fostering regional networks, i.e., *Centres d'Innovation et de Transfer Technologique* (CRITTs) failed because the large *Centre National de la Recherche Scientifique* (CNRS) programs continued to absorb money for the famous *grands programmes*.

In the last years the French government has acknowledged the importance of small businesses and entrepreneurship for employment and economic growth, and accordingly paid more attention to their development. At present, the main objective of the French policy directed towards SMEs is creating favorable conditions for SME development, thereby stimulating employment. The French government has three main objectives (OECD, 2000c). The first is fostering new venture development as well as the expansion of established businesses. The second is promoting modernization of business through local networks of start-up assistance enabling entrepreneurs to sell new products or sell their products in new markets. The aim is to foster enterprise creation as a source of new jobs. Finally, administrative procedures need to be simplified enabling entrepreneurs to spend their (scarce) time on what they do best - creating, leading and developing businesses.

3.4.3 Government Intervention in the French Economy

Macro-Economic Policies

Taxation

The height of taxes and the complexity of the tax system are likely to negatively affect entrepreneurship. High tax rates erode the incomes of small businesses, while complex and opaque tax systems can discourage (potential) entrepreneurs and keep them from their basic activities.

The French tax system exerts an important influence on the risk-reward profile of self-employment versus that of other types of employment. The tax burden on French SMEs was very high until the early nineties (OECD,

1994a). Particularly high were payroll taxes, family allowance contributions and unemployment benefits (Levratto, 1996).¹⁷

In recent years the French tax system has been reformed drastically. Implemented changes that are likely to have a positive effect on the level of entrepreneurship in France include the reduction of social security contributions on low wages and the widening of the base of the *contribution sociale généralisée*. The *contribution sociale généralisée* is a tax that is charged on most revenues. It contributes to the financing of the social security system.¹⁸ Moreover, the *taxe professionnelle* is reformed. This is a local tax that is charged on the basis of the rental value of premises, the value of fixed assets (16 percent charge) and the annual payroll (18 percent charge). These values are calculated two years prior to the year when the tax payment is due. The revenues of the *taxe professionnelle* are used to finance the local administration. The *taxe professionnelle* is reduced in 1999 and 2000, it will be further reduced in 2001 and the salary-based component will be abolished as from 2003.¹⁹ The reform of the French tax system also includes a reduction of transfer taxes on businesses and goodwill, including partial exemption from inheritance taxes; the possibility to defer payment of taxes on capital gains that are (re)invested in businesses less than 15 years old and a subsidy/grant of 10,000 French francs for new businesses. Moreover, there are initiatives to reduce administrative and tax constraints on business ownership. Several measures to simplify the rules have been introduced, such as the harmonization of filing deadlines for a number of different tax forms and a greater flexibility for switching from one tax regime to another (OECD, 2000c).

Labor Market Regulation

A rigid labor market can frustrate entrepreneurial activity through the difficulty for business owners to adjust their workforce to market demand. Additionally, the availability of adequate personnel and labor costs influence the likelihood of people starting a business and the development of established businesses.

From 1997 onwards labor market characteristics in France tend to favor entrepreneurial activity. The French labor market is characterized increasingly by more flexibility and falling labor costs. The increase in flexibility stems, to a large degree, from a (gradual) shift from traditional full-time open-ended contracts to more flexible and temporary contracts.²⁰ The diminishing labor costs can be attributed to the general wage moderation and exemptions of social contributions for people with wages close to the minimum wage, reducing the costs of unskilled labor (OECD, 2000c).

Recently, the French government has reduced the statutory working week from 39 to 35 hours for small businesses from January 1st 2002. State assistance is provided to cover approximately one-third of the additional wage costs of the difference between a 35-hour and a 39-hour working week. The implementation of this law poses specific problems, since cases of indivisibility may make it difficult to implement the reduction of working time for small teams and SMEs. Furthermore, businesses with less than 20 employees have little scope for hiring or reorganizing their work, and the 35-hour week may result in lower output or higher costs (OECD, 2000b).

Social Security

The level of social security influences labor mobility, with a high level of social security leading to restricted labor mobility as unemployed people are discouraged to find employment and wage-employed people stay within the current type of employment, because of the high opportunity costs of self-employment. A high level of social benefits may discourage both unemployed and wage-employed people to start a business (Bosch and Westhof, 1997).

