



CPA | Entrepreneurship Report



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Barry McCall

Introduction

By Eamonn Siggins, CEO, Institute of Certified Public Accountants in Ireland (CPA)



The term entrepreneur was first coined by the 18th century Irish economist Richard Cantillon. He defined an entrepreneur as an "agent who buys means of production at certain prices in order to combine them into a new product".

Given our historic claim to the term it is highly appropriate that Ireland's economic recovery will be largely dependent on the ability of our entrepreneurs to create and grow new enterprises and generate employment. Foreign direct investment played a major role in job creation and economic growth in Ireland in the past but it will be home grown enterprise which creates the vast majority of new jobs and wealth in the future.

If this is to happen Ireland needs to have the right climate and culture for entrepreneurship to flourish. And I am pleased to note from the findings of the first CPA Entrepreneurship Report not only that entrepreneurship is alive and well in Ireland despite the challenging economic circumstances, but that we do have a climate and culture which is broadly supportive of entrepreneurial activity.

The CPA Entrepreneurship report has its genesis in feedback we were receiving from our membership throughout the past year. They were telling us that new entrepreneurs were continuing to come forward to start up new businesses regardless of the difficulties presented by the downturn. They were also telling us that entrepreneurs faced many other challenges such as the availability of credit and dealing with State bureaucracy and that these were stifling entrepreneurship to a certain extent.

We were also getting mixed messages in terms of the climate for entrepreneurship in Ireland. Some were saying it was very good while others were saying it was not very good at all. This divergence in views is of course due to the fact that everyone's view is subjective and is informed by personal experience. For this reason the CPA decided to compile this report in order to gain an objective view on what the position is in relation to the climate and culture for entrepreneurship in Ireland and the various challenges faced by entrepreneurs.

Our goal was to get a full 360 degree view of entrepreneurship in Ireland by involving a wide range of stakeholders including entrepreneurs themselves, investors, State bodies, business representative organisations, academia and practising accountants. Research for the CPA Entrepreneurship Report was carried out in July and August of 2010 and was accompanied by a survey of CPA members which sought their views on specific questions relating to entrepreneurship and business conditions in Ireland.

I would like to take this opportunity on behalf of the CPA to thank all of those who gave of their time to participate in and contribute to this report.

The end result is the first independently produced report of its kind on the subject of entrepreneurship in Ireland. It makes many no cost or low cost recommendations to Government and State bodies on how conditions can be improved for entrepreneurs in Ireland. We have circulated the report to the relevant Government Ministers, Departments and Agencies and it is hoped that its contents will be taken into account when future policy decisions relating to entrepreneurship are made.

Eamonn Siggins.

Eamonn Siggins
CEO

Foreword

By the President of the Institute of Certified Public Accountants
in Ireland, Mr Geoff Meagher



I am pleased to introduce what I believe will come to be seen as an important report on entrepreneurship in Ireland. It is the first report of its kind to be carried out independently and which takes into account the views and experiences of all stakeholders in the entrepreneurial process. In particular, I welcome the clear finding that entrepreneurship continues to thrive in this country despite the challenges presented by both the global and domestic economic environments.

This reflects the very positive results Ireland has consistently achieved in the internationally recognised Global Entrepreneurship Monitor which shows that Irish people are nearly twice as likely as their European counterparts to set up their own business. This is very good news for the country as small businesses form the bedrock of the indigenous Irish economy.

Of course, there remains much work to be done. Part of this relates to the unhealthy stigma which still persists for honest business failure in Ireland. We need to learn from other countries where people are admired for having made the attempt in the first place; where entrepreneurs are encouraged to learn from what might often be painful experiences and move forward in pursuit of success.

Cultural change of this nature will not come about overnight. Long held attitudes and indeed prejudice are not easily changed. What we need to do is prevent them from forming in the first place and this will require us to bring entrepreneurship into the mainstream of our education system. It needs to be taught to second and even primary level students as part of their Civic, Social & Political Education courses and later on it needs to be a full subject for Leaving Cert. There also needs to be a far greater focus on it at third level with students across all faculties and disciplines being encouraged to take entrepreneurship modules.

This is an issue which the Institute has raised separately with the Tanaiste and Minister for Education & Skills and I hope that she will give it due attention when considering changes to the curriculum aimed at supporting the Smart Economy in the future.

Another issue on which the CPA has engaged with Government is that of bankruptcy legislation. This needs to be reviewed as a matter of urgency to bring it in line with the Individual Voluntary Arrangement scheme which exists in the UK. This would greatly facilitate and promote entrepreneurship by reducing the potential penalties of honest failure.

The report also highlights the fact that a lack of credit and difficulties in getting paid have emerged as key issues for entrepreneurs and business generally.

Small businesses employ some 700,000 workers in this country out of a total workforce of 1.9 million and the free flow of credit for small businesses must be made a top priority by Government and business representative bodies.

In this regard, small businesses and entrepreneurs should make maximum use of the mechanisms established by the Government for monitoring credit flow. The establishment of the Credit Review Office is a significant step on behalf of SMEs who rightly demand a return on the huge investment they have made in the banking institutions. Businesses who are refused credit should take their cases to the Credit Review Office; this will prevent the unreasonable refusal of credit to viable businesses.

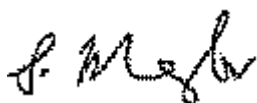
Bank lending is only part of the picture, however. Access to equity and other forms of finance is also critical. In this context I call on the Government to examine how quickly the recommendations of the Innovation Taskforce Report for an increased Business Angel Fund and a new Seed Capital Scheme can be implemented.

It would be remiss of me not to note the positive comments of many contributors to the report in relation to both Enterprise Ireland and the City and County Enterprise Boards. In particular, the overwhelmingly positive view of all concerned regarding the work currently played by and the potential future role of the Enterprise Boards is highly significant and I hope that this will be taken into account by the Minister for Enterprise, Trade & Innovation in his current review of the Enterprise Boards.

I believe a critically important finding of the report relates to the Irish taxation system. The fact that it is universally viewed as being positive for entrepreneurship and not just for certain segments or sectors of business, sends a strong message that Ireland is a competitive location for investment and business.

