

**Review Article**

## **PROVIDE IMPORTANT POLICY RECOMMENDATIONS TO SUPPORT ENTREPRENEURSHIPE**

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### **ABSTRACT**

According to important role of governments in the development of the local economy, providing policy recommendations to support of entrepreneurs is one of the most important tools to facilitate local economic and employment development. In this paper, first the policy recommendations organized in three categories (strategy, finance and planning) and are raised at the national, local and national, and local levels, and then will be discussed using the recommendations of the study; the challenges of entrepreneurship maximize the benefits and minimize the problems that entrepreneurs, such as investment risk and displacement effects. Evidence shows that the creation of new businesses and the local economy is negatively correlated with growth. New businesses that appear in the industry is particularly associated with regional growth. Never the less, the creation of businesses affected by the outcome of the other causes of growth. Therefore, the business is necessary if not sufficient condition for regional.

**Keywords:** *Local Employment, Business, Policies, Strategies*

### **INTRODUCTION**

Because of economic and social problems have taken efforts to reach the standard of living in different countries as well. One such effort to support of entrepreneurship activities is the creation and development of businesses. According to each country's development policies, development should involve all aspects of human life. Accordingly, the countries are planning according to various cultural, religious, environmental and planning policy. Land-use policies and offering solutions related to employment and unemployment in each country are mostly college education can improve the development process. Accordingly, the local economic development, and support of local businesses and the uncontrolled migration of people to towns cut. For this reason, should be taken always support policies for regional entrepreneurship activities and employment. Thus the relationship between business and job creation in the local economy is considered by most policy makers (Midary, and Qudjany, 2008). Government intervention is considered always as one of the important and effective elements in the analysis of entrepreneurship. Governmental entities in the economic system plays a prominent and significant role in the economic area. Regulations and laws, have a large effect relations and economic activities and provide the causes of barriers for other economic factors, including entrepreneurs, small units. Problems such as establishment license started by entrepreneurs, the bank credit allocation units brokers small, restrictions and import and export laws,, tax and labor law for entrepreneurs, instability and changing laws and regulations, the bureaucracy and the presence of multiple paths and licenses, obtaining bail and the payment of dividends banking facilities and facilities (Hezar Jaribi, 2005). This article focuses on the protection of existing companies and the creation of new companies and discussed the strategies that have been proposed in this area. Then we will pointed out the study of the relationship between entrepreneurship and local economic development.

### **A review of previous studies**

Storey (1994) has argued strongly for support to be directed to established and/or fast-growth firms. The reasons usually given for this prioritisation are that failure rates are lower in established enterprises, and

**Review Article**

that only a small number of fast-growth firms account for a disproportionately large share of private-sector job creation.<sup>2</sup> Public resources deployed during enterprise start-up will be lost at a high rate because early-stage firms experience high mortality. The impact on employment generation, it is held, will also be small relative to what could be achieved by a focus on established firms (Storey et al, 1994). Evidence suggests that some types of program, particularly those that concentrate on the smallest size class of firms, will be more effective if focused on incumbent firms. Assessing a scheme of micro-enterprise support in Washington DC, Schreiner (1999) found that the impact on the length of time worked per year was greatest for those who were already owners of a business. He concluded that the most significant effects of micro-enterprise programs are likely to occur when they assist existing ventures. Indeed, more generally, practitioners often observe that while policy has done much to encourage persons into business, less attention has been given to improving the chances that these businesses survive. Many critical variables that affect business viability – such as the interest rate and the level of aggregate demand – are either entirely or partially outside the influence of local policymakers. While some research has concluded that the business cycle plays a limited role in overall small-firm mortality, there is a considerable weight of evidence that macroeconomic factors can be of major importance. For instance, using Australian data, Everett and Watson (1998) found that from thirty to fifty per cent of small business failures were caused by macro economic conditions.

