

Catching up with the Danes - Why Denmark succeeds as a top entrepreneurial country and what we can learn from them

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CATCHING UP WITH THE DANES – WHY DENMARK SUCCEEDS AS A TOP ENTREPRENEURIAL COUNTRY AND WHAT WE CAN LEARN FROM THEM *

A qualitative-explorative study on the environmental frame conditions promoting business start-ups in Denmark

ABSTRACT

Denmark is frequently found at or near the top of the list of the most entrepreneurial countries in the world. This paper strives to identify Denmark's key entrepreneurship success factors as a means of fostering greater entrepreneurship in other countries. The paper is based on a theoretical framework on national competitiveness, underpinned by research within the field of entrepreneurial studies, business development management, cultural studies as well as economic policy. Qualitative methods – analysis of interviews with five industry experts – were used to explore the theoretical framework. During the interviews, the managers discuss environmental aspects, which impact the start-up-business in Denmark in a positive way on a macro-economic perspective. In conclusion, comparisons are made among the findings of the interview data and current GEM, GEDI and OECD data on the Danish frame conditions of doing entrepreneurial business.

Keywords: Entrepreneurial business, start-up, country study Denmark, venture capital business, environmental analysis

1. Introduction

Entrepreneurs drive the wealth of an economy. Innovation and growth are the two current pillars of any innovation-based society when it comes to economic development – and entrepreneurship is the fundament of both (Wennekers, Thurik 1999; Carree, Thurik 2003; Audretsch 2007).

Entrepreneurs are seen as characters who take their hearts in their hands in order to make a dream come true. The term “*entrepreneur*” comes to mind when one talks of acting on opportunities and taking risks. The cliché of the American Dream nevertheless conjures an image: Making it to the top from scratch; from being a dish-washer to enjoying the full tastes of life as a billionaire (Shane 2008: 3).

But is this dream still alive and is it in reach for most of us? Who can be an entrepreneur and who not? And finally - does it make a difference, whether I live in Italy or in the U.S., if I want to start a business successfully? What are the frame conditions that positively promote building a business on your own?

Most people see the US as the motherland of entrepreneurship. Publications such as Scott Shanes’ “*The Illusion of Entrepreneurship*” provide a sophisticated view on the start-up scene in the US, displaying a wide range of entrepreneur-types in daily business. Due to that, this paper summarizes current definitions of entrepreneurship while having a closer look on new business activities in another country: Denmark.

According to current ratings by the OECD, the World Bank as well as the studies of GEM and GEDI, Denmark is of the most entrepreneurial countries in the world. Therefore, this paper strives to answer the central research question: *Why does Denmark succeed as a top entrepreneurial country?*

In order to deepen insight into that field, this paper builds on qualitative research to identify Denmark’s key entrepreneurship success factors as a means of fostering greater entrepreneurship in other countries.

The research design is based on a theoretical framework on national competitiveness, underpinned by open and structured qualitative interviews with five industry experts of.

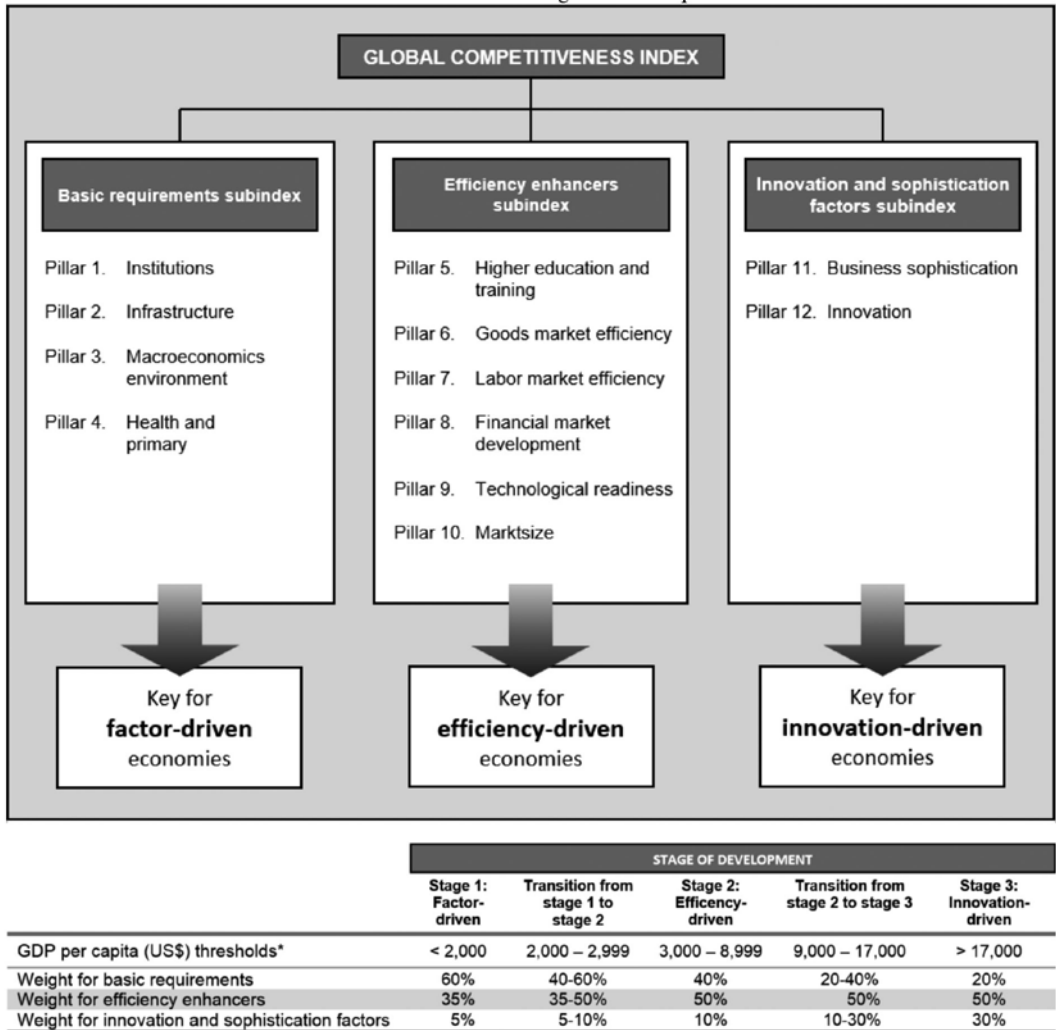
During the interviews, the managers discuss environmental aspects, which impact the start-up-business in Denmark in a positive way on a macro-economic perspective. In conclusion, comparisons are made among the findings of the interview data and current GEM, GEDI and OECD data on the Danish frame conditions of doing entrepreneurial business.

2. Characteristics of Entrepreneurship

Due to the economic earthquakes that have been hitting Europe during the financial crisis from the years 2008 forthcoming, thousands of employees have been laid off, and still today, most of them have not made it back into a stable working environment. Accordingly, more and more people try to find a way for their families and themselves in order to survive economically. In some cases, people of this group start their own business, being forced to realize a basic income. Therefore, entrepreneurship is discussed, now, even more than in the decades before. But how is entrepreneurship defined? GEM defines entrepreneurship as “*any attempt at new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business*” (Bosma et al., 2012: 9). Since this paper focuses not only on single persons but entrepreneurship as a national phenomenon, we further use a current classification of entrepreneurship as delivered by the World Economic Forum. Here, on a broader economic perspective, entrepreneurship is described in close relation to the level of economic maturity of a national economy. Figure 1.1, displays a general classification of three different market-types: *factor-driven*, *efficiency-* and *innovation-driven* economies. In all of these markets, entrepreneurs are existent. In reference to their steering motive, the World Bank distinguishes two groups of entrepreneurs: *necessity-driven* and *opportunity-driven* entrepreneurs. The size of these groups varies between the listed types of economies in dependence of the level of market maturity.