The French nation-wide social security system consists of four types of coverage: health insurance, covering sickness, hospitalization, disability, and death; old-age insurance, e.g. pension; family allowances and unemployment benefits (OECD, 1994a). As compared to other countries the expenditures on social protection of the French government are relatively high, however they are lower than those in most Scandinavian countries and the Netherlands (OECD, 1994a).²¹

The replacement ratio refers to the height of unemployment benefits relative to the level of the (minimum) wage. A high replacement ratio may generate lower incentives for unemployed people to search for employment. In 1989 the initial gross replacement ratio for the average worker in France is 59 percent, which is not particularly high as compared to the ratio in other European countries. However, on a net basis, excluding related transfers, such as housing subsidy, the ratio rises to 84 percent for those earning the minimum wage (OECD, 1992). Steps have been undertaken by the social partners and the French government to lower the level of unemployment insurance (OECD, 1994a). In addition to a high replacement ratio, the minimum wage can also negatively impact self-employment. In France the level of the minimum wage in relation to the average wage is the highest in the OECD, after the Netherlands (OECD, 1994a).

In addition to the absolute height of social benefits, the difference between social benefits for wage-employed and self-employed people is an important factor influencing the level of self-employment. In France social

security in case of unemployment, sickness and disability, varies substantially between wage-employed and self-employed people. Especially until 1993 wage-employed people were more fully covered than self-employed people. The little social protection for the self-employed increased the opportunity costs of self-employment for wage-employed people. As a reaction, the French government introduced measures in 1993 and 1994 to improve social protection and reduce the costs of the social security for the self-employed. This program included measures to facilitate individual business creation, to improve social security in favor of the self-employed and to simplify the relationship between self-employed people and the social security institutions, i.e., the so-called *Organismes Sociaux*.²²

Income Policy

Income policy, especially when affecting the income distribution, may create (dis) incentives for self-employment. Income disparity is assumed to positively influence self-employment on both the demand and the supply side. From a supply side perspective, people at the low end of the income distribution are dissatisfied with their income and are pushed into self-employment, whereas wealthy people have the financial means to start a viable business and are pulled towards self-employment. From a demand side perspective, higher and more dispersed incomes will initiate a more differentiated consumer demand, creating opportunities for entrepreneurship.

In France, the dispersion of pre-tax incomes decreased in the late 1970s and early 1980s (INSEE, 1996b). This decrease in income disparity concerned mainly the elderly. Moreover, due to an increase in the minimum wage, income inequality between wage-employed people decreased. However, this decrease in inequality was partly offset by the increase in unemployment. The Gini coefficient captures (changes in) income inequality in time. In 1979 the Gini coefficient for France amounted up to 29.7, whereas in 1984 it amounted up to 29.6 (Atkinson et al., 1995). Between 1984 and 1989, both the top and bottom deciles of the income distribution gained income, whereas the early 1990s were characterized by a moderate increase in income inequality. Poverty rates in France remained stable between 1984 and 1994, but the composition of the pool of poor people changed: the share of young people among the poor doubled, whereas the share of elder people fell by half (INSEE, 1996b). Between 1979 and 1994 the income distribution in France remains relatively stable and is not expected to have had a major impact on the development of entrepreneurship in France.

Regulation of Dynamism

Establishment Legislation

Like in most countries, legal demands have to be met when starting a business in France. Entrepreneurial activity is, to a large extent, regulated and (potential) entrepreneurs are required to fulfill certain conditions in terms of licensing, education or experience, before they can start a business. General registration procedures apply to all businesses, whereas certain activities require additional registration procedures. On average it takes approximately 15 weeks to register a business in France (OECD, 2000b). Moreover, costs are involved to start up different types of businesses.²³

In addition to the general registration procedures of businesses in France, (new) business owners need to provide evidence of the occupation of premises. For example, self-employed tradesmen are required to provide evidence that they occupy commercial premises, whereas self-employed craftsmen are required to prove that they run their business from either commercial or professional premises. In this context, in 1993 a new law was adopted allowing self-employed and/or independent business men or women to run their business from their private homes, provided that the entrepreneurial activity is exclusively undertaken by themselves and that it does not involve the exchange of merchandise or the visit of customers (APCE, 2000b). Entrepreneurs are required to follow a management-training course to ensure the viability of a new business. For this course exemption can be obtained when having adequate education and or professional experience. Clearly, the management-training course absorbs scarce resources of the entrepreneur, i.e., money and time, since the course costs between 1,000 and 1,300 francs and lasts four days.

It can be concluded that there are contrasting influences of establishment legislation. On the one hand, requirements are a barrier for potential entrepreneurs. In France the amount of money and the length of time necessary to register a business is likely to discourage people to start a business. On the other hand, these requirements can contribute to a higher quality of entrepreneurship and a higher survival rate. Particularly, the compulsory management course can contribute to higher survival rates of new small businesses.