Finally, I believe it is important to highlight the role accountants can play in entrepreneurship. Many CPA members are already working with entrepreneurs, adding value by advising them and guiding them through the start-up and growth phases of their business. This is an example which should be followed by all accountants whether in practice or in industry – we must seek to bring our own skills, experience and entrepreneurial drive to bear in the interests of the businesses we serve.

We all have our part to play in helping the economic recovery and we, as accountants, can play ours through supporting entrepreneurship and assisting individual entrepreneurs to transform their ideas into successful businesses.



Mr Geoff Meagher
CPA President



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Executive Summary

Climate

There is general agreement that while the climate is difficult for entrepreneurship at present, mainly through economic and fiscal factors, there remain opportunities for entrepreneurs to start up new enterprises. The biggest single threat to entrepreneurship and start-up business is late debtor payments coupled with difficulties in accessing credit. Allied to this is a growing conservatism and risk averseness among the business community with many firms unwilling to deal with new suppliers as a result. The re-emergence of a thriving black economy is also seen as a threat to entrepreneurship.

Key recommendations:

- The Government should establish a high level group led by the Department of Enterprise Trade & Innovation to develop a National Entrepreneurship Strategy which would align social, enterprise, industrial, taxation and educational policy in order to create and sustain an environment and culture which will be conducive to entrepreneurship.

Culture

There is near universal agreement that the culture for entrepreneurship has improved greatly over the past number of years. However, there is also agreement that the climate is negatively impacted by factors such as the stigma which still attaches to business failure and the lack of appreciation for entrepreneurship as a valid career option among the public in general. Arising from this there is a consensus that entrepreneurship should be included in the second level school curriculum. Another concern voiced relates to the perceived negative attitude of the State towards entrepreneurship with claims that self-employed businesspeople are discriminated against in both the income tax and social welfare systems.

Key recommendations:

- The Government should give self-employed people the same social welfare entitlements as employees
- The Department of Education should as a matter of urgency make provision for the introduction of entrepreneurship to the second level school curriculum

Supports

There is a positive attitude towards Enterprise Ireland, the City and County Enterprise Boards and the other State enterprise support agencies and bodies. However, there is criticism for the level of bureaucracy involved in accessing support and the narrow focus of most of the agencies on manufacturing and export led business. The majority of contributors called for the retention of the Enterprise Boards with many suggesting an expanded role for them. There was also strong support for the remit of the State support bodies to be expanded to include all job creating enterprises.

Key recommendations:

- The Department of Enterprise, Trade & Innovation should examine the application process for State assistance to enterprise with a view to rationalising and simplifying it
- The remit of State enterprise support bodies should be broadened to support all entrepreneurs engaged in job creation activity and not only those engaged in manufacturing or export-led enterprises

Funding

While the level of funding available to start-up businesses has diminished in line with the economic downturn there is strong support for the contention that this is not necessarily an issue for the majority of entrepreneurs. The consensus opinion holds that the right people with the right ideas will get the finance they require and that most of the funding sources are more geared towards growth phase and later stage business in any case. On the other hand, there is also a belief that entrepreneurs need assistance in pitching for funding and that some form of stimulation is needed for private investment in early stage business

Key recommendations:

- The Government should introduce a new tax incentive to allow business angels and other private investors to write off investment losses in start-up and early stage enterprise against income tax

Bank Credit

Unsurprisingly there is a wide difference of opinion regarding the availability of bank credit with many entrepreneurs and accountants in practice contending that the paucity of credit is causing real trading problems for viable businesses. The banks, however, argue that they are approving almost 90% of formal credit applications in line with the results of the Mazars Reports.

The business community, for its part, contends that most businesses have neither the time nor the resources to prepare the documentation for a formal credit application which is likely to be refused and therefore take the informal route instead. Of some surprise was the level of disagreement with this contention among several entrepreneurs and accountants who contend that the banks should not be forced to become quasi-investors in early stage business. On the other hand, a number of contributors suggested the introduction of a limited Government backed loan guarantee scheme as a means of freeing up bank credit for start-up and early stage business.

Key recommendations:

- The banks should give more authority for business credit – particularly small overdrafts and loans – to local managers and business advisers
- The Government should introduce some form of limited loan guarantee scheme for start-up businesses to be administered through the City and County Enterprise Boards

Taxation

There is near universal agreement that the Irish tax system is very favourable to entrepreneurs. There is also a broad welcome for the introduction of the Small Companies Tax Exemption. There are some complaints relating to the effective disincentive to self-employment created by the lack of a PAYE tax credit for self employed taxpayers and the lack of social welfare support for such taxpayers. In addition, most contributors support an increase in VAT thresholds as a means of reducing the administrative burden on early stage business.

Key recommendations:

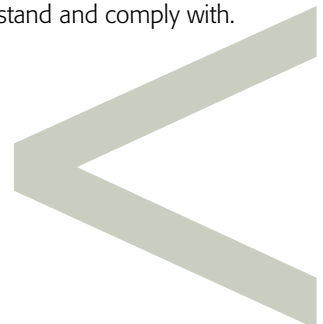
- The income tax system should be amended to grant the same tax credits to self-employed workers as those enjoyed by PAYE workers.
- VAT thresholds should be increased at least to the level pertaining in the UK

Compliance

There is widespread agreement that the situation regarding red tape in Ireland has improved greatly in recent years with the Revenue Commissioners coming in for particular praise. However, according to ISME the cost of regulatory administration is a not insignificant 3.6% of GDP. There were several calls for the audit exemption regime to be improved for small companies and groups of small companies and for an even more simplified set of filing requirements to be introduced for very small companies.

Key recommendations:

- Small companies who file late returns should retain their audit exempt status. Acknowledging that it is important to keep submission levels high, CPA recommends that a compromise of an increased monetary penalty be imposed and the loss of audit exemption be removed.
- The Government should carry out a Regulatory Impact Assessment on every new piece of legislation affecting business before it is passed into law
- The body of employment legislation should be examined with a view to consolidating as much of it as possible into a single Act which would be easier for small business to understand and comply with.



The Climate for Entrepreneurship in Ireland

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The climate for entrepreneurship is made up of a number of different environmental and infrastructural factors. These include the state of the domestic and global economies, business and consumer confidence levels, credit conditions and the general cost environment.

Interestingly, there were divergent views on the current state of the climate for entrepreneurship in Ireland among contributors to this report with many believing it to be positive at present while a significant number regard it as negative.