The *necessity-driven* type of entrepreneur is present around the globe, with a majority in the poorer developed, agricultural – so called *factor-driven* economies (World Economic Forum 2014: 9).

Figure 1 The Global Competitiveness Index framework and its classification, including subindex weights and income thresholds for stages of development



Note: See individual country/economy profiles for the exact applied weights.

*For economies with a high dependency on mineral resources, GDP per capita is not the sole criterion for the determination of the stage of development. See text for details.

Source: World Economic Forum (2014: 9-10)

The 28 nations of the European Union however, are *innovation-driven* economies, constantly striving for further development and growth within the area of service industries as well as building intellectual capital (Amorós, Bosma, 2013: 11).

Doing so, these countries are in constant need for people, who are willing to start new businesses on their own, using cognitive capital to grow ideas and markets to the next level. In contradiction to necessity-driven entrepreneurs, opportunity-driven entrepreneurs show the highest levels degree of *subjective well-being*, especially in innovation-driven economies (Brixy et al., 2010: 1; Amorós, Bosma 2013: 11).

3. Entrepreneurial Activity in Europe and specifically in Germany

Current studies on the entrepreneurial activities within the EU-28 show that Germany is only performing mediocre, when it comes to the total and relative amount of new businesses - although being the economically most powerful and best growing marketplace in Europe (GEM 2013: 31). Especially in *venture creation*, Germany seems to be very much behind.

Figure 2 Phases of Entrepreneurial Activity in the European Countries in 2013

Region		Nascent entrepreneur-ship rate	None business ownership rate	Early-stage entrepreneurial activity (TEA)	Established business ownership rate	Discontinuation of businesses	Necessity-driven (% of TEA)	Improvement-driven opportunity (% of TEA)
Economies								
European Union	Belgium	3.1	1.9	4.9	5.9	1.9	29.0	43.9
	Croatia	6.3	2.0	8.3	3.3	4.5	37.4	29.8
	Czech Republic	4.9	2.7	7.3	5.3	3.4	22.7	60.3
	Estonia	8.8	4.5	13.1	5.0	2.1	14.8	50.1
	Finland	2.7	2.7	5.3	6.6	2.0	17.9	66.0
	France	2.7	1.8	4.6	4.1	1.9	15.7	60.9
	Germany	3.1	2.0	5.0	5.1	1.5	18.7	55.7
	Greece	3.3	2.3	5.5	12.6	5.0	23.5	35.8
	Hungary	6.0	3.7	9.7	7.2	2.9	28.0	38.7
	Ireland	5.5	3.8	9.2	7.5	2.5	18.0	43.8
	Italy	2.4	1.1	3.4	3.7	1.9	18.7	18.4
	Latvia	8.1	5.3	13.3	8.8	3.5	21.2	52.7
	Lithuania	6.1	6.4	12.4	8.3	3.5	23.3	55.2
	Luxembourg	6.0	2.8	8.7	2.4	2.8	5.6	56.6
	Netherlands	4.7	4.8	9.3	8.7	2.1	8.0	67.1
	Poland	5.1	4.3	9.3	6.5	4.0	47.4	32.7
	Portugal	4.2	4.2	8.2	7.7	2.8	21.4	50.7
	Romania	6.2	4.2	10.1	5.3	4.3	31.6	31.6
	Slovakia	6.1	3.6	9.5	5.4	5.5	40.2	40.2
	Slovenia	3.6	2.9	6.5	5.7	2.6	24.1	53.4
Spain	3.1	2.2	5.2	8.4	1.9	29.2	33.2	
Sweden	5.9	2.5	8.2	6.0	2.4	9.7	58.4	
United Kingdom	3.6	3.6	7.1	6.6	1.9	16.1	45.2	
Average		4.8	3.3	8.0	6.4	2.9	22.7	47.0

Source: Amorós, J. E., Bosma, N. (2013). *Global Entrepreneurship Monitor (GEM) 2013 Global Report. Fifteen Years of Assessing Entrepreneurship around the Globe*, pp. 31

According to the results of the current Global Entrepreneurship Monitor Survey, in 2013, an estimated 5.0% of Germans between the age of 18 and 64 aspired for starting a new business – less than half of the number of U.S.-Americans (12.7%) in the same period and also far less to the rates in other European countries such as the Baltic States (Estonia: 13.8%; Latvia: 13.3% and Lithuania: 12.4%). In summary, Germany achieves in *Early-stage Entrepreneurial Activity (TEA)* – the amount of individuals in the process of starting a business and those running new businesses less than 3 ½ years old – rank 26 out of 28 European countries (GEM 2013: 31).

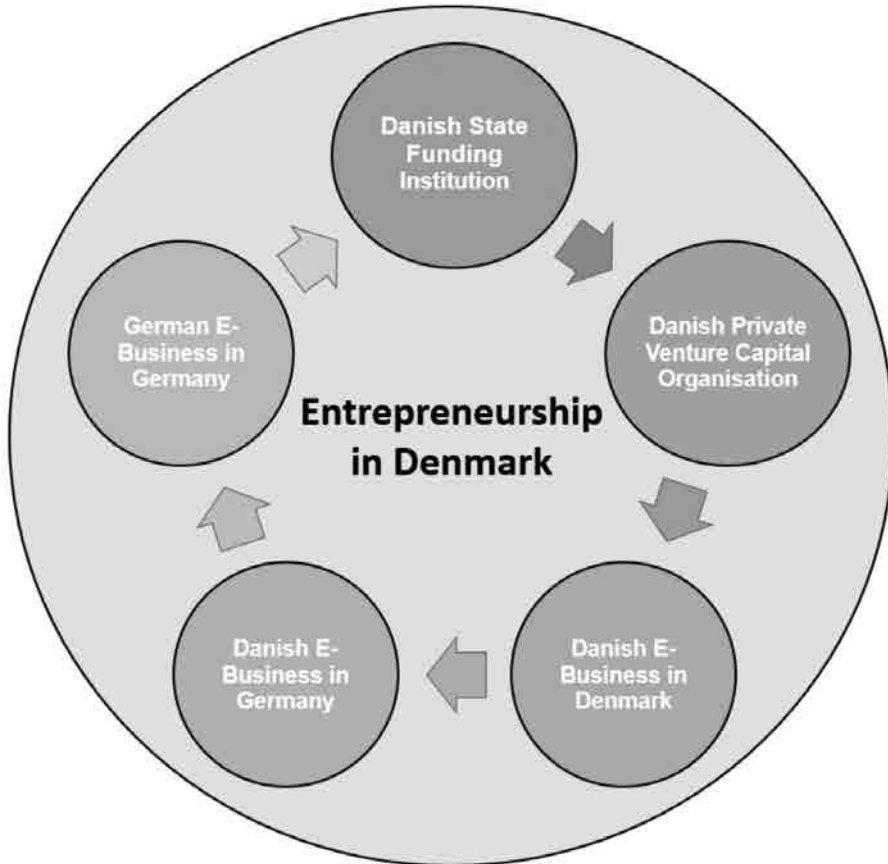
Given these rather poor results, compared to its huge weight of industry and the reputation of its innovation-driven engineering branch within Europe, the question arises, what Germany could do to perform better. Here, a look on top-performing countries in the area of entrepreneurial activity might help.