**Table 1- Summary of policy recommendation) (OECD 2003)**

<b>Programming</b>	
<i>local</i>	<i>national</i>
<ul style="list-style-type: none"> <li>● To help counter displacement effects ensure a strong marketing component in assistance programmes and consider restricting the terms of business support.</li> <li>● Encourage the creation of team-based firms.</li> <li>● Examine where the public sector can play a catalytic role in establishing private-sector-led networks.</li> <li>❖ Implement broad campaigns to introduce the networking concept to businesses.</li> <li>❖ Expect to provide some financial support in feasibility work, startup activities and the costs of network brokerage.</li> <li>❖ Work with realistic time-frames.</li> <li>❖ Ensure the presence of experienced network brokers.</li> </ul>	<ul style="list-style-type: none"> <li>● Consider incorporating new objectives into existing institutions, rather than creating new organisations.</li> <li>● Ensure flexibility in the operation of self-employment support programmes.</li> <li>● Design self-employment and micro-enterprise support programmes such that budgets and capacities can be expanded during economic downturns.</li> <li>● Aim for visible points of referral to professional advisors, as comprehensive programme outreach by public bodies is costly and unnecessary.</li> <li>● Ensure access to high-quality pre-start advisory services.</li> <li>● Carefully select monitoring and performance measures as these shape programme outcomes in diverse and important ways.</li> <li>● Systematically evaluate programmes and policies and ensure that evaluation findings inform polic</li> </ul>

The success of programs will also be sensitive to initial conditions. For example, Cowling and Hayward (2000) encountered a strong negative correlation between the local rate of unemployment and enterprise survival. And the earnings of the self-employed have even been seen to vary with the average educational attainment of a locality’s inhabitants (Gomez, 1999). Program outcomes will also be influenced by whether an area is experiencing entrenched long-term unemployment or short-term employment fluctuation. This is because candidates coming from an extended period of unemployment are less likely to operate successful businesses. In addition, if the self-employed compete for market share then benefits from self-employment might be higher in areas with low levels of pre-existing self-employment (Robson, 1998). The

### **Review Article**

recommendations do not address framework conditions such as regulatory, fiscal and competition policies. Public policy in these domains essentially pertains to central governments. It is not usually formulated with sub-national jurisdictions in mind, and is the subject of a comprehensive literature elsewhere. The recommendations also ignore the much broader set of policies that impact on the quality of life in any locality – such as transportation, health care, criminal justice, etc. – and which make some places more attractive than others for starting and running a business. A number of the recommendations primarily serve to map the limits of policy. This is necessary, as erroneous expectations can lead to resources being used in unproductive ways. Indeed, the overarching challenge that these recommendations seek to meet is to maximize the advantages of increased entrepreneurship while minimizing the drawbacks. Other recommendations are more prescriptive as regards the specifics of program design and operation. Because the recommendations stem from an assessment of the functioning of the markets that are key to entrepreneurship, they are applicable to both poor and wealthy localities. However, there is variation in both national and local levels of government.

Therefore, this study focuses on creation of new businesses. The potential for this relationship is further strengthened in the work of Sternberg and Wennekers (2005), which found that entrepreneurial activity (as defined by new venture creation), had a positive effect on economic growth in the context of developed nations. It is becoming increasingly apparent that entrepreneurship levels are a region-specific event that can only be understood if regional framework conditions are taken into consideration (Sternberg and Wennekers, 2005). Across the twenty-nine countries surveyed in the 2001 Entrepreneurship Monitor – including twenty-two of the thirty OECD member countries – an average of just under ten per cent of the adult population was starting a new firm or owning an active business. At a macroeconomic level it is increasingly clear that entrepreneurship is one of the keys to economic dynamism and job creation (Reynolds et al., 2001). As part of the OECD Growth Project the OECD Secretariat has examined the micro-economic underpinnings of productivity change in a set of ten OECD member economies (mostly for the period 1989-94). This research is one of the few studies of its sort to use a common multi-country analytical framework. The findings suggest that for seven of the countries studied new firms represent a significant source of overall productivity growth. However, the contribution of new firms was not the same across all industries. The role of company creation in raising productivity was particularly significant in newer industries such as information and communication technologies (OECD, 2001).