In this regard, the results of ISME's most recent quarterly trends survey (July 2010) are encouraging. The survey showed that business optimism was at its highest level since spring 2007, with improvements in the last quarter in sales and employment. They reveal that while the current climate remains tough the SME sector is showing signs of improvement, but is still faced with significant challenges over the coming months and years.

Mark Fielding of ISME does point to the flipside, however, which shows a significant level of uncertainty, with companies still faced with increasing business costs, a lack of access to credit and ever increasing late payments. "Revenues and profits are continuing to decline for many companies and further deterioration is anticipated", Fielding notes. "Worryingly, two thirds of companies said that the viability of their business is still under threat due to the current business environment."

Professor Frank Roche of UCD has seen the climate for entrepreneurship in Ireland evolve and change over

the past 35 years since he first began teaching the subject at third level. "Ireland has made a huge difference to the climate for entrepreneurship over the past 30 years and we have reached quite a high level when benchmarked against other countries", he contends. "If you take the OECD 32, Ireland is probably in third or fourth place in terms of its climate of entrepreneurship. The US is always very much in front and that is the benchmark we must aspire to."

Entrepreneur and TV "dragon" Bobby Kerr has a slightly different view and sees the return of an old problem as posing a threat to the improving climate. "The big worry I have is that so many markets are stagnant or in decline. It doesn't matter whether you are in manufacturing or have a coffee shop or a hotel; no matter how innovative and high quality your offering is you are up against it. I am already seeing the black economy starting to re-emerge and this is not a good thing for any of us."

CPA John White sees confidence as a key issue. "It is a challenging environment for entrepreneurs", he points out. "Entrepreneurship is a state of mind; entrepreneurs need confidence and support and that is in short supply at the moment."

However, a unifying note was the level of optimism shared by almost all involved. There was a particularly strong determination among the entrepreneur participants to see opportunity in adversity. This is unsurprising as this attitude is probably one of the most important defining characteristics of a successful entrepreneur.



Professor Frank Roche,
UCD

"Ireland has made a huge difference to the climate for entrepreneurship over the past 30 years and we have reached quite a high level when benchmarked against other countries".

A climate of opportunity

This outlook is exemplified by Bobby Kerr who while saying that the climate is difficult at the moment argues that there is potential there for people starting off. "There is no value like the present, you can get something going at the moment, for the cheapest cost on a relative basis for thirty or forty years, but only if you have access to cash. It is also a difficult time because you have more entrepreneurs coming into the market and people becoming self-employed because they have no alternative", he says.

"Also, if you have an idea or an invention that takes cost out of a business it's a good time. You can build a brand very cheaply at the moment. The cost of advertising has never been cheaper and you can get access to national radio and TV at a very low cost", he adds.

Edward Hendrick of technology firm Sonru shares this positive attitude. "The climate in Ireland is good for entrepreneurship. I wanted to start a business and it didn't matter whether it was in a recession or a boom", he says. "You're going to have the same hiccups as any start-up regardless of the economic conditions. The advantage of starting in a recession is that you have to focus on delivering value to customers. In a boom some businesses can get away with not doing that. Ireland is a great place to start a business."

Mark Fielding agrees. "Contrary to common beliefs, a recession can actually prove to be a good time for an aspiring entrepreneur to get active about their idea. Since 2008, the start of the current recession, some 28,000 individuals started a new business. A recession is never the best business environment in which to start selling a new product or service, but it often coincides with a time of significant reductions in running costs such as energy, rent, labour costs, professional service fees and increased sales discounts from businesses. Also there is always the opportunity to acquire fixtures and equipment at dramatically discounted rates. The current economic climate is proving to be an opportune time for entrepreneurs, as talented and experienced individuals, in diverse sectors and through no fault of their own, experience the shock of redundancy and are often left with few other options."

Sinead Maher of Boomerang Recycling also has a positive yet realistic outlook. "I like to be optimistic. Margins have been cut but we have been able to survive in business because we are offering value for money and people



John Boyle,
Ulster Bank

"Late debtor payments are compounding an already tough financial environment for many businesses"

are open to hearing about anything which can cut costs. The environment for entrepreneurs is still very tough."

CPA Entrepreneurship Survey

The Institute of Certified Public Accountants in Ireland carried out a survey among its members in June of 2010 in conjunction with this report (see Section 2). Members were asked if they believed the climate for entrepreneurship had deteriorated or improved in Ireland over the past 18 months. Less than 14% of respondents believed it had improved while 73% thought it had deteriorated.

The principal reasons advanced for this deterioration are lack of access to funds for start-up and a paucity of incentives to become self-employed. Difficulties obtaining bank credit were also mentioned by a large number of respondents.

Improved Quality

There is broad agreement among contributors to this report that

the businesses which do start-up successfully in the current climate will be of higher quality than hitherto with a much greater chance of long term survival and growth than many of those which started during the boom years. CPA Dick Blake puts it quite succinctly: "People are thinking a lot harder about starting a business in the current environment. That means there is less rubbish about now."

Business book author and publisher Brian O'Kane agrees. "There are still people starting businesses. By and large we are seeing much better proposals than three years ago. In the boom you could almost make money in spite of yourself. Entrepreneurs have to do the planning now and they are taking it very seriously. There is no way back for them at the moment; they can't just go and find a job if it doesn't work out. That's a positive in its own way."

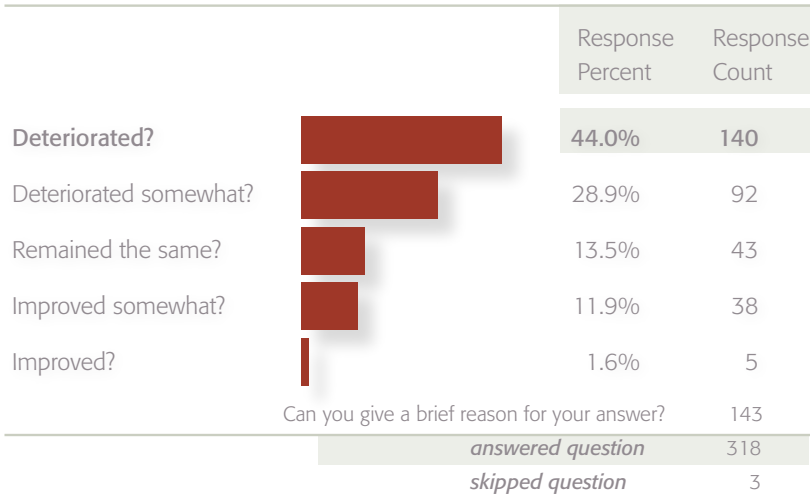
Vicious Credit Circle

While the overall climate for entrepreneurship is regarded as positive there is universal agreement that lack of cash flow caused by late payments is the single biggest threat to start-up and small businesses at present and that urgent action needs to be taken to address it.