Accordingly, a closer look at current GEM-, GEDI- and OECD-data shows Denmark constantly outpacing other European countries in start-up rates (Ács et. al. 2013: 4, 332; OECD 2014: 34). Therefore, this paper strives to look for answers, *why Denmark is atop the list of the most entrepreneurial countries – and what Germany can learn from it.*

4. Methodology and Sample

Broad data-bases for the field of entrepreneurial business are currently provided by the *Global Entrepreneurship Monitor (GEM)*, the *Global Entrepreneurship and Development Index (GEDI)* by the George Mason School of Public Policy's Center for Entrepreneurship and Public Policy (GEDI), the *OECD Economic Country Surveys* as well as the Information from the *World Economic Forum*. In addition, smaller studies pursue smaller research fields within the start-up scene (e.g.: Brixy et al., 2009; Castringius, 2004; Fonseca et al., 2007; Kaden, 2007; Kutenkeuler, 2007; Lesáková, 2012; Schulze Buschoff, Schmidt, 2007).

Figure 3 Interview participants in a 360 degree perspective on the research question



Source: compiled by the author

In general, the mentioned studies reflect relationships and correlations between an *overall economic development, surrounding conditions* and the *business-start-ups themselves*. Regarding Denmark, this research is based on specific *entrepreneurial framework conditions* considering the country to be an *innovation-driven economy* (Porter et al., 2002; Wennekers et al., 2005; Gries, Naude, 2008). The overall order for *macro-economic* factors impacting an industry in general can be described by the *STEP/PEST* or *PESTLE*-framework (Fahey/Narayanan 1986). Doing so, factors that will be surveyed in their impact on entrepreneurship fall in general categories such as *political, economic, socio-cultural, technological, legal* and *environmental* aspects. According to current studies on European entrepreneurship (Kaden, 2007; Schött, 2010; Ács et al., 2013), the survey contemplates the following factors in order to understand and describe patterns in the fields mentioned above, such as:

- *Economic Factors*
- *Risk Capital Factors*
- *Socio-demographic Factors*
- *People-specific Factors*
- *Research/Development Factors*
- *Geographic Factors*
- *Legal Factors*

In order to deepen the existing data on the subject of entrepreneurship in Denmark, the broad methodology follows standard norms and procedures of inductive research (Baker et al., 2003: 256; Denzin, Lincoln, 2005). Overall, the survey builds base on a *qualitative-explorative* research methodology, using *expert interviews* with open questions to gain broad and in-depth insight into the chosen areas of interest. The data were gathered in October 2014 by primary activities. The research sample consists of 5 experts, who have been chosen to deliver a 360 angle on the subject of entrepreneurship in Denmark, compared to the German start-up scene: a Danish public sector financial funding institution, a Danish private sector venture capital organization, a Danish entrepreneur doing business in Denmark, a Danish entrepreneur doing business in Germany, and finally, a German entrepreneur doing business in Germany. All entrepreneurs are engaged in technology/ software-driven start-ups. All Danish ex-

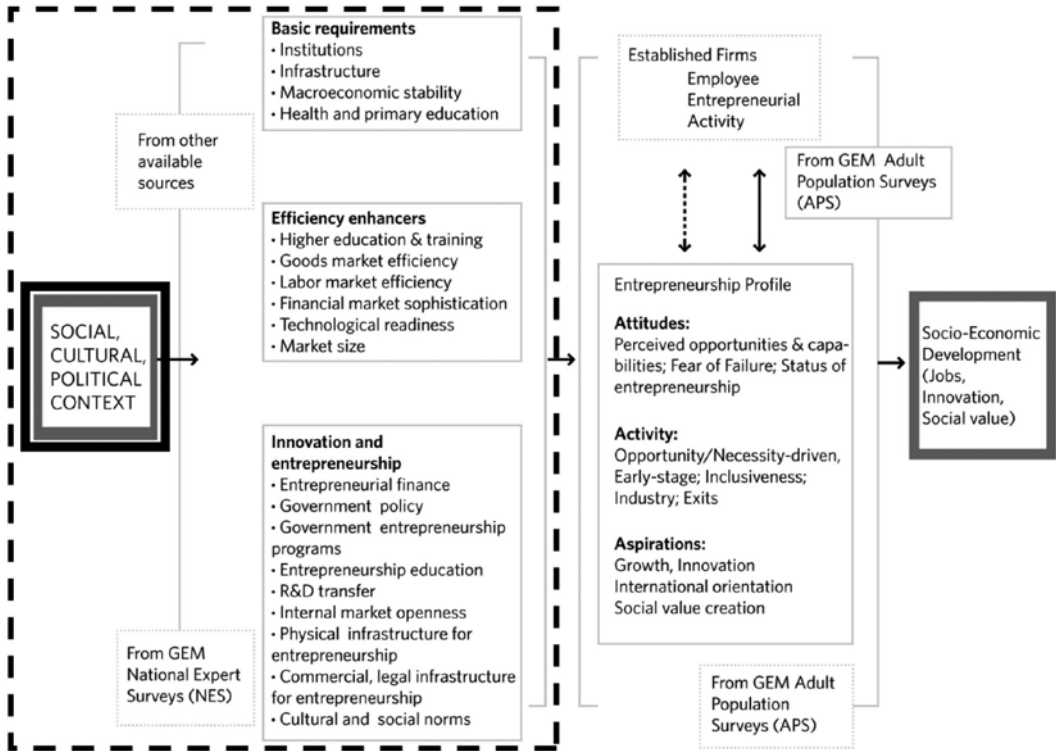
perts doing business in Denmark are located in the greater Copenhagen area, while the Danish entrepreneur doing business in Germany is commuting between Hamburg and Berlin and at last, the German entrepreneur is from Berlin itself.

All of the interviewed experts, mentioned above, have a senior level expertise (10 years and more) in the field of entrepreneurship. Doing so, this research seeks to deepen the findings in the area of socio-cultural aspects as described in the 2013 study provided by GEM (see Figure 3). Data from the primary sample were gathered by open-ended, semi-structured telephone interviews, lasting average 45 minutes (Baker et al., 2003: 257). Venture capital providers (VCs) as well as founders have been asked the same questions about:

- a) ...their personal biographies and their current venture profile,
- b) ...their general assessment of the frame conditions for starting a business in Denmark,
- c) ...strengths, weaknesses, opportunities and threats of the Danish marketplace for new ventures,
- d) ...their personal ratings of factor conditions, impacting entrepreneurship in Denmark,
- e) ...their opinion of their/ entrepreneurs' motives for starting a business and their measurement of success.
- f) ...at the end, all participants have been asked to explain Denmark's high ranking position in the GEM, GEDI and OECD-surveys referring to being an excellent place to start a business.

Doing so, the participants gave deeper insight into the fields of *basic requirements* for starting a business (e. g. availability of institutions and infrastructure), *efficiency enhancers* (e. g. availability of educated talents and other market conditions) as well as a SWOT-based evaluation of the overall *level of innovation and entrepreneurship* (e. g. access to financing, taxation, market scale opportunities) within their country. Figure 3, on the following page, displays the overall GEM conceptual framework, including the macro-economic fields of research according to the PESTLE-model as being applied to this survey. The conducted expert interviews focus the topics marked with the red box.