The quantitative importance of new firms in employment creation can also be significant. From 1970 to 1985 new businesses accounted for twenty-seven per cent of annual job creation in manufacturing in Canada, and twenty-one per cent in the United States (Baldwin et al., 1995). Acs (1999) and others argue that enterprise creation was critical to differences in the record of private-sector job-creation between Europe and the United States through the 1990s. Across the countries studied by the OECD (OECD, 2001) some five to ten per cent of employees are directly affected by enterprise creation and exit each year. Variations in business activity across distinct types of locality have also been under-researched. Local areas with distinct characteristics exhibit markedly different enterprise demographics. For instance, within urban areas the inner city may be home to a large number and variety of firms. However, peripheral estates often contain fewer companies. Inner city districts may be near to high-income markets, transport facilities and business contacts, all of which are conducive to enterprise survival and growth. Large urban areas can provide easier access to public and private business support services. And commercial opportunities and the density of networks are usually more limited in rural areas than in urban centres. Patterns of enterprise creation can also differ in local areas that depend on a small number of dominant economic activities, such as mining towns. Rates of enterprise creation differ markedly across regions within OECD member countries. Some regions have annual firm birth rates two to six times higher than others (Reynolds et al., 1994). Significant influences on enterprise creation can vary from one region to another, and have been shown to include the following:

demographics, as more densely populated areas, regions with young populations and urban areas tend to start more firms; unemployment, which for different reasons can both encourage and diminish rates of

### **Review Article**

company creation; wealth, with more affluent areas expected to have high rates of enterprise creation owing to higher levels of demand and a greater availability of capital; creation can vary from one region to another, and have been shown to include the following:

- Demographics, as more densely populated areas, regions with young populations and urban areas tend to start more firms;
- unemployment, which for different reasons can both encourage and diminish rates of company creation;
- Wealth, with more affluent areas expected to have high rates of enterprise creation owing to higher levels of demand and a greater availability of capital;
- Educational and occupational characteristics of the workforce. For example, there is a positive link between the proportion of managers in the workforce and the level of firm creation (Gavron et al., 1998);
- The prevalence of small firms, it being argued that employees in small businesses will aspire to own other small businesses;
- The extent of owner-occupied housing, given that property is an important source of collateral for the financing of enterprise start-up (and development); and
- Infrastructure endowment, which is positively associated with investment demand. For example, public traffic infrastructure has been important in determining the distribution of start-up activity across Germany's regions (Egelin et al., 1997).

Ashcroft and Love (1996) showed a strong positive relationship between employment change and new firm formation across English counties in the 1980s. In the United States, the underpinning to federal entrepreneurship strategies was provided in part by the statistical work of David Birch. Birch (1987) – the statistical basis of which has been the subject of some debate among economic geographers – identified business formation and the growth of small firms as the major factor differentiating growing and declining regions.

However, the evidence is not uniform. For example, Fritsch (1997) found no significant relationship between start-up activity and employment in (West) German planning regions. In another study examining (West) German planning regions Audretsch and Fritsch (forthcoming) showed that neither a high rate of enterprise births, nor a high rate of entry and exit combined, were sufficient for growth. The authors likewise observed interesting changes over time. The rate of company creation had no significant influence on the growth of employment during the 1980s. But regions with higher start-up rates did have higher employment growth during the 1990s. This was explained as reflecting change in “growth regimes”. Incumbent firms had made significant contributions to economic development at different times. These findings suggest that in some locations large firms will make a greater contribution to growth, while in others a more important impact will come from small firms. By implication, a policy setting that facilitates entry and attends to the needs of incumbent firms appears advisable.

In summary, the evidence suggests that the creation of new firms is positively associated with the growth of regional economies. New firms in manufacturing appear to make a particularly important independent contribution to regional growth (Reynolds, 1994). However, the level of enterprise births is itself an outcome influenced by other causes of growth. Enterprise creation therefore appears to be a necessary if not sufficient condition of regional growth.

The relationship between firm creation and employment in local economies is often uppermost in the concerns of policymakers. Some of the regional and local studies already cited suggest that the connection to net job creation is ambiguous. In fact, a number of conceptual, measurement, and labour market considerations will make a straightforward relationship between firm creation and local (un)employment hard to detect. For example:

- Causation between enterprise creation and unemployment is likely to operate in both directions. Rising unemployment can stimulate the birth of new firms because for a part of the workforce the opportunity cost of becoming an entrepreneur will fall. Conversely, a low rate of job creation, which is affected by the level of company births, also influences the rate of unemployment
- Gross statistics can hide the sectoral mix of enterprise formation. This mix might affect employment

### **Review Article**

growth. For instance, new enterprises in manufacturing typically have more employees than new firms in the service sector. And highly innovative companies might be associated with growth-inducing “spill-over” effects.