"The biggest challenge is credit", says Deirdre Hilliard of the Just Food Company. "We deal with suppliers abroad and we have to pay cash in advance for many of our supplies at the moment. This is difficult for cash flow."

This view was echoed by almost every entrepreneur who contributed to this report. Among the issues pointed to were retail multiples taking extra credit

Do you believe the climate for entrepreneurship in Ireland over the past 18 months has



terms and large suppliers tightening up on credit to small firms due to perceived higher risk. Coupled with the reduced availability of bank credit these factors are creating what has been termed a “vicious credit circle” where small firms are being forced to pay earlier for inputs and are getting paid ever later for sales.

“That really is the biggest issue; it’s savage”, says Avine McNally of the Small Firms Association. “Not alone do we have the bank credit issue we have the late payments issue and that’s very serious for early stage and small firms. The government has made a commitment to paying early but the HSE is still paying on 45 days.”

Michael Marren of AIB also refers to the State’s role but says that large companies have a part to play as well. “Getting paid is a big issue at present. There are supposedly standards for payments but these are not being adhered to. There are organisations with the capacity to pay earlier and they should do so. The State could

lead by example in this respect and could use this to approach large corporates to get them to follow their lead and change the payments climate.”

This view is shared by John Boyle of Ulster Bank who says “late debtor payments are compounding an already tough financial environment for many businesses imposing accompanying administrative, burdens and cash flow pressures. The introduction of a commitment by central government to pay its debts to business within 15 days was a welcome development and large companies also have a role to play in delivering prompter payments to small business suppliers.”

The Risks of Conservatism

One difficulty facing entrepreneurs at present which has not been widely reported is a growing conservatism among their target customers. Most probably due to economic uncertainty, companies and consumers are

becoming increasingly risk averse and are slow to change suppliers or try new products. This makes it far more difficult for a start-up enterprise to gain a foothold in the market particularly as having a reference site to demonstrate a new product in operation is often critical to securing sales.

“If you’re going into business now with a new product for the B2B market that can be difficult. Companies don’t want to take the risk of dealing with a new supplier who they don’t know”, says CPA Dick Blake. “Entrepreneurs need a champion out there at the start. If that’s not there it can be difficult and those champions are very hard to find at the moment.”

Unfortunately, there is little which can be done to address this situation. Almost all contributors agreed that “riding out the storm until confidence returns” is the only realistic option.

National Entrepreneurship Strategy

While there is general agreement that the State cannot and should not provide the answers to every difficulty facing entrepreneurs it is nevertheless a key actor in the overall climate in which entrepreneurship takes place. In this context it has a role to play in a variety of areas including the late payments issue. However, the State’s response has been fragmented in the past due in part to the nature of our public administration which sees areas like social protection, enterprise, taxation and education all overseen by different departments.

A recurrent theme among contributors to this report was the need for a National Entrepreneurship Strategy.

This strategy would involve goals being set in terms of the type of climate and culture for entrepreneurship the country wishes to have and the actions and policies required to bring them into being.

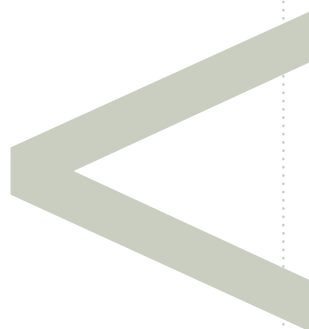
Avine McNally of the SFA is one of those calling for such a strategy. "There is the passion to be entrepreneurial among Irish people but we need a National Entrepreneurship Strategy to ensure that the correct environment and culture is there to support entrepreneurship."

Findings and Recommendations

- Despite the economic downturn the overall climate for entrepreneurship in Ireland is positive at present with business confidence improving and people continuing to start new ventures
- Among the greatest challenges facing entrepreneurs and small businesses at present are credit difficulties, increased risk averseness among target customers and the re-emergence of the black economy
- The Government should take urgent action to ensure that all its Departments and Agencies are meeting the early payments target and should enlist major companies to subscribe to the same regime in order to achieve a change in the payments culture in Ireland
- Action is required by both Government and the enterprise community to prevent the growth of the black economy; this could take the form of an awareness campaign similar to those run by the

insurance industry alerting people to the threat the black economy poses to jobs and economic recovery

- The Government should establish a high level group led by the Department of Enterprise, Trade & Innovation to develop a National Entrepreneurship Strategy which would align social, enterprise, industrial, taxation and educational policy in order to create and sustain an environment and culture which will be conducive to entrepreneurship.



CPA Entrepreneurship Survey 2010

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As part of the CPA Entrepreneurship Report the Institute of Certified Public Accountants in Ireland (CPA) surveyed its membership in relation to their views and attitudes to the prevailing climate and culture for entrepreneurship in Ireland. The survey was carried out during June and July of 2010 and some 321 members responded. The respondents were almost equally split between CPAs in practice and those working in industry.

Climate

Members were asked if they believed the climate for entrepreneurship had deteriorated or improved in Ireland over the past 18 months. Less than 14% of respondents believed it had improved while 73% thought it had deteriorated. The principal reasons advanced for this deterioration are lack of access to funds for start-ups and a paucity of incentives to become self-employed. Difficulties obtaining bank credit were also mentioned by a large number of respondents.

Several respondents pointed to how conditions are combining to create a poor climate for entrepreneurship with one respondent stating: "We are in self

From CPA Members Survey July 2010

- 64% of respondents had a client turned down for credit in the previous 12 months
- 63% of respondents believe that an increase to the VAT threshold would provide a boost to entrepreneurship.

preservation mode. Capital is hard to come by. People don't want to invest when taxes have to go up. We are not thinking of looking at the stars when the ground could go from under you."