Figure 4 The overall conceptual framework of the Global Entrepreneurship Monitor and the focus of the conducted expert interviews, marked with the box in dotted lines.



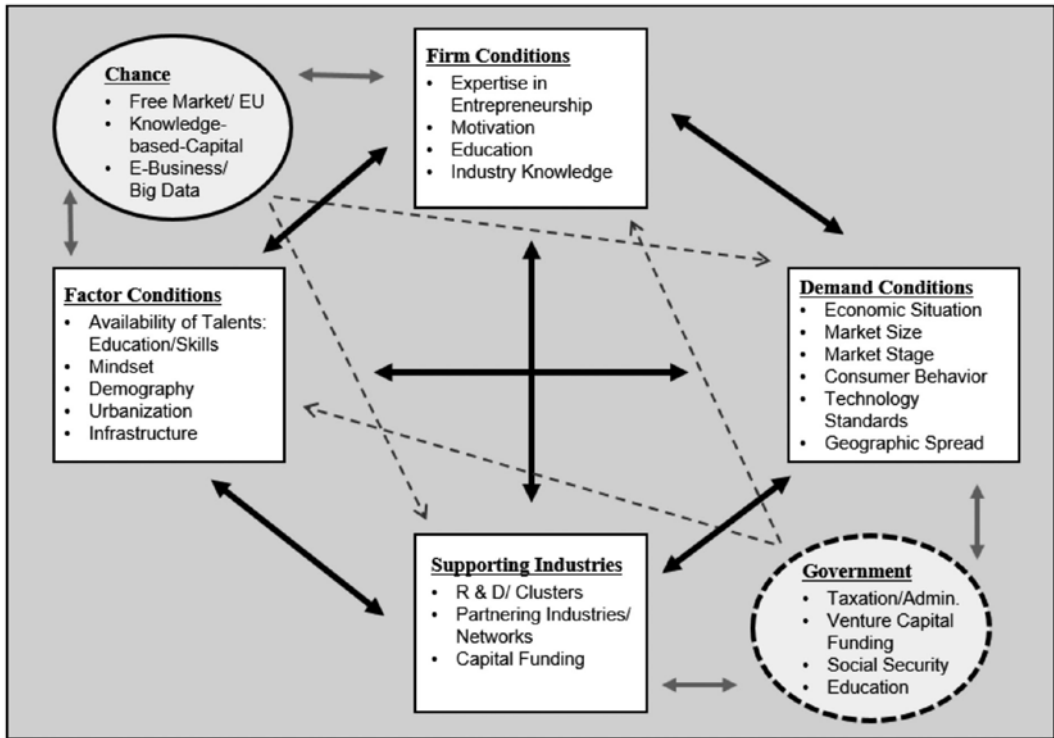
Source: Amorós, J. E., Bosma, N. (2013). *Global Entrepreneurship Monitor (GEM) 2013 Global Report. Fifteen Years of Assessing Entrepreneurship around the Globe*, pp. 21

5. Theoretical Foundation

This paper strives to discuss entrepreneurship in an international context, reaching out for identifying key determinants of national competitiveness within the field of starting a business in Denmark. As a theoretic fundament we use the *Diamond Theory*, as published in Michael Eugene Porters work *The Competitive Advantage of Nations* (1990). This model builds on the assumption, that it is a nation, which provides, builds and shapes the environment of an industry and its participants. In particular, the characteristics of a home nation play a key role in setting the frame conditions of the start-up scene (Hollensen 2014: 101).

In this pursuit for identifying the sources of national competitiveness of entrepreneurship in Denmark, the applied PESTLE pattern, structuring the research areas, may also be seen from the perspective of the Diamond-Model of Porter. Accordingly, the qualitative-explorative interviews of experts as conducted in this survey, seek to have a closer look on the embodiment of influencing factors descending from the *factor* and *demand conditions* in Denmark such as the availability of natural resources, human talent as well as innovation and its market-demand from a regional, national and international perspective. Finally, the interviews cover also the role and impact of *government*, summing up *chances* for the entrepreneurial business in Denmark.

Figure 5 Analysis of national competitiveness – The Porter Diamond



Source: Hollensen, S. (2014). *Global Marketing, 6th ed*, Pearson, Harlow, pp. 101

6. Results

6.1 Background

The interviewed experts represent: (a) a Danish state funding institution, which is still directly or indirectly involved in about 80 percent of the Danish venture capital investments, (b) a Danish private sector venture capital organization which caters to around 200 members, representing the whole investment chain from business angels through venture capital and private equity to institutional investors and associate members. (c) a Danish entrepreneur doing business in Denmark since she was 16 years old, now providing E-payment services to small and medium businesses; (d) a Danish entrepreneur doing business in Germany, providing E-solutions for consumer group accumulation and targeting for internet business activities, and (e) finally, a German entrepreneur, starting business in

Germany for E-based information services for consumers of electricity supply.

The survey participants in an overview:

- Danish State Funding Institution, Head of Research
- Danish Private Venture Capital Organisation, Chief Executive Officer
- Danish E-Business in Denmark, Founder
- Danish E-Business in Germany, Founder
- German E-Business in Germany, Founder

6.2 Frame conditions in general

The first interview question referred to a general evaluation of the frame conditions for *Early-stage Entrepreneurial Activities* (TEA) in Denmark. Here, all respondents found, that starting a business in Denmark is very easy. The participants mentioned a low degree of bureaucracy, a relatively small amount of starting costs, above average access to capital funding – so in all: low entrance barriers for entrepreneurs. These answers were consistent with current data on the ease of doing business in Denmark when it comes to registering ventures in technical terms (The World Bank 2014: Rank 7 worldwide, duration 5.5 days, compared to 11.1 days on average in the OECD and 14.5 days in Germany).

From a founders' perspective, one person explicitly mentioned the aspects of social security taking risk of starting new venture: "[...] *we have the welfare system, so people have to pay a lot of taxes and then you get money from the state if you don't have a job. So the worst that can happen is you get support from the state and then you can find something else to do*" (c: Expert Danish E-Business in Denmark). From the perspective of venture capital providers, one person in the sample mentioned that taxation is a big issue, hindering further capital flow into the market, which is not covered by recent studies: "*If you take the framework conditions regarding taxation, because a lot of international surveys and benchmarks don't take this into consideration, then Denmark is not a very good country comparatively. The taxes in Denmark are very high. If you sell a company in Denmark, then the profits that you make are considerably less than in Germany for example. But if you take the basic framework conditions, then Denmark really is a very good company.*" (b: Expert Private Venture Capital).

The majority of interviewed people mentioned the limitations to grow a business in Denmark due to the small number of population (5.5 million citizens) and – accordingly the small size of potential markets. One Danish entrepreneur mentioned, that most Danish businesses – against the current high rankings – do not grow because of a limited attitude in the Danish population: "[...] *when I started to look for financing for my new concept [...] there was not very much willingness, there was not very much vision. I talked to a lot of different VCs. I talked also to these innovation centers that we have, [...] and they*

were very risk-averse in my opinion. [...] What I see is that many of these Danish concepts have very little sensitivity of what is going on in the rest of Europe. So they may for instance have pretty good traction with a couple of brand names in Denmark but not understand that there is any [...] of competition as soon as you cross the border to Germany for instance, which makes it very difficult for them to really create a valuable company. [...] So, it's a small country and we tend to think small and act small and we have something that we call the 'BMW-syndrome', which means that once you've had a measure of success, so that you have your BMW, and you have your summer house and you have your boat, that you think to yourself 'Okay, now I'm content and I don't need anything more, so now I can stop'" (d: Expert Danish E-Business in Germany).