Bankruptcy Legislation

Firm closure is part of the entrepreneurial process that allows resources to move to their most productive uses. Policies that restrict the scope for firms to restructure or close diminish the ability of an economy to adjust and discourage entrepreneurs from starting up (OECD, 1998b). Bankruptcy

legislation can play a role at different levels. At the individual level, entrepreneurs can be discouraged by severe bankruptcy regulation as the penalties for going bankrupt offset the rewards of starting a business. At the macro level, business turbulence is important creating and restricting room for entrepreneurship.

The number of insolvencies, as measured by the opening of insolvency procedures, has increased substantially in France in the period 1980-1993 (EIM/ENSR, 1997). As compared to other countries France is characterized by a relatively high number of insolvencies in 1993. Whereas the total number of insolvencies or liquidations in France is approximately 60,000, this number in Italy, Spain, Sweden and Finland, amounts up to approximately 15,000, 600, 11,000 and 6,500, respectively.²⁴ Moreover, France has the highest percentage of insolvent enterprises in the tertiary sector (EIM/ENSR, 1997). External factors were cited as the most important factors contributing to the high level of insolvencies in France.

The French bankruptcy system (so-called 'collective proceedings') originates from Roman law. The most recent Act is that of January 1985 at present governing company insolvency. This Act is new in the sense that it abandons the representation of creditors' interests. The aims of the legislation are primarily economic and social, with the interests of creditors and the 'punishment' of debtors coming in second place (OECD, 1994c).

The Act of 1985 introduced several procedures. First of all, if the business can still operate it will be restructured by the court under what is intended to be a rapid procedure. The company will submit a continuation plan enabling its representatives to present proposals to pay off the creditors over a specified number of years (cessation of payments) or it will be subject to one or more disposal plans for the sale of assets or parts of the assets to third parties who are then required simply to pay the price, whatever it may be and to comply with commitments to continue the business activity. Moreover the price paid may have no relation to the value of the debts, as this price is based simply on the estimated value of the business assets (sometimes to the considerable detriment of the creditors). Furthermore, if the business cannot continue to operate, or if the difference between its estimated value as a going concern and the amount of its debts is too big, it will be declared to be in judicial liquidation and its assets or parts of its assets will be sold for the best obtainable price (to the detriment of both its creditors and of its employees who will be made redundant) (OECD 1994c).

According to the OECD the current French arrangements to deal with companies in difficulty show imagination, considerable flexibility and effectiveness in the speed with which they provide for the restructuring, sale or liquidation of firms (OECD, 1994c). However, compared to some

common law countries, there is still too much legal rigidity resulting from the Roman and Mediterranean legal traditions on which the entire French system is based (OECD, 1994c). Furthermore, commercial justice is not dispensed by courts with a mixed membership of elected business persons and professional magistrates or by ordinary courts. This can have the adverse result that the commercial court judges are too close to the litigants and may even sometimes be their direct competitors (OECD, 1999b). The commercial court judges are not paid for their service, which is the reason why a considerable use is made of proxy 'liquidators'. Finally, the system of payment of court officers does not sufficiently provide them with the incentive to save activities and jobs that can be saved (OECD, 1999b). The government is planning an extensive reform of commercial justice introducing professional magistrates alongside commercial court judges; a requirement of the latter to disclose their business interests; a tightening of disciplinary procedures; a revision of the rules applying to remuneration of court-appointed administrators and receivers and a redefinition of their role and the mode of access to those professions (OECD, 1999b). Moreover, thought is currently being given on how the bankruptcy legislation could be changed, simplified and brought closer to those of other European Community jurisdictions (OECD, 1994c).

Deregulation and Simplification

Liberalization and Competition Policy

Entrepreneurship and competition are highly interrelated because competitive entry often results from entrepreneurial activity and competition creates room for entrepreneurship. Competition policy in France is less severe than in other OECD countries. Modernization of the French competition regulation has been modest and there are still sectors, such as the audio-visual and banking sector that are not regulated by the French competition authorities (OECD, 2000b).