- Adjustments in rates of labour force participation and/or population change resulting from migration and commuting (particularly at the local level) will influence the rate of registered unemployment. Whatever its source, employment growth is not a sufficient condition for a reduction in regional or local unemployment (this is illustrated quantitatively in “Disparities in Regional Labour Markets”, in OECD [2000]).

- Because of migration and travel-to-work patterns the link between new firms and unemployment might be sensitive to where a locality is. And because internal migration propensities appear to vary across national labour markets the relationship between employment outcomes and enterprise creation across local economies might depend on the country being examined. Similarly, this relationship could change over time in any given country. For instance, the implementation of policies that lower the transaction costs of buying or renting accommodation could facilitate internal migration, weakening the link between local job creation and local employment.

- Much micro-enterprise activity is below the notice of statistical agencies. In the United Kingdom data on value-added tax (VAT) registration fails to capture businesses with an annual turnover of less than fifty-four thousand pounds. Such statistical oversight limits understanding of the impact of entrepreneurship on poorer locations, because it is here that micro-entrepreneurial activity is particularly common. Indeed, data collected by banks on the opening of new accounts show a wider geographical spread of business activity than is indicated by VAT registrations.

- Variation in key features of the population from one place to another – features such as educational attainment or incidence of long-term unemployment – would also affect correlations between entrepreneurship and changes in local labour markets. Access to factor markets is also uneven across locations. For instance, in most countries there are significant regional disparities in the supply of formal venture capital. Similarly, infrastructure endowment and the quality of public programmes and institutions can differ from one area to another. All such inter-location differences can affect the size and growth of new firms. The local geographic units from which start-up data is collected might easily include both rich and poor adjacent neighbourhoods. This could lead to an inaccurate depiction of the underlying relationships. The phenomenon of co-existing growth and unemployment in local and regional economies, which is not uncommon, also reflects the fact that businesses sometimes operate with few links to local product markets, while salaries may be spent outside of the locality. This implies that a given rate of enterprise creation in localities with different local supply and retail opportunities is likely to have different local multiplier effects. Government subsidies or some form of tax abatement for a defined period of time will act to lower initial risk for the new venture startup. Lower tax rates overall will have the effect of lowering both initial costs and enduring costs to new ventures (Acs and Szerb, 2007; Keuschnigg and Nielsen, 2001).

Governments can increase the potential entrepreneur’s motivation to engage in the process of new venture startups through actions such as lowering government-enacted barriers to entry. Examples of such barriers include excessive paperwork, permits, or other “red tape” types of issues placed on new venture startups (Stel et al., 2007). Governments can also work to lower natural barriers of entry through government subsidies or significant tax breaks rewarding new venture creation. Finally, governments can provide assistance to new venture startups in the form of small business development centers, entrepreneurship centers and other government-sponsored training programs aimed at increasing the survival rate of new venture startups (Acs and Szerb, 2007). Overall, the perception on the part of the entrepreneur that the government is friendly toward the startup of new ventures will encourage entrepreneurs to start new ventures. According to Saxenian (1999), between 1980 and 1998, Chinese and Indian immigrants were responsible for 24 percent of the businesses started in the state of California. Reasons attributed to this include the higher prevalence of technical skills, a lack of alternatives, lower opportunity costs and a

### **Review Article**

willingness to invest greater time in new ventures because of their lower marginal utility of labor. The high level of technical expertise contained within the foreign population is a direct result of a selective process that takes place when immigrating to the United States. Simply put, only the best and the brightest of any citizenry are allowed to legally immigrate to this country. Therefore, as a natural result of this process, foreigners contain a more developed and diverse skill set than is contained in the general population. This leads to a greater capability to successfully launch new ventures and therefore, lowers risk.