Proposition 1: Low administrative barriers and efficient bureaucratic processing support venture creation.

6.3 SWOT on Entrepreneurship in Denmark

The purpose of the second question we asked, was to start an environmental scanning of potential influencing factors on entrepreneurship in an undemanding but yet straightforward way. Therefore, participants were asked to do a SWOT analysis (Wheelen et al., 2014) in order to help identify particular strengths and opportunities of the Danish marketplace for new venture makers. In addition, we wanted to uncover areas of potential improvement in the frame conditions of start-up business in Denmark.

6.3.1 Strengths

The interviewees clearly mention the stability of the Danish economy and the ease of starting a business as a major asset of the Danish marketplace for new venture creation: "*I think one of the strengths is that it's quite easy to start a company in Denmark. If you take the equity that you need to start a company, it's quite small. Another thing that is very positive is the Danish economy- it is not fast growing but coming from the recession, we are probably growing into a regime with small growths*" (b: Expert Private Venture Capital).

Besides, the existence and performance of the social state welfare system seems to take away economic and therefore personal risk from the founders. In addition, the linkage of a stable government, providing state support in funding, little administration, combined with a sound intellectual and practically oriented higher education system seems to support entrepreneurial activity: *“Not only does the Danish welfare system help us out a lot, but there are institutions which are basically made for entrepreneurs. For example ‘Copenhagen School of Entrepreneurship’, ‘Vaekstfonden’, ‘DTU innovation lab’, ‘App garage’. These are a few I know, most of them in Copenhagen because that is where I am now. So the main strength is the support you get and the welfare system”* (c: Expert Danish E-Business in Denmark).

Proposition 2: State funding and state support in gaining access to venture capital supports venture creation.

Proposition 3: A significant existence of higher education in the field of entrepreneurship supports venture creation.

Proposition 4: Social security, provided for the unemployed, has a positive impact on the amount of new venture creation.

6.3.2 Weaknesses

Denmark is a small country. With the size of 5.5 million people living in the Nordic state, Denmark has a fraction of other European nation populations. In geographic terms, Denmark is much smaller than most European countries, especially its direct neighbor states. Due to this, it was not surprising to hear, that all participants of the survey mentioned the size of Denmark, and therefore also the comparatively small size of its local market, as being a weakness of the Danish marketplace for new venture creation: *“The weakness would be that because of the economy it is hard for a business to grow”* (b: Expert Private Venture Capital).

Moreover, two experts linked the limited size of their home country to a limitation in entrepreneurial thinking, also caused by not speaking an internationally well-known language: *“Thinking small and acting small. Especially not really understanding how your compelling value proposition stands up against international competition.”* (d: Expert Danish E-Business in Germany).

“We are a very small country. We don’t have English, German or French as a mother-tongue. I think that if you know some of the ‘bigger’ languages, languages which a lot more people speak, it is then a lot easier to get your product out there. But seeing as we are a small country we can only do a test-market here. You have to scale in order to be successful these days, so I think people with English as their first language have a big advantage. And of course in Germany you have a big market to start with.” (c: Expert Danish E-Business in Denmark).

One interviewee claimed the high cost of living being a weakness: *“[...] the problem is that the cost of living is extremely high, so you have the exact opposite situation to Berlin, where the cost of living is relatively low. So if you do [while being in Berlin] a bit of consulting on the side, you can sit in a café and develop your own concept for three days a week, working as a consultant for two days a week and make things work.”* (d: Expert Danish E-Business in Germany).

Proposition 5: Existence of potential markets of sufficient size supports venture creation.

Proposition 6: Internationality and international languages in the home country as mother tongues support venture creation.

Proposition 7: Low cost of living support venture creation.

6.3.3 Opportunities

Due to the small size of Denmark and its direct location next to other, bigger markets, the Danish marketplace for new business creation might gain from an economic take-off in Germany and other countries: *“[...]if you really have something great, there are plenty of VCs looking for you. All my VC friends are asking me to send them something cool. Which also means that a lot of VC funds are [... investing ...] and now they have a problem. Because they have a mandate to invest most of their funds in Denmark. So if you’re really good, there is plenty of opportunity there but my VC friends say that really cool opportunities are few and far between”* (d: Expert Danish E-Business in Germany).

Moreover, as many other Western societies Denmark is undergoing a cultural change. In a historic perspective, Denmark was traditionally involved in businesses abroad in other parts of the world, lead-

ing to an open and international society, influenced by sea- and tradesmen. Due to that, the Danish culture is comparatively pragmatic and informal: *"I don't think we have that many formal structures in Denmark- of course we have bureaucracy. But when I look at Germany, there are a lot of formalities which might prevent young people from entering the barriers to the bigger corporations. I'm not sure about this but in Denmark I can approach a CEO of a big bank, and it will still be daring, but it will still be okay. This is just my hypothesis. The culture is just a lot more open"* (c: Expert Danish E-Business in Denmark). Especially around the big economic and intellectual hub of Copenhagen, cultural change plays obviously a great role, driven by education: *"We see a lot of focus on entrepreneurship education, both in schools and especially universities. There are entrepreneurship hubs coming up. Also it's becoming really cool to be an entrepreneur. There is a lot of hype about it at the moment. Society is coming together in Copenhagen. So there are a lot of very good things happening"* (a: Expert Danish State Fund).

Proposition 8: Geographic closeness to bigger, culturally close markets supports venture creation.

Proposition 9: Lower hierarchical distance supports venture creation.

Proposition 10: Urbanization supports venture creation.

6.3.4 Threats

With the focus on factors which might restrain new venture creation, the interviewed mentioned economic aspects at first hand. Major areas of threats are seen in the fields of competition, financing and growing new businesses as well as taxation. *"[...] I guess there are a lot of threats from start-ups in other countries. For example Danish VCs think that 1 million Euros is a lot, but from what I've heard from places like San Francisco, the UK and Germany the markets are much bigger so people are used to making much bigger investments. So these start-ups from other countries are getting much better funding opportunities"* (c: Expert Danish E-Business in Denmark).

Although Denmark hosts an over proportional high number of start-ups, their concentration and thereby limitation to urban areas is seen critically in regards to an increase of nationwide competitive-

ness: *"At the moment it's only happening in Copenhagen and not really in the rest of the country, it's like your Berlin. And I'm afraid that in the long run the lack of capital might become a problem. We do see very good trends at the moment- our venture capital market is becoming much more mature, there is much more capital and larger funds for investment. There are also more experienced fund managers and we are seeing that returns are getting much better than they were at the beginning of this venture."*

So as I said, a lot of positive trends. Now it is important to work on it so that the trends continue. So that the VCs can continue to reap capital from their investors in order to be able to fund the next generation of entrepreneurs" (a: Expert Danish State Fund).

Finally, especially investors criticize low margins in venture capital funding due to governmental policy: *"The threat is that if we don't change the frameworks regarding taxation in Denmark, then we won't have the growth that we need in Denmark"* (b: Expert Private Venture Capital).

Proposition 11: Constant flow of funding according to the business life cycle of new ventures supports growing businesses in the mid- and long-term.

Proposition 12: Lower taxation for start-up businesses help to grow businesses and find venture capital funding in the short-, mid- and long-term.