Culture

When asked if they believed if Ireland has a culture which facilitates and strongly supports entrepreneurs, a majority of respondents, almost 52%, disagreed while 34% 'agreed somewhat' or 'agreed strongly' with it. This probably reflects the fact that professional accountants in practice at present will spend as much of their

time dealing with problems on behalf of clients as they do assisting them to grow and develop their business.

State Supports

Respondents mostly had a positive opinion of Enterprise Ireland and the County Enterprise Boards. When asked how they ranked the job done by Enterprise Ireland and other agencies such as the County Enterprise Boards in supporting entrepreneurship 70% said they were doing a fair, good or very good job. Just 29% thought they were doing a poor or very poor job. However, only 20% of respondents thought it quite easy or easy to access services from these agencies while 79% thought it was difficult.

But there is support for the work the agencies are doing. One respondent stated that Enterprise Ireland seems to be showing a more pro-active approach to supporting new business although still highly focused on exports only. Another said that Enterprise Ireland is doing an excellent job with funds made available from the exchequer.

Bank Credit

The experience of CPA members in practice bears out the claims made by ISME and others in relation to bank lending to business. More than 64% of respondents had a client turned down for credit in the previous 12 months. Of major concern is the fact that 75% said that the credit refusal had caused trading difficulties for viable businesses; another 14% said that the refusal had resulted in job losses while a further 70% said it had caused cash flow difficulties.

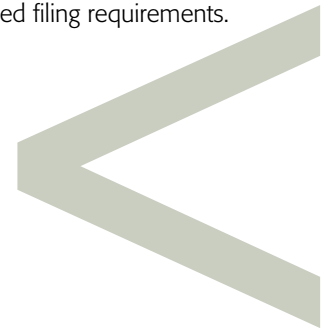
Have you personally seen evidence of traditionally viable businesses getting into trading difficulties because of a lack of credit from their banks?

| | Response Percent | Response Count |
|--------------------------|------------------|----------------|
| Yes | 75.7% | 237 |
| No | 16.9% | 53 |
| Don't know | 7.3% | 23 |
| <i>answered question</i> | | 313 |
| <i>skipped question</i> | | 8 |

Does more need to be done to make the tax regime less onerous on entrepreneurs and early stage businesses?

| | Response Percent | Response Count |
|--------------------------|------------------|----------------|
| Yes | 88.9% | 279 |
| No | 6.1% | 19 |
| Don't know | 5.1% | 16 |
| <i>answered question</i> | | 314 |
| <i>skipped question</i> | | 7 |

exemption was also raised and there were a number of calls for this situation to be addressed with such groups being able to avail of aggregate exemption thresholds equal to those which apply to individual companies. Another suggestion is for a third category of even smaller companies to be created with further reduced and simplified filing requirements.



Taxation

A very interesting finding from the CPA Entrepreneurship Survey is the fact that just 17.7% of respondents thought the Corporation Tax exemption for small companies has had a positive effect while some 64% believe it is still too early to tell if this change has had any effect at all. This probably reflects the fact that many entrepreneurs and start-ups do not generate any profits during their first three years in operation.

Even more notably, 88% of respondents believed more could be done to make the tax regime less onerous on entrepreneurs and early stage businesses. This is strongly at variance with the views of most entrepreneurs and other stakeholders questioned during the research for this overall report, who believed that the Irish business taxation system is very positive for entrepreneurship generally.

However, this can at least partly be explained by the fact that 63% of respondents to the CPA survey believed that an increase to the VAT threshold would provide a boost to entrepreneurship. Furthermore,

the difference in treatment for entrepreneurs and employees under the PAYE tax system is also seen as unfair by almost all contributors to this report and this has no doubt also influenced views on the tax regime.

Regulation

Some 30% of respondents believed that company law filing requirements represented a barrier to entrepreneurship while an equal number thought it did not. Some 40% neither agreed nor disagreed with this proposition.

The main focus of those who believed changes should be made was the audit exemption for small companies. A typical comment in this regard was: "I believe a small company should not lose its audit exempt status as a result of late filing of an annual return. It is tough enough on small businesses who are struggling with cash flow problems to pay late filing penalties without having to also pay for two years audit fees."

The fact that groups of small companies do not enjoy the audit

The Culture for Entrepreneurship in Ireland

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Of key importance for entrepreneurship to flourish in any setting is the receiving culture - the set of shared attitudes, values, goals, and practices in relation to entrepreneurship that characterises the country in question. Fortunately, the overwhelming view of contributors to the CPA Entrepreneurship Report is that the culture in Ireland is a positive one. However, there is also a belief that Ireland is not, as a country, encouraging entrepreneurship enough.

This apparent contradiction can be explained by the benchmarks used to assess the culture. When viewed in relation to our fellow EU or OECD member states the Irish culture is seen as very positive indeed but when measured against the US the perception is that we could do a lot better.

An improving culture

Possibly the most encouraging finding in this area was the near universal agreement on the improvement in the culture for entrepreneurship over the past number of years. "The culture has changed over the past ten or 15 years to become very positive. I am not convinced by some reports which say that one in ten are involved in starting their own business but it is still a lot more acceptable than it was 20 years ago", says Brian O'Kane of business publisher Oak Tree Press.

Tom Hayes of Enterprise Ireland is one who believes there is more progress to be made. "The culture was not always there. In the past people maybe took the more secure route of the job in the civil service, insurance or being a teacher. But there is much wider acceptance now for entrepreneurship

as a career option. I'm not saying it can't be improved upon. In fact, it has to be improved upon."

Another who is seeking improvement is entrepreneur Bobby Kerr. "The culture has changed for the better. There is tremendous respect now for anyone who creates something new and creates wealth and employment. As a society we are more negative than positive towards entrepreneurs. The people who will tell you that something can't be done are the people who have never done it for themselves. I would like to see that aspect of our culture change."

Michael Lauhoff of Bank of Ireland is another who has seen this improvement. "Entrepreneurship is seen as a valid career choice now. There is massive admiration for anyone who can go out and do it - create something new and different. Irish culture is very supportive of entrepreneurship - we have that working-for-yourself culture. We have a huge desire to do this; it's different to other countries. I would be very surprised to hear of anyone with a negative view of entrepreneurs - but jealousy might creep in at times."