In the French economy, state-owned businesses with a monopoly are increasingly entering into competition with other businesses (OECD, 1997). This is a result of either their diversification into related markets, or because activities have been withdrawn from the scope of their monopoly as a result of Community directives (e.g. telecommunications and air transport industries). As a consequence, it has become necessary to predict and correct any abuses committed by these large businesses. At present the opening up of the government sector continues with three sectors that are already liberalized: air transport, telecommunications and railways. Furthermore, as

from February 2000, the electricity sector is partially opened up to competition (OECD 2000a).²⁵

Administrative Burden and Compliance Costs of Legislation

Complex and opaque administrative procedures can discourage potential entrepreneurs and distract incumbent entrepreneurs from their basic activities, negatively influencing both the number of new ventures and the growth of established businesses. French administrative procedures are very complex during the start-up phase. On average it takes 15 weeks to register a company. The total number of formalities to be completed is substantially higher when compared to other countries, due to the large number of public agencies (*interlocuteurs*) one has to visit to register a company (OECD, 2000b).

To simplify and streamline administrative procedures the French government adopted two major programs for administrative simplification (OECD, 2000c). The first program consists of 37 measures of which 22 are in process of implementation in 2000. Some of these measures are already enacted, such as the elimination of three of the forms to be filled out when certain categories of employees are hired and registration of new businesses in the Register of Trade and Companies within 24 hours by clerks of commercial courts. The remaining 15 measures are still being developed. It is however encouraging that the second program, consisting of another 26 measures, is already implemented. For the future, the French government intends to ensure that the other measures will also be put into practice. Furthermore, the government will continue to eliminate complex regulations in order to make the entrepreneurial climate better (OECD, 2000c).

Input-Related Policies

Financial Environment of SMEs

An important factor in the development of entrepreneurship is the financial environment of SMEs. Levratto (1996) refers to the financial territory of SMEs, defined as a set of relations between firms and different types of financial partners, including banks, venture capitalists and public institutions. Banks often label SMEs as vulnerable with high odds of discontinuance. Accordingly, they restrict lending and apply a high-risk premium to SMEs. In France this was the case especially in the early nineties when the government adopted a tight monetary policy, resulting in a high real interest rate that raised the costs of inventories and short-term loans and increased the risk of bankruptcies.

Stock market quotation can be considered even less an option for small businesses, as they are often not in a position to issue shares, due to firm size and the extensive range of conditions for stock exchange quotation (Verheul and Thurik, 2001). In many cases venture capital can provide the solution to the financial needs of SMEs, since it focuses on projects involving high risks. However, the French venture capital market is traditionally characterized by dependency of investment decisions on the size and nature of the guarantees provided, rather than on expected profit. By putting the bulk of the risk on business owners or the State, the venture capital system discouraged entrepreneurship, led to a poor selection of projects and capital deprivation at crucial stages in the firm's life cycle (OECD, 1999b).

As a consequence of the lack of availability of financial resources/funds for small business owners and/or the lack of information about existing resources in the mid-nineties the self-financing ratio for young (technology) companies in France was approximately 75 percent as compared to 50 percent in the United States (OECD, 1999b).

To resolve the financial problems of SMEs the French government has established the SME Development Bank (BDPME) in 1996.²⁶ This bank assists SMEs in the most risky phases of their development with guarantees and co-financing and operates in cooperation with other banks and financial institutions. In 1999 the SME Development Bank has covered more than 20 percent of the total debt financing to SMEs. The French government has also taken measures to financially support very small enterprises that experience difficulties obtaining (bank) financing. Guarantee mechanisms are developed that give small firms 'easy' access to credit by encouraging banks to take more risks (OECD, 2000c). Furthermore, the government has adopted measures to foster equity investment in businesses, including the public venture capital fund in 1997; start-up funds; tax holidays for investment in recently created businesses and small-investment incentives (OECD, 2000c).

At present the French capital market is opening up to foreign investors and the amount of cross stockholdings among large firms decreases (OECD, 2000b). This is bound to change the character of the French venture capital market in the near future probably creating more financial opportunities for SMEs.

Specific Measures

Sectoral Measures

In addition to general policies directed at the small business sector in general or businesses of all size classes, specific policies are adopted by the

French government to stimulate entrepreneurial activity in the industrial, craft and commercial sector (OECD, 2000c).

The French government has developed long-term plans to address far-reaching structural developments in the industrial sector, such as technological advancement and enabling businesses to adequately adapt to industry-specific changes. In the long run technology will be made available to all firms through special programs promoting technology transfer and innovative behavior. The National Research Association (ANVAR) is founded to support innovation by small businesses through covering a significant proportion of the financial risks involved in launching new products and processes. Moreover, businesses are encouraged to invest in knowledge, i.e. intangible resources. The Aid for Executive Recruitment Program is designed to stimulate the recruitment of specialists that occupy new jobs and functions within businesses. Also, programs have been developed to assist SMEs in adapting to the new industrial context that results from the increasing internationalization (OECD, 2000c).