6.4 Macro-economic factor analysis

Following recent GEM-/GEDI- and OECD studies, we sought a qualitative appraisal of the current environment for start-ups in Denmark. Having an eye on the overall objective of the paper – to find what others can learn from the Danish marketplace – we have chosen Porters' Diamond-Theory as our conceptual framework to structure the answers of the interviewed experts, while the questions themselves have been split into fields of subjects in relation to the current literature as mentioned in section 2. Related to these fields of macro-conditions, we have found the following:

6.4.1 Firm Conditions

All business starts with a product or a service. Conversely, any product or service is the result of doing business based on some kind of vision, idea

and management pattern being built on internal resources. Therefore, we wanted to find out, which were the internal determinants of starting a business within the Danish marketplace in the areas of motivation, skills and knowledge on the side of the entrepreneurs themselves and how a correlation between these firm conditions and the success of new venture creation might be described in a general, qualitative way (very negative/negative/neutral/positive/very positive).

Our interviewees described the *development of expertise* in entrepreneurship as a sequential process with trial and error, depending on the education that the entrepreneurs had for starting a business: “I would agree with that. I think there are some entrepreneurs that are very deliberate in systematically searching for opportunities. The majority though I don't think is very systematic about their search for new ideas. If your background is that you are from a trade school, then you would probably be very systematic about your research. If however you are an engineer, then it is more specific driven. So both things are possible” (b: Expert Private Venture Capital). From a broader research perspective the representative of a Danish State funding institution explained that *identifying business opportunities* has involved several learning steps over time, rather than a one-time thing: “Yes, I definitely believe that and a lot of our analogies show that too. I think a lot of entrepreneurs have a lot of start-ups behind them and a lot of failure behind them. What our analogy actually shows is that it is not until your fourth start-up that you are actually able to create great value” (a: Expert Danish State Fund).

In most cases, the founders' expertise builds on *industry knowledge*, which they gained from former businesses they worked in, helping to start an own venture: “[...] I think that you can cultivate your luck. A friend of mine said, ‘You know, I look at the most successful start-ups CEOs and I notice very often they have been product-people before that. So I was chief-product officer at [...] and of course that had a lot to do with it. I sat in the intersection between customers, the business, the developers, the technology and what it could do, how to make money with it and with that did first-hand market research... while I was still getting paid by my old employer. I did my product conceptualization and to a certain extent, my product validation while still at my old job. And then- I pulled the trigger and went solo” (d: Expert Danish E-Business in Germany).

Coming down to the very personal level, all interview partners claim *intrinsic motivation* to be the main driving force for starting a business in Denmark. This supports, that Denmark is seen as an innovation-driven country, where most people start businesses not because necessity reasons, but innovation and personal will: “The entrepreneurs I've met have some problem that they have a burning desire to solve. So this girl I was talking to was, first created an e-commerce platform and sold that. She realized how difficult that was and wanted to create a company which allows you to set up an e-commerce shop very easily, solving the first problem that she had. So now she is looking to set up a platform to alternate all the [...] financial stuff that is very complicated when you have a small business. So she in a sense keeps going backwards, solving her own problems that she had with her own e-commerce shop. And that, I think gives you a pretty good picture of what drives most of the Danish entrepreneurs that I have met. They have identified some problem and now they are burning to solve it. I think for them it is the thought that they are independent, they want their own business and they want to succeed” (d: Expert Danish E-Business in Germany).

Summing it up, all interviewed experts named being independent and subjective well-being as key motives for being an entrepreneur. In addition, the change in the values of society as well as an increasing education in the field of entrepreneurship seems to further promote new venture creation: “I wouldn't say that the Danes are more entrepreneurial in general though but they are getting better at it. It's becoming cool to be an entrepreneur now. Was young, I'm 35 now, we never even heard of entrepreneurship but the new generation is learning about this and the real opportunities which present themselves when looking at the alternatives of going after a normal job. Also there are a lot more successful entrepreneurs these days. So we are getting more and more role models, which is very important in getting more and better entrepreneurs” (a: Expert Danish State Fund).

Overall suggested impact of Firm Conditions on entrepreneurship in Denmark:

Positive

6.4.2 Factor Conditions

Traditional models of international trade consider the factor conditions of countries as being given. On the contrary, Porters' Diamond Theory suggests, that a nation itself can further create factors such as intellectual skills through education, technology through innovation as well as the overall mindset towards business as being supported by government in specific through establishing political structures as well as by society with its culture and corresponding values (Porter, 1992).

Denmark is a small country and therefore, one might suggest, that the factor conditions for new venture creation are limited, contrasted to bigger countries such as Germany, France or Spain. Due to that, we asked our experts to share their view on aspects such as the *availability of talents*, the infrastructure for intellectual *education* and skill training, the impact of *demography* and *urbanization* as well as more soft topics such as their appraisal of the Danish culture as a fundament for setting an entrepreneurial mindset.

Referring to the availability of talents, education plays a central role: *"When I started at Copenhagen Business School, where I'm studying now, in 2009, we learnt a lot about entrepreneurship, even though it was still growing back then. Now everyone is talking about entrepreneurship and it is considered very cool to be an entrepreneur. So I wouldn't say we were raised with it but we learn about it through different channels, through media, through education and so on. So we are taught from the very beginning that it is okay to fail and okay to try something out and it's a very positive thing to put on your CV when you apply for a job"* (c: Expert Danish E-Business in Denmark).

Apart from the importance of education to become an entrepreneur, it seems interesting to discover how Denmark manages to bring up as many talented people to entrepreneurship as possible. Key aspects mentioned in this respect, are the permeability of educational domains due to financial funding to talented people regardless of background as well as a special focus on gender equality: *"I think one things that is really positive, is the fact that higher education is not only free but you get paid to take higher education with money that you have to pay back again. This means that there is a tremendous equality. If I look at the people that were successful in university that I studied with, there was almost no*

correlation of where they came from or where their parents had studied, these things had no influence on how well they did at university. And this is a tremendous benefit of the Danish educational system. [...] We also have a culture and a society which is extremely oriented towards gender-equality which means that it is much easier for women to have real career and have children at the same time. This also means that we have a lot more women in the workplace and on the market, so to speak- this is a very positive thing. [...] So you are activating a tremendous intellectual effort by creating a society which facilitates that women can really play an active role in the marketplace" (d: Expert Danish E-Business in Germany).

It seems that a change in society and the Danish culture itself provide a mindset which supports entrepreneurial activity by pragmatic thinking and fearless openness to try and explore numerous ways to set up a business: *"I think the values have changed a lot over time. Maybe about 25 years ago it was not a very nice thing to be an entrepreneur, they were poor and lived in their basements and basically people who couldn't get a job. Now I think that the Danes are becoming more and more open and positive in regard to entrepreneurship. There has been a shift recently and I think the shift will still have some momentum in the coming years. People are also thinking positively towards becoming entrepreneurs themselves"* (c: Expert Danish E-Business in Denmark).

Trends that support this new openness to new venture creation are seen by the high degree of urbanization in Southern Denmark within the Copenhagen area. While having green-tech and agricultural businesses at the shores and in the northern part of the country, Copenhagen develops itself towards a hub for bringing up ideas and exchanging intellectual capital in order to bring it down to business ideas. Geographic distances, so it seems are counterbalanced by urban hotspots in combination with a global communication infrastructure via the Internet: *"I think [being an entrepreneur] it's getting a lot easier to think globally because of the internet and barriers are just not that important anymore. So it's easy for me to collaborate with a guy from the Ukraine. But then again most of the entrepreneurs are clustered in Copenhagen, than in smaller cities. Simply because there is a lot more help here, more institutions. I think the degree of urbanization has a positive impact on entrepreneurship"* (c: Expert Danish E-Business in Denmark).