The improvement in the culture is something Professor Frank Roche of UCD has noted over many years. "The culture has changed fundamentally in Ireland and the inflection point came in the early 1990s. It happened because we were on our knees. We had 18.75% unemployment and the people had given up on the Government. People who didn't go abroad had to do it for themselves. Since that time the entrepreneurial culture in Ireland has gathered momentum. The culture here is good

compared to other countries. It is probably the best in Europe but not as good as the US. The momentum has been sustained very well."

CPA Survey

In a survey of CPA members carried out in conjunction with this report (see Section 2), members were asked if they believed Ireland has a culture which facilitates and strongly supports entrepreneurs. Overall, a majority of respondents disagreed with this proposition with almost 52% either "disagreeing strongly" or "disagreeing somewhat" with it while just 34% "agreed somewhat" or "agreed strongly" with it.

While this may appear to be strongly at variance with the overall findings of this report it is not altogether surprising. Professional accountants are generally engaged in problem solving on behalf of their clients and this frequently involves dealing with areas such as red tape, State bureaucracy and so on. In other words, the very nature of their profession involves dealing with many of the negative aspects of their clients' business experience and this can lead to a somewhat jaundiced view of the prevailing culture for entrepreneurship.

The GEM Report

The independent evidence for the establishment of a positive entrepreneurial culture in Ireland cited by many contributors is the Global Entrepreneurship Monitor which, among other things, looks at the propensity of people in different countries throughout the world to become entrepreneurs.

The latest report showed that the rate at which individuals started businesses in Ireland in 2008 was 4.3% of the population, compared with just 2.7% across the EU. Ireland is also well ahead of the worldwide average in terms of business start-ups with the OECD average being 3.3%. On the other hand, the highest level – and that aspired to by many here in Ireland – was seen in the United States, where 5% of the population has started their own business. The report also found that the level of established entrepreneurs in the Irish economy is one of the highest in the OECD at 9%.

Reinforcing these results, the 2009 Eurobarometer Survey on Entrepreneurship carried out on behalf of the European Commission highlighted that Irish people are amongst the most willing to go into business. It showed that nearly half of Irish people (49%) would like to be self-employed or start their own business, with almost a quarter of respondents in Ireland saying that they were taking steps to start a new business or had done so, while a further 13% were thinking realistically about it.

Rest stops on the road to success

One area of weakness in our culture for entrepreneurship singled out by many contributors is the remaining vestiges of the stigma of failure which has long existed in Irish society. Almost without exception, those who made reference to this issue expressed a desire for Ireland to learn from the United States and adopt the attitude that business failures are merely “rest stops on the road to success”.

Entrepreneur Sean Gallagher wants to see a major change in this area. “I spend a lot of time in the US and the attitudes to risk and reward there are a lot different. In the US an entrepreneur might fail three or four times before they succeed. Failure is almost celebrated as an apprenticeship there. We need to kill off the begrudger that exists here in Ireland. It’s only in the last 10-15 years that we have started to see entrepreneurs as role models. We need to celebrate success in business and this has to start at second level education. If people are afraid to fail they won’t take a risk.”

Bobby Kerr agrees: “We need to get rid of the stigma associated with failure here. In the US if your enterprise fails you dust yourself off and move onto your next venture and that’s alright. We need that culture here as well. At the moment people try once and if they fail they don’t try again because failure is such a painful experience.”

Michael Marren of AIB does see improvement in this area, however. “I think we have moved on a bit from those days when to fail here was final – there was no prospect of resurrection. We’re not there yet but we are moving towards the US culture of learning through failure. We are maturing in that respect.”

Equal treatment sought

A recurrent theme from entrepreneurs and accountancy practitioners is the apparent lack of encouragement from the State for entrepreneurs on an individual basis. While there is a veritable panoply of supports for start-up and early stage businesses available

through a variety of agencies the treatment of individual entrepreneurs is seen to be less than encouraging.

Examples of this are differences in the treatment of self-employed people and employees within the tax and social welfare systems.

“A main consideration [for many would-be entrepreneurs] is the fear that if the enterprise fails, the entrepreneur will not be eligible for any benefits from social welfare”, says Mark Fielding of ISME.

This issue is dealt with in greater detail in Section 6 of this report which covers Taxation Policy.

On a more proactive note, Sinead Maher of Boomerang Recycling says that there should be immediate support available for anyone made redundant who wants to start their own business.

“The reality is that if a person is made redundant they have a choice to sign



Bobby Kerr

“There is tremendous respect now for anyone who creates something new and creates wealth and employment”.



Sean Gallagher

“We need to kill off the begrudgery that exists here in Ireland.”

on the dole or the VAT register and become self-employed”, adds CPA Niall Byrne. “There are a lot of good people out there with plenty of good ideas but they have to support themselves. They are being missed out on. They need to be encouraged but at the moment they might be penalised through the loss of their social welfare entitlement. Ireland’s unemployment problem would be greatly diminished if self-employment was given more encouragement.”

There appears to be a very low level of awareness of the Short Term Enterprise Allowance Scheme introduced in the Supplementary Budget of 2009. This allows people who have been made redundant and qualify for Jobseekers Allowance to avail of the Back to Work Enterprise scheme almost immediately. However, they must still fulfil certain conditions including obtaining “written approval from their local Partnership Company or the Department’s local Facilitator, in advance of engaging in self-employment that is full-time in nature”.

This is regarded by many as needlessly onerous as it requires the employment to be full-time in nature from the very beginning and going through a bureaucratic process which may be a deterrent to the would-be entrepreneur.

The education solution

There is wide agreement that many of the cultural issues can be

addressed through the second and third level education systems. There is a consensus that entrepreneurship should be included in the second level school curriculum – and not necessarily as an elective subject. Indeed, it was pointed out that entrepreneurship has a value in the social as well as economic context and that it should be part of the wider curriculum and not be seen purely as a business issue.

Kerry-based entrepreneur Jerry Kennelly has strong feelings on this issue, so strong that he is putting his own money into an entrepreneurship education programme in his native county and the surrounding area. “Ireland is a good place for entrepreneurs”, he contends. “There is a welcome for entrepreneurs but more needs to be done. I set up the Young Entrepreneurs Programme (YEP) in conjunction with the University of Limerick and Institute of Technology Tralee three years ago to give young people an understanding that entrepreneurship is a valid career choice. This is part of a ten year programme to give children in the area entrepreneurship training.