The French government has also developed programs to stimulate entrepreneurship and support small businesses in the craft and commercial sector. These programs are aimed at stimulating information exchange in networks and supporting new business creation. Regarding the latter, the 'Quality to Assist Creators' program has been implemented to offer services to people starting up a business. Moreover, future entrepreneurs are offered information and training in workshops sponsored by the Chamber of Commerce.²⁷ Furthermore, the government has developed programs to stimulate innovative activity within the commercial and craft sector and to support businesses to expand their activities internationally (OECD, 2000c).

Education

Education can influence entrepreneurship through providing people with the necessary skills and information to start up a business. Moreover, education may stimulate the development of entrepreneurial values, such as creativity, independence and risk taking. Education can be used as a tool to promote self-employment as a real career alternative for (young) people. Programs can be developed to create entrepreneurship awareness for all people, both in schools and universities. Regarding the stimulation of entrepreneurship in post-secondary education entrepreneurship modules and majors are now being widely introduced within higher degree academic programs, particularly in business schools. In France, the *École Supérieure de Commerce* of the Lyon's Entrepreneurial Center has set up a program of start-up assistance for young entrepreneurs. Students can also take up the

'Enterprise Creation and Entrepreneurship' specialization that has recently attracted approximately one third of the total number of annual students. The top French business school HEC has set up a program to provide senior-year students with hands-on experience in the area of start-up, consulting, sales and communication. The *École Supérieure de Commerce* of Pau and the ESSCA; a business school in Angers, have set up programs for future entrepreneurs, where undergraduate students set up and execute a project until start up and where students visit business incubators, meet bankers and representatives of the start-up assistance structure.

Out-of school training for entrepreneurship has also been particularly successful at the tertiary level. In France there is the Junior Enterprises initiative; *Developpement et Étude en Sciences et Systèmes Informatiques* (DESSI) that exists from 1989 and which is a non-profit organization that aims to fill the gap between the world of graduate schools, universities and the world of business. It provides students with the opportunity to add practical expertise to their theoretical knowledge on a voluntary and extra-curricular basis. DESSI is set up as a separate entity within *École Supérieure en Sciences Informatiques* (ESSI) and provides two main services to students: a management lab where students work in teams and manage the Junior Enterprise activity, and consulting which involves students in negotiations with potential customers.

It can be concluded that the stimulation of entrepreneurship in France through education occurs mainly at the tertiary level of education. At lower levels relatively little attention is paid to self-employment and the development of business skills and attitudes. As a consequence most of the start-ups in France involve start-ups of higher educated people (Demoly, 2000).

Culture

Different organizational forms reflect different underlying cultural values. Hofstede (1991) attributes differences in preferences of people for management style and work environment to differences in cultural values. Hofstede identifies four 'value dimensions' on which countries differ: power distance, uncertainty avoidance, individualism/collectivism and masculinity/femininity.²⁸ The 'value dimensions' of Hofstede can be related to entrepreneurship. A high power distance reflects the acceptance of inequalities, privileges and status in society and is likely to positively influence entrepreneurship since it often goes hand in hand with more (income) inequality. However, a small power distance reflects a society characterized by decentralization and an educational system based on

equality between teacher and student favoring entrepreneurship through the development of initiative. High uncertainty avoidance, as expressed by the preference for predictability and stability, can stimulate entrepreneurship through well-defined structures that enable entrepreneurs to run their business. However, people that avoid uncertainty are likely to avoid entrepreneurship, as this occupational option often involves high risks. High individualism is associated with more entrepreneurial behavior since individualistic people tend to act in their own interest and do not want to adjust. A masculine society is associated with 'masculine' values that to a large degree correspond with entrepreneurial values.

France is characterized by high power distance, high individualism, medium masculinity and a high level of uncertainty avoidance (Hofstede, 1991). These country-specific cultural values can be demonstrated by the characteristics of French organizations. They reflect a 'pyramid of people' and are often referred to as traditional bureaucracies (Hofstede, 1991). The structure of the typical French organization reflects a high power distance, as it is characterized by centrality of decision-making and top-down coordination (Groenewegen, 2001). In France there is input control as management positions are often occupied or assigned to former students of the *Grandes Écoles*, i.e. the elite schools. This reflects high uncertainty avoidance. Moreover, organizations are heavily regulated to avoid uncertainty. French businesses are often referred to as *cloisonné*, indicating that they are clearly structured, both vertically and horizontally. Personal roles and responsibility, privileges and obligations are clearly defined, both formally by the hierarchy, and informally by individual characteristics, such as authority, power and status. To accomplish things in these complex and structured organizations, one is forced to circumvent the hierarchy by informal personal networks. This is often referred to as the *Système D*. Certainly, relationships and affection are considered very important in French business.²⁹ As compared to the United States where business is the driving force of relationships, in France the relationship is said to determine the business. See Groenewegen (2001) for an intriguing comparison between Dutch and French ways to create external and internal business relationships.