In general, the effects of geography and demography seem to be quite neutral. Nonetheless “[...] *the thing is that it is actually better for you to start your business where you live, because you have a network there to build your business around. But what we can see is that all the innovations, the capital and the investors are all based in Copenhagen. All the companies that get venture capital are located in Copenhagen*” (a: Expert Danish State Fund).

Overall suggested impact of Factor Conditions on entrepreneurship in Denmark:

Positive

6.4.3 Demand Conditions

The third perspective on the national competitiveness of new venture creation focuses on demand conditions as being a composition of the overall economic situation, the size and development stage of the Danish marketplace, consumer behavior, pressures through technology standards and at last the geographic spread of demand.

In interviews, all experts mentioned that the small size of the local market is a barrier for growth. Nonetheless, according to GEM-/GEDI- and OECD-surveys, Denmark is over proportionally performing in the relative number of new venture creation. Looking at the size of the affiliated markets, this result surprises, because - as Shane writes: “[...] *the magnitude of customer demand has a positive effect on new firm performance, leading new firms to perform better in larger markets. [...] The cost gap between new and established firm efforts to meet demand is smaller in larger markets than in smaller ones, making larger markets more favorable to new companies than smaller markets. Most venture capitalists understand this logic, which is why they often focus their attention on backing those start-ups pursuing the largest markets*” (Shane 2007: 8).

Therefore we wanted to learn why we find such a high number of start-ups in Denmark, despite its comparatively small market. The consensus among our interviewees was that the surrounding conditions as set by the governmental support with a) financial aid (State funds) - and therewith attracted private VCs (because of asymmetric profit sharing) – b) the subsidizing of broad and qualitatively sound entrepreneurial higher education and c) the

existence of an effectively working social welfare net, simply provides excellent starting conditions. Nonetheless all interviewed experts mentioned, that the challenges come to the start-ups, when they want to grow their business. Their views are represented by this quote: “*Extremely limited markets, and yet we only tend to think in terms of our market. So we say ‘Let’s make it work here, if we can make it work here, then we can extrapolate. And that is not the case very often. So even though you don’t have a lot of competition, you have a USP, you have a compelling value proposition in Denmark, but as soon as you go into Germany you get crushed by the competition, because of their sheer scale, their sophistication, their ability to plow the cash-flow back into a business model. So that’s the problem with thinking that just because a project takes off in Denmark, just think what we could do in Germany. But it’s not the same, the dynamics are not the same, the competitive intensity is not the same. And what is often a compelling value proposition in Denmark is not always one in Germany. [...] It’s also such a small country that you need to think of the localization of your project immediately. We never think ‘Let’s do it in Danish and then it will just work’. There are five and a half million Danish speakers in the world which means that we think of the internationalization from the very first moment, which is a strong contrast to then actually not thinking very internationally. So we think of internationalization but we don’t think internationally*” (d: Expert Danish E-Business in Germany).

Especially the current economic situation challenges the Danish marketplace for new venture creation – obviously due to differences in demand, caused by the distribution of income of Danish households: “*The thing about the Danish society is, if you think about the German society, the bell-curve of incomes for instance, is much broader than it is in Denmark. So what I have observed here in Denmark is that you have a lot of very wealthy people- I live in Hamburg so it is fairly obvious here- but they also have a lot of poor people. The Danish bell-curve is much narrower which means that Denmark is pretty much all middle-class, with a few rich people and very few poor people. So this has a certain impact on consumer behavior because for instance the crisis has hit much harder in Denmark than it has in Germany. [...]. So in the last six years we’ve definitely seen a big difference in consumer behavior, where the Danes have been very reluctant to increase consum-*

er spending- the same cannot be said for Germany” (d: Expert Danish E-Business in Germany).

Overall suggested impact of Demand Conditions on entrepreneurship in Denmark:

Negative

6.4.4 Supporting Industries

As we may see from other research, business incubators have a prominent role in supporting start-ups (Lesáková, 2012). Beyond that, the existence of research and development-clusters, partnering industries and networks as well as especially access to capital funding provide a sound basis for new venture creation. Considering intellectual and financial support as the key assets for starting a business we asked the experts, in which way research and development Factors such as the availability of new technology-, product- or process- standards bring impulses for innovation into the start-up-markets and in which way risk capital factors - meaning access to capital, state and private funding impact business.

Concerning technology and innovation, most respondents confirmed that in this respect “[...] the infrastructure is obviously perfect. There is a pharma-cluster around Copenhagen and southern Sweden [...].We should also talk about [Medicon] valley. Other that we are a small country, you have 4G everywhere you go- everything just works” (d: Expert Danish E-Business in Germany). Nonetheless, in comparison to other nations, continuity in the development of markets seems to be an issue: “So do we really produce consistently? I mean then you have an [...] that sells to Microsoft for like 1.6 billion euros. So that is ERP, some engineers from a university [...] sitting down and saying ‘Enterprise Resource Planning- we can do that better.’ But do we consistently do that? I have a hard time seeing it” (d: Expert Danish E-Business in Germany).

In reference to access for capital, private businesses are around, although it might be more difficult to get a higher amount of budget needed to grow a business than in other nations: “I’m not an expert but I do have experience and my experience is that it is not a very entrepreneurially- friendly country, when it comes to finding financing. This could have to do with the fact that it is very small, so the amounts very quickly start seeming prohibitive. I’m just asking

for half a million euros for my platform and to them that is a massive amount of money. Then you go to Germany, where the whole market is 16 times bigger and for them 500 thousand is just play- money, as if to say ‘Yeah, take this and see if it works and if it doesn’t then we’ll part as friends and if it does work then cool, we’ll find some follow- on financing.’ So the absolute size of the whole market also has an impact. And to say that it is cheaper to found a start- up in Denmark is wrong, in fact it is probably more expensive. Unless of course your developer is sitting in Portugal or somewhere in Eastern Europe or, I don’t know. That is I think in absolute terms it is a problem that the size of the country is so small. But of course, if you have something cool, then the money is there. As I said all the VCs in Denmark are desperate to invest, the just can’t find something that is worth it” (d: Expert Danish E-Business in Germany).

Overall suggested impact of Demand Conditions on entrepreneurship in Denmark:

Neutral

6.4.5 Government

Finally, Government, so it seems, plays an integral part in bringing up innovation by easy administration, supporting education and also from a financial perspective, which is proven by all founders: “I think Denmark is a very innovative country and we get a lot of support. There are a lot of government funds that support med- tech and bio- tech companies and things like that. I have two friends who are doing med- tech and they receive a lot of support” (c: Expert Danish E-Business in Denmark). In this context, the Denmark pursues a long-term perspective, as one representative of the Danish State fund explains: “So we mostly fund private funds in the VCs market but we also do direct investment. With this we try to capture smaller companies that fly under the radar of the private funds. Our main purpose is to try and support and finance and build a sustainable VC market by investing in private funds. So we are kind of funding the experience building which is necessary in the VC market. It’s a long- term game, where it takes at least 15- 20 years before you can see returns actually matching the risk of investment. [...] So in the VC market we have a lot of investments, a lot of capital available and a lot of investments. What we still need to see is a decent return materialize.” (a: Expert Danish State Fund).