Although the foreigner arrives with superior technical skills, the network from which to seek out opportunity is either poorly developed or nonexistent compared to that available to locals (Labrianidis and Hatziprokopiou, 2010). Therefore, the options placed in front of the foreign population are lessened significantly. Even when employment can be found, it is usually not in the form of a highly compensated position (Sicilian, 2009). This allows for the opportunity cost of new venture creation to be lessened significantly for the foreign population. This also leads to a lower marginal utility of labor than is found in the general population and thus, overall lower costs and an increased motivation to create new ventures. Additionally, evidence suggests that cultural diversity of a population has been identified as a predictor of increased economic performance under certain institutional conditions (Sobel et al., 2010). The more diverse a population is, the more varied the skill sets are. This leads to more potential for collaborative efforts, which contributes to more and stronger new venture startups. There may also be something in the mindset of an immigrant that inclines him to be an entrepreneur. The act of immigration itself is very entrepreneurial in nature. Only those who already possess the traits of nascent entrepreneurship will choose to do so. Labrianidis and Hatziprokopiou (2010) suggest that “the entrepreneurship of immigrants is embedded within the dynamics of immigrants.” This predisposes the population to act in entrepreneurial ways in numbers significantly larger than the general population. Push theory advocates say that because a person is unemployed and limited in his/her options, the opportunity cost of becoming an entrepreneur is much lower and therefore, much more attractive. The perception of an earnings differential between entrepreneurship and paid employment becomes stronger and self-employment becomes more attractive (Begley et al., 2005). Also the cost of necessary equipment and other associated costs of starting up a business are significantly lower during times of poor economic performance (Fritsch and Mueller, 2007; Fritsch and Falck, 2007; Gudgin, 1984; Tervo and Nittykangas, 1994). Phelps (2007) states that the stronger the perception by the potential entrepreneur that critical resources are in abundance, the more likely he or she is to act and begin a new venture. As important as push factors are considered to be, pull factors are also considered to have a significant impact on new firm formation. These factors are the perceived existence of attractive and potentially profitable opportunities. Many founders, when asked, indicated they perceived their entrepreneurial endeavors to be much more than just an escape from unemployment. Rather, they viewed them to be an opportunity to capitalize on and expand their capabilities and abilities (Tervo and Nittykangas, 1994).

### **CONCLUSIONS**

First, a government could work to build both the perception and creation of a favorable business climate. Some suggestions include making governmental regulations and rules transparent, readily accessible, easily understood and consistent over a period of time. Keeping the rules as simple as possible works to aid in their clarity as well as reduce their potential negative impact on business. One way to accomplish this could be to have a balanced set of rules and regulations and enabling a greater buy-in with public and business communities over a period of time, thereby offering greater stability and clarity for new entrepreneurs. The perception and creation of a favorable business climate can be further accomplished through increased support to new and small firms. This can come in the form of information, advice, training, start-up capital opportunities, or possibly new venture business incubators. For instance, entrepreneurial activity in an area can benefit from strong government support of small business programs such as Small Business Development Centers, University Entrepreneurship Centers, New Venture

### **Review Article**

Business Incubators, etc. Second, governments could encourage legal immigration and support existing foreign populations currently within their boundaries to encourage new venture creation. For instance, governments may aid in the new venture creation process by supporting the foreign population community through needs-specific training or sponsoring events aimed at generating greater capabilities of self-employment. Given the study results, governments could also engage in actions to change the perception of anti-foreigner sentiment in times of high unemployment. These actions could include a public relations initiative where the benefits of a diverse community can be promoted for new ventures and job creation. Additionally, the government could facilitate network connections between foreign populations and small business programs available in the larger community. This research also suggests that high levels of unemployment have a negative impact on new venture creation. High unemployment rates seem to hurt the population with fewer job opportunities, while at the same time holding down levels of new venture creation, which can further bring down employment. Therefore, times of unemployment may require greater governmental encouragement for new venture creation as well as programs for workforce retraining so the unemployed can potentially fill up the jobs created by new ventures. This regional offering of high support can happen in several ways, which include provision of ancillary/support services to the state offices, providing infrastructural services for the population through education and training and providing other services to entrepreneurship.

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**Review Article**

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