As self-employment can be considered an alternative to wage-employment, characteristics of the typical French organization are likely to influence entrepreneurship, through the opportunity costs of entrepreneurship or the degree of correspondence of organizational values with entrepreneurial values. On the one hand French organizational characteristics can positively influence entrepreneurship. The fact that most of the higher occupational positions within French organizations are assigned to people of certain social classes and the strictly regulated work

environment can lead to dissatisfaction pushing people into self-employment. Moreover, people that want to accomplish things are forced to 'think creatively' to circumvent the hierarchy. This creativity can reflect or create entrepreneurial spirit. On the other hand, despite forced creativity, the specific and inflexibly structured external and internal organization of industry in France is not likely to be a source of innovative ideas and of entrepreneurial opportunities. Moreover, the high value placed on loyalty is likely to hinder occupational mobility, and accordingly entrepreneurship, as dissatisfied employees are discouraged to leave wage-employment. Within the French organization individual characteristics, such as authority, status and power are important success factors.³⁰ They are often also considered important for self-employment. However, when people are successful in wage-employment on account of these characteristics, they are less likely to consider the option of self-employment.

3.5 CONCLUSION

This chapter has dealt with three questions. First, what happened to entrepreneurship in France? Second, what factors contribute(d) to the development of entrepreneurship in France? Third, what is the role of government policy?

Regarding the first question it can be said that entrepreneurship in France shows a more or less continuous decline in the period 1972-1998 (see Figure 3.1). At present the rate of entrepreneurship in France is low, both from a longitudinal and an international perspective. At present France has reached the lowest level of entrepreneurship in 25 years whereas that in most other OECD-countries shows an increasing level in recent years. The case of France is exceptional and in this chapter we have investigated possible determinants of the developments of entrepreneurship in France.

One of the most salient features of the French economy is the substantial increase in unemployment in the period 1972-1998 (see Figure 3.3). The high level of unemployment is accompanied by a lack of entrepreneurial opportunities. In addition, in arguing that large businesses would have a higher contribution to employment, the French government tended to support larger businesses instead of smaller businesses. Where other countries are characterized by an increasing small business sector due to technological developments and economic wealth creation (Carree, Van Stel, Thurik and Wennekers, 2001) France is characterized by a high share of large businesses. Technological advancement is a straightforward competitive advantage of large businesses as the government assigns large-

scale projects to these businesses. Also from other perspectives the role of the government within the economic process in France is relatively extensive; the lack of competition is detrimental to the small business sector in France. The French economy is characterized by high centralization, both from a regional and size perspective. Important industries are located near cities and are often characterized by the dominant role of large companies. Although clusters of small businesses in general tend to reinforce entrepreneurship, large businesses within clusters tend to occupy a central and powerful position. This is regarded as an unfavorable condition for entrepreneurship since this may go together with a lack of knowledge transfer or diffusion of innovative applications and with weak inter-firm linkages.

In the last two decades the French government has started to acknowledge the importance of entrepreneurship. Several measures stimulating entrepreneurship have been designed and implemented. However, these measures are only a first step, contain inefficiencies and create few incentives. There is a lack of information concerning the facilities and regulations for SMEs and different policies counteract. For example, the French government has designed special programs to stimulate innovative start-ups, but at the same time it still gives the bulk of their orders to the large, former state-owned businesses. Moreover, the discrepancy in social security between wage and self-employed people and the high tax burden on SMEs create few incentives for entrepreneurship.

In addition to government intervention, the French culture appears to have an important negative impact on entrepreneurship. On the one hand it can be argued that government intervention is part of the French culture, whereas on the other hand the French government is likely to have contributed to the creation of a culture that is unable to foster entrepreneurship. The influence of culture on French business is high in the form of strict regulation, policies and procedures, planning and control and centralized decision-making. These characteristics of the French internal organization can be applied to the French economy as a whole (Groenewegen, 2001). The typical French organization is a reflection of the (national) economy. The discrimination between culture and the role of government is difficult to make in their enormous influence on the French economic landscape. The fact that few French people have considered starting up a business can be attributed for a large part to cultural attitudes towards entrepreneurship and (a lack of) awareness of its opportunities. However, those people that did start a business experience opposition, whether intentional or unintentional, by the government. Cultural and governmental influences are again highly intertwined.