Apart from financial aspects also the ease of doing business is secured by governmental action: *“What I have learned, to my great pleasure, is that Danish legislation is pretty much a translation of the German one. It is unbelievably aligned with it. The one monstrous difference is that we are light-years ahead on Germany on e-government. So I just sat yesterday morning at the notary, while they read out a shareholders’ agreement to me. In Denmark, you just register with a specific electronic ID and you do all of it electronically. I mean you can found a company electronically. The notary system in Germany is really backwards, sometimes I call it the Roman Empire”* (d: Expert Danish E-Business in Germany).

Overall suggested impact of Demand Conditions on entrepreneurship in Denmark:

Very positive

6.4.6 Chance

We wanted to get a glimpse of the future development of the Danish marketplace for new venture creation. Denmark retains its dominant position in being one of the most entrepreneurial countries (GEM 2013; OECD 2014). Which chances wait for Denmark to come?

The answers showed three major areas: Further growth into the EU-market, an increase in *knowledge-based-capital* and *E-business options* during the upcoming of the ‘*internet of things*’ (IoT) and ‘*big data*’. In the end, a major chance is seen by the professionalization of new venture management while having an eye on bigger markets and an adequate market-design right from the beginning: *“What I tell my friends is to try to get yourself into product positions if you have ambitions to set up your own company with your own ideas. But if you want to work in a start-up you don’t necessarily need to have an idea. A thousand start-ups die every day because they are lacking the right commercial people, who know how to put together compelling value propositions, who know how to pick the right target segments, who know how to formulate that value proposition towards those segments, who know how to hire the right people, who know how to attract financing and all this stuff. So you don’t necessarily need new ideas, you just need somebody with an idea who is lacking exactly what you could bring”* (d: Expert Danish E-Business in Germany).

Overall suggested impact of Demand Conditions on entrepreneurship in Denmark:

Positive

7. Conclusion and Outlook

Our inductive research project exhibits on a qualitative, but small basis, that low administrative barrier, efficient bureaucratic processing, state funding and state support in gaining access to venture capital support venture creation. Furthermore, the interviewed experts stated that the existence of higher education as well as social security for the unemployed also may positively impact new business start-ups. The central location of Denmark in Europe, its increasing urbanization and open and liberal working culture may also open new market opportunities. Overall, the firm and factor conditions well as the governmental support are seen as positive determinants of Danish success in venture creation.

The findings of this exploratory qualitative study fall into categories also found in the GEDI framework (GEDI 2012: 21, see appendix figure 6): opportunity perception, risk acceptance, cultural support, opportunity start-up and risk capital. Moreover, we found some evidence for the presence of several other categories (start-up skills, gender, tech sector, human capital, competition, internationalization) but not in sufficient form to construct meaning. The exploratory nature of this study and the small sample prevent us from making broad claims. However, its value is in documenting entrepreneurship-related phenomena and relationships. We believe the “360” sampling strategy was especially valuable in allowing us to construct a rich portrait of Danish entrepreneurship.

An important next step in research would be to further confirm the portrait of Danish entrepreneurship by interviewing more subjects in each of the five stakeholder categories until saturation is reached (Creswell, 2007: 160). The propositions suggested in this study could then be confirmed, refined or rejected. Once an accurate yet rich description emerges, further research on the meso- and micro-economic aspects may be conducted. For instance, a large sample survey of members of each stakeholder group could test propositions around the GEDI phenomena confirmed by the qualitative research.

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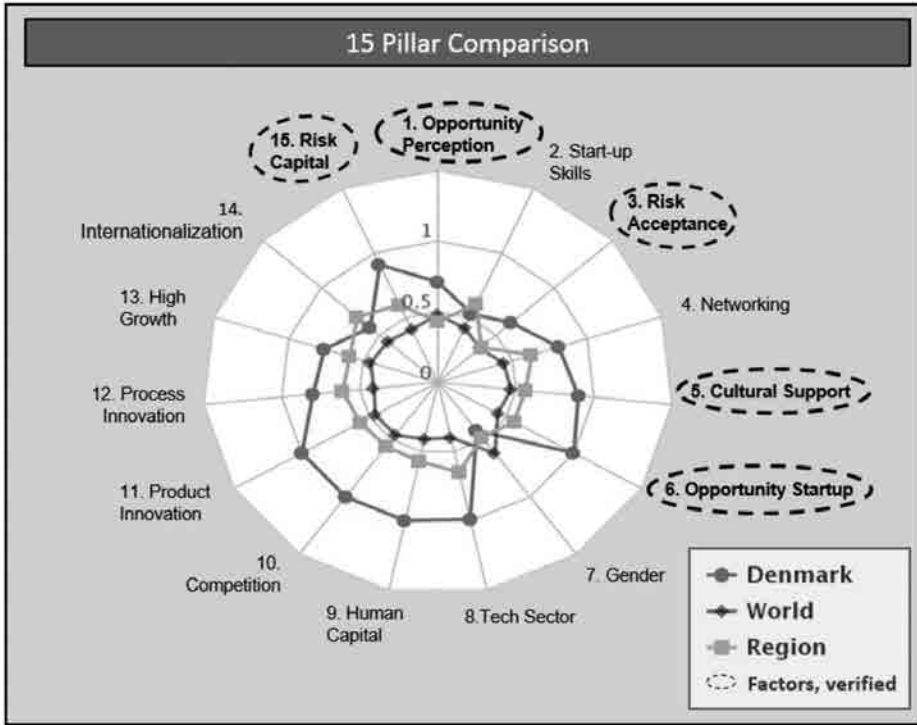
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(ENDNOTES)

- * The paper was presented at the 35th Symposium Osijek – Pforzheim held at the Faculty of Economics in Osijek 16-17 October 2014

APPENDIX

Figure 6 The strengths and weaknesses of Denmark on the pillar level



Source: Ács, Z., Szerb, L., Autio, E. (2014). *Global Entrepreneurship and Development Index 2012 (GEDI)*, George Mason School of Public Policy's Center for Entrepreneurship and Public Policy (Ed.), Edward Elgar, Cheltenham, pp. 153

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Anne Hoag

KAKO SUSTIĆI DANCI – ZAŠTO JE DANSKA NAJBOLJA ZEMLJA ZA PODUZETNIŠTVO I ŠTO MOŽEMO NAUČITI OD NJIH

KVALITATIVNO-ISTRAŽIVAČKA STUDIJA OKRUŽENJA I UVJETA KOJI POTIČU PODUZETNIŠTVO U DANSKOJ

SAŽETAK

Danska se često nalazi na samom vrhu ili pri vrhu liste zemalja s najboljom poduzetničkom klimom. U ovom radu će se pokušati identificirati ključni čimbenici poduzetničkoga uspjeha u Danskoj kako bi se potaknulo poduzetništvo u drugim zemljama. Rad se temelji na teorijskom okviru nacionalne konkurentnosti, a oslanja se i na istraživanja na području poduzetničkih studija, upravljanja razvojem poduzeća, kulturoloških čimbenika i ekonomske politike. Kako bismo istražili teorijski okvir, koristili smo kvalitativne metode, odnosno, analizu intervjua s pet stručnjaka u specifičnom području. Tijekom intervjua menadžeri su se osvrnuli na čimbenike okruženja koji pozitivno utječu na pokretanje start-up poduzeća u Danskoj iz makroekonomske perspektive. U zaključku se uspoređuju podatci dobiveni putem intervjua s najnovijim podatcima GEM-a, GEDI-a i OECD-a o poduzetničkom okviru i klimi u Danskoj.

Ključne riječi: poduzetnički pothvat, start-up, studija države - Danska, investiranje rizičnoga kapitala, analiza okruženja