“We need a lot more entrepreneurs and we are only going to get this by tackling the issue at an early stage – at second level and earlier”, he adds. “We have 500-600 students coming through the programme each year and 1,600 have gone through it so far. We also have a panel of more than 100 entrepreneurs from around the country involved in it”, Kennelly explains. “We think that we can achieve a real societal change here in Kerry over the next ten years and that this could be replicated throughout the country at

Ireland has a culture which facilitates and strongly supports entrepreneurs. Do you

| | Response Percent | Response Count |
|--|------------------|----------------|
| Disagree strongly? | 17.1% | 55 |
| Disagree somewhat? | 34.6% | 111 |
| Neither agree nor disagree? | 14.0% | 45 |
| Agree somewhat? | 31.5% | 101 |
| Agree strongly? | 2.8% | 9 |
| Can you give a brief reason for your answer? | | 152 |
| <i>answered question</i> | | 321 |
| <i>skipped question</i> | | 0 |

no great cost to the taxpayer. It could make a tremendous difference if replicated nationwide."

Fellow entrepreneur Sean Gallagher agrees. "There is a big chunk of work to be done to develop a stronger culture of entrepreneurship; starting in the schools. In the schools and third level institutions we need to make entrepreneurship attractive for young people."

Tom Hayes of Enterprise Ireland is also in agreement that the earlier young people can be introduced to entrepreneurship the better. "Education is a key factor here. The earlier that we can embed a culture of entrepreneurship in people the better. We need to get young people thinking about entrepreneurship. We need entrepreneurship on the school curriculum at second level. At third level we need more cross-fertilisation of ideas between engineering, science and business. We need to get them together. We need to introduce entrepreneurship into subjects at third level."

Avine McNally of the Small Firms Association supports this view. "We need to develop a culture where entrepreneurship is seen as a valid career choice. But it's going to take a long time. We are very entrepreneurial as a people. We have the passion and the drive to get up and follow the dream. There is a huge desire to do it but there is a lack of support, particularly in the education system."

Professor Frank Roche sees it in a wider context. "I often think that it might be helpful to deal with the generic area of entrepreneurial and innovative thinking at second level.

They apply equally in a social and a business context. It's all about being innovative."

CPA Dick Blake believes accountants too have to be more entrepreneurial when dealing with their clients. "All of this says that more education is needed. Why don't we [the CPA] consider putting an entrepreneurship module in our own accountancy courses?" he asks.

Ron Immink of smallbusinesscan.com believes there is a need to address the way students are taught at third level. "I used to manage the DCU Innovation Centre and when I'd talk to students in first year about 30-40% of them said they would like to start their own business. By the time they got to fourth year just 5% of them said they would like to. We need to address the way we teach entrepreneurship. The education system is not supportive of entrepreneurship at present."

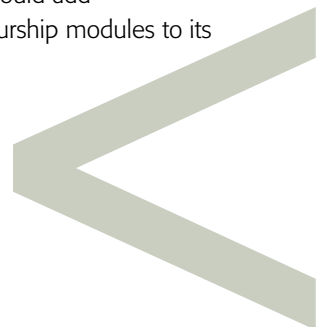


Jerry Kennelly

"We need a lot more entrepreneurs and we are only going to get this by tackling the issue at an early stage – at second level and earlier".

Findings and Recommendations

- Ireland has a positive culture for entrepreneurship which has improved greatly over the past two decades
- More work needs to be done in changing attitudes towards business failure in Ireland; this will possibly be best achieved in the long term through the education system
- In the context of future changes to the PRSI system the Government should give self-employed people the same social welfare entitlements as PAYE employees
- The Department of Enterprise, Trade & Innovation in consultation with the Department of Social Protection should promote awareness of the Short Term Enterprise Allowance Scheme which facilitates and supports redundant workers who wish to become self-employed; the two Departments should also work together to make the scheme easier to avail of.
- The Department of Education should as a matter of urgency make provision for the introduction of entrepreneurship to the second level school curriculum
- The CPA should add entrepreneurship modules to its courses



Supports and Funding for Entrepreneurship

initiate | energise | lead | achieve | succeed

State Supports

Ireland is well served by a range of State sponsored supports for entrepreneurs and start-up businesses. The main bodies involved in providing these supports include:

Enterprise Ireland

Enterprise Ireland is the government organisation responsible for the development and growth of Irish enterprises in world markets. The organisation works in partnership with Irish enterprises to help them start, grow, innovate and win export sales on global markets.

Enterprise Ireland's priority is the achievement of export sales growth from Irish-owned companies. It works with entrepreneurs and business people across the full business development spectrum - from early-stage entrepreneurs, to established business owners and Irish multinational companies.

Its clients include High Potential Start-Up companies with the capability to start a business and sell in export markets; established manufacturing and internationally traded services businesses employing 10 people or more; large companies (employing more than 250); and Irish-based food and natural resource companies, that are overseas-owned or controlled.

Enterprise Ireland does not work with locally traded service companies or with micro-enterprises such as sole traders.

The agency also offers a range of supports for start-up projects that are considered High Potential Start-Up (HPSU) companies. High

growth potential start-ups (HPSUs) are companies that, in the view of Enterprise Ireland, can develop innovative technologies, products and services for sale on world markets. In 2009 alone, the agency approved over €21 million in supports to 73 new innovative HPSU companies. These companies are expected to create over 900 new jobs and achieve total sales of over €600 million over the next three years.

InterTradeIreland

InterTradeIreland is the organisation which has been given responsibility by both Governments to boost North/South economic co-operation. Its programmes offer companies practical advice and support in targeting new cross-border business opportunities, sharing expertise to develop new products and processes, and advising high growth companies on attracting equity investment. In addition, the organisation offers financial support to viable business initiatives and projects in cases where the promoter has neither the necessary financial resources to advance the project nor access to them from other sources but where the project offers a credible contribution to the achievement of InterTradeIreland objectives.

Údarás na Gaeltachta

Údarás na Gaeltachta is the regional authority responsible for the economic, social and cultural development of the Gaeltacht areas of Ireland. Its economic mission is to encourage investment in Gaeltachts through a range of incentives for new enterprises and through support and assistance for existing businesses.