Times are changing for France. In 2000, the French Prime Minister Lionel Jospin announced several 'new' measures to stimulate small businesses, such as an exemption of administrative costs and lower tax rates. Moreover, it is said that the economic environment not only inhibits entrepreneurship, but at the same time, albeit unintentionally, stimulates entrepreneurship. On the one hand, heavy government regulation inhibits economic development and thereby the creation of entrepreneurial opportunities. On the other hand firms are forced to be creative and find ways to circumvent the restrictions stemming from government regulation. It will be interesting to investigate whether the combination of the long-term effect of forced creativity and the changing governmental attitude in the (near) future will lead to an increase in entrepreneurship in France after a period of continuous decline. Accordingly, it will help France reach the turning point in the development of entrepreneurship in France, albeit later than other OECD-countries. The optimistic view is that where France experienced a growing economy despite low levels of entrepreneurship, it may profit more than other countries from an upsurge of entrepreneurship in the future.

ACKNOWLEDGEMENT

The present chapter is the outcome of a research partnership between the School for Public and Environmental Affairs (SPEA) at Indiana University, the Faculty of Economics at Erasmus University Rotterdam and EIM Business and Policy Research in Zoetermeer. The research partnership is called the BRIDGE (Bloomington Rotterdam International Doctoral and Graduate Exchange) program. Ingrid Verheul is researcher at the Centre for Advanced Small Business Economics (CASBEC) at Erasmus University Rotterdam. She acknowledges financial support of the Fund Schiedam Vlaardingen e.o. and the Trust Fund Rotterdam. Candice Henriquez, Ineke van der Geest and Casandra Bischoff are students participating in the research partnership.

NOTES

- ¹ In this study we use the terms entrepreneurship, self-employment and business ownership interchangeably.
- ² According to the *Agence Pour la Creation d'Entreprises* (APCE) business failures do not refer to voluntary closures but to a legal decision by the commercial court, considering that a closure cannot take place without a legally enforced liquidation, a temporary continuance under the court's jurisdiction or requiring a sale.
- ³ Variables included in the innovation index are the following: the number of people employed in R&D, the aggregate expenditure on R&D, the openness to international trade

and investment, the strength of protection for intellectual property, the share of GDP spent on secondary and tertiary education, the share of R&D expenditures funded by private industry, the percentage of R&D performed by universities and the antitrust policy.

⁴ France is characterized by a relatively weak trade and technology position that is dominated by foreign competitors (Storper and Salais, 1997).

⁵ This includes military and civilian aircraft, communications and electronics.

⁶ Colbert (1619-1683) was a French statesman that served King Louis XIV as superintendent of finance, from 1661 until his death. (Bailey, 2001). Since Colbert, the French government has intervened in the industrial development of several sectors by controlling the export and import in these sectors, establishing public enterprises in the absence of private initiatives and giving contractual financial support to specific private enterprises (Groenewegen, 1989).

⁷ Among the highest ranked *colbertist* industries are nuclear reactors, aeronautics, telecommunications and generator stations.

⁸ The definition of services includes business services, real estate services and personal services, but excludes trade and educational and health services. See: www.pme-commerce-artisanat.gouv.fr

⁹ See: www.pme-commerce-artisanat.gouv.fr

¹⁰ Countries characterized by a rapidly expanding population and work force have a growing share of self-employed people in the workforce, whereas countries, experiencing low population growth, face a decrease in the share of self-employed in the labor force (ILO, 1990). Furthermore, population growth creates a future increasing demand for goods and services.

¹¹ On the one hand, urban regions attract businesses due to the existence of business infrastructure. Usually, established firms in urban areas will attract new firms, thereby reinforcing entrepreneurship. On the other hand, urban areas (with high population density) will give rise to economies of scale, leaving little room for small businesses.

¹² The exception is Paris that lost nearly 25 percent of its population between 1954 and 1982, partly to suburbs or surrounding departments.

¹³ This 'aging' effect can be attributed on the one hand to the low fertility rates from 1965, which stabilized from 1976. These low fertility rates reduced the share of young people to the advantage of the old people. On the other hand, the mortality rates have been declining since the 1970s, leading to a higher number of old people.

¹⁴ According to the margination theory, ethnic entrepreneurship arises from dissatisfaction. This dissatisfaction can be related to the difficulty of immigrants to adjust to the values and habits of the host country or the qualitative and quantitative discrimination they experience in the labor market. Quantitative discrimination is dealt with when discussing the indirect effect of immigration, through unemployment, on (ethnic) entrepreneurship in France. Moreover, immigrants are likely to be less risk averse than native people, because the decision to migrate often involves high risks. Risk taking is considered a fundamental characteristic of entrepreneurship.

¹⁵ The percentage share of immigrants in the labor force was 8.1 percent. The immigrant labor force was 2.1 million. The total number of unemployed immigrants was 441,000. This was 14.4 percent of the total number of unemployed. The unemployment rate of the immigrant population amounts to 21 percent.

¹⁶ For more information on *Contrats de Plan Etat-Régions* see: www.commerce-exterieur.gouv.fr

- ¹⁷ Payroll taxes and family allowances are paid to the *Union de Recouvrement des cotisans de Sécurité Sociale et d'Allocations Familiales* (l'URSSAF) and unemployment benefits are paid to the *Association pour l'Emploi Dans l'Industrie et le Commerce* (l'ASSEDIC).
- ¹⁸ Source: www.service-public.fr
- ¹⁹ Ibid.
- ²⁰ As compared to other OECD-countries in 1994 fixed-term labor contracts in France were the least flexible (OECD, 1995).
- ²¹ In France there is a large wedge between before- and after-tax incomes, as almost all social protection programs are financed by social security contributions levied on wages (OECD, 1994a).
- ²² Measures that facilitate individual business creation include the possibility to ask for the calculation of the old-age contribution based on a favorable scale and a 30 percent covering of the health insurance contribution by the state during the first two years of the existence of the new firm. Measures to improve social equality in favor of the self-employed include fiscal deductibility of paid facultative contributions regarding group contracts for complementary pensions, precaution (care) and unemployment insurance, with the same limitations as for the wage-employed; the possibility to buy off the lacking trimesters when the paid revenues in a year do not allow it to deduct four trimesters in that year and the fact that the collaborating husband/wife of the business owner is allowed to exercise paid functions within the limits of part-time work (*mi-temps*). Measures to simplify the relationship between the self-employed and the social security institutions include the calculation of social contributions based on the revenues of the past year and the fact that self-employed people will not immediately lose their right on sickness benefits in case of arrears in the payment of insurance premiums. There is the possibility to pay one's arrears within a year time while keeping one's right on sickness benefits. Source: www.pme-commerce-artisanat.fr
- ²³ The costs for creating a one-man business vary between 600 and 1,100 francs. For a Limited Liability company, the costs are approximately 1,000 francs for Publication and 1,330 francs for Registration. For this kind of business, some more procedures are required. For example a statement of actions carried out in the name and on behalf of the new company must be signed. (APCE, 2000b)
- ²⁴ It should be born in mind that the size of the country has impact on the number of liquidations, as well as the definition of insolvency or liquidation used. Different definitions of insolvency exist for different countries.
- ²⁵ In 1986 the Competition Council was formed by the act on freedom and competition and prices. Together with the French Competition Council and the General Directorate for Fair Trading, Consumer Affairs and Fraud Control (DGCCRF) the Competition Council tries to enforce competition laws and policies. This includes the supervision on mergers, horizontal and vertical cartels, dominant positions, and situations of economic dependency and anti-competitive abuses. Despite the establishment of these competition authorities the ability of the French competition policy to effectively combat anti-competitive practices and safeguard economic efficiency is limited. Recently, an act on new economic regulations has been proposed that may improve the competition policy by increasing the resources of the Competition Council and stimulating effective use of both new and existent resources.
- ²⁶ The BDPME was established in the late 1996s and consolidates two entities that had previously been operating independently: CEPME and the *Société Française de Garantie des Financements des Petites et Moyennes Entreprises* (SOFARIS).

²⁷ For detailed information on the education of managers we refer to Schmidt (1996).

²⁸ Power distance refers to the extent to which a society accepts the unequal distribution of power in institutions and organizations. Uncertainty avoidance refers to the extent to which a society feels uncomfortable with uncertainty and the preference for predictability and stability. Individualism/collectivism reflects the extent to which people prefer to take care of themselves and their immediate families, remaining emotionally independent from groups, organizations, and other collectivities. Masculinity/femininity reveals the bias towards either 'masculine' values, such as assertiveness, competitiveness, and materialism, or 'feminine' values, such as nurturing, quality of life and relationships.

²⁹ See SoCoCo Intercultural (2001).

³⁰ For more information on French individualism, its implications for the structure of firms and their interrelations we refer to d'Iribarne (1989). d'Iribarne (1989) argues that individualism in France is closely linked to 'honour', implying that the individual closely adheres to his/ her social role.

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