The City and County Enterprise Boards

The 35 City and County Enterprise Boards (CEBs) provide support for small businesses with 10 employees or less, at local level. The CEBs provide direct grant-support to new and existing enterprises and promote entrepreneurship. They are positioned to understand local needs and have direct knowledge of the background and track record of those applying for support and assistance. As well as grant assistance the CEBs offer advice, mentoring, and training supports. They also run a number of enterprise promotion initiatives in the education sector.

LEADER

LEADER companies, or Local Action Groups, are not for profit companies established to promote the development of their own specific rural areas. The focus of the work of LEADER is to support small rural business and to strengthen facilities and services for rural communities.

Business Innovation Centres

The Business Innovation Centres (BICs) are organisations which promote innovation and entrepreneurship. They help enterprises to innovate; they drive the creation of start-ups and they promote economic development through job and enterprise creation and development.

First-Step Microfinance

First-Step Microfinance is a private not-for-profit company which receives funding from Enterprise Ireland through the EU Seed and Venture Capital Fund and the Social Finance Foundation. It provides loans of up to €25,000 to start up or expanding new businesses and supports people who want to create their own enterprise and who cannot access funding, or sufficient funding, from other sources. First-Step's goal is to help finance start up and expanding SMEs in order to facilitate job creation.

Mixed Response

Enterprise Ireland and the State support system in general received quite a few compliments for its various programmes and its assistance for exporters. However, there was some criticism in relation to difficulties in navigating the systems and the bureaucratic nature of the organisations. Interestingly, it is not particularly seen as supporting entrepreneurs or entrepreneurship but being geared towards the needs of established and growing businesses.

A particular criticism was with regard to capital grants. It is argued these

are subject to strict deadlines which can lead to rushed and consequently poor buying decisions by the grant recipient. One entrepreneur believed that procurement training and support might achieve better results for client firms than mere capital grants.

However, it was almost universally accepted that Enterprise Ireland is generally good at what it does. The criticisms were mainly for what was not being done generally rather than aimed specifically at Enterprise Ireland as an organisation.

John Boyle of Ulster Bank is a strong supporter of the current structure. "The state continues to enable an enterprise support infrastructure across a wide range of sectors with a notable emphasis on investment in science, technology and innovation and R&D and has also helped with the introduction of the Employment Subsidy Scheme and the Enterprise Stabilisation Fund", he says.

Mark Fielding of ISME is less supportive, however. "State supports



Edward Hendrick.

"I think where Enterprise Ireland really comes into play is in its network of overseas offices which are there to help start-ups and other Irish firms get into new markets".

are helpful to a small business but the difficulty for the aspiring entrepreneur lies in accessing them. The vast majority of SMEs will never qualify to be clients of Enterprise Ireland, as they must employ more than 10 employees to be eligible. Therefore any benefit from using the primary state body responsible for enterprise development is completely forgone. This leaves very little in the way of support agencies for new enterprises", he says.

CPA Entrepreneurship Survey

Respondents to the CPA Entrepreneurship Survey 2010 carried out in conjunction with this report (see Section 2) mostly had a positive opinion of Enterprise Ireland and the County Enterprise Boards. When asked how they ranked the job done by Enterprise Ireland and other agencies such as the County Enterprise Boards in supporting entrepreneurship 24% said they were doing a 'good' or 'very good' job while 46% said they were doing a "fair" job. Just 29% of respondents thought they were doing a "poor" or "very poor" job.

The story changes in relation to how easy it is to access services from these agencies. Only 20% of respondents thought it was "quite easy" or "easy" while 79% thought it was "not very easy" or "difficult".

Bureaucracy

These access difficulties are reflected by the experiences of contributors to the Entrepreneurship Report. There is general agreement that the various State support bodies can be quite bureaucratic in nature. This is in part

accepted as a necessary evil required to safeguard taxpayers' money but several contributors called for the issue to be addressed. "There is a large degree of bureaucracy involved in dealing with Enterprise Ireland", claims Avine McNally. "You almost have to employ a consultant to draft the proposal in a way that will get approval."

Entrepreneur Bobby Kerr agrees. "I have always thought that the State support system is too cumbersome, involves a huge amount of red tape and that a lot of money is wasted along the way. Business looking for State support can end up focusing on the needs of Enterprise Ireland rather than the needs of the business and this is not in the best interests of the business."

Business author and publisher Brian O'Kane is another who strongly agrees with these points. "Dealing with Enterprise Ireland involves a huge amount of paperwork and bureaucracy. The paperwork takes forever and strangles applicants at a very early stage. I understand that taxpayers' money has to be safeguarded but you shouldn't have to get down on bended knee either", he says.

Edward Hendrick of Sonru has an altogether more positive view, however. "I'm quite positive about the supports for entrepreneurs out there and I have spoken quite often about that. You have to jump over hurdles to get funding but that is really a screening process and you are not going to get approved without that screenings and without reaching certain milestones. I have seen businesses screened out because they are not making the grade and that is quite right."



Avine McNally,
SFA

"Local knowledge is very important and shouldn't be lost as a result of the current review [of CEBs] by the Department".

Hendrick also believes that funding is of secondary importance. "I think where Enterprise Ireland really comes into play is not so much in terms of financial support but in its network of overseas offices which are there to help start-ups and other Irish firms get into new markets. I don't think any other country in the world has a resource like that."

Change of Focus

Chief among the criticisms of the State support system is its almost exclusive focus on export led or manufacturing businesses at the perceived expense of entrepreneurship per se. By the same token there are almost no calls for special financial supports for non-exporting or service businesses other than ensuring that people are not penalised for choosing to become self-employed. Rather, the calls concentrate on a range of "soft" supports in terms of training, mentoring and advice to be put in place to ease the path of entrepreneurs.

"We need to consolidate and rethink the whole area of State support for

entrepreneurship. I fundamentally disagree with the focus on exports. Anyone who is providing a job should be supported in some way", says Bobby Kerr. "If a business starts up there should be support available where that business needs support. I fully appreciate the need for controls on how money is spent but it should be made very simple and every business should be looked at on its own merits and not excluded by some general rules."

Also arguing the case for a widening of the remit for State support is Mark Fielding. "At this time there is a need for economic supports from government to enable individuals to pursue ambitions in creating a new company, whether through training, grant aid at inception and creation stage or maintaining the social welfare benefit for all entrepreneurs for a defined period to allow them to generate a living income while establishing their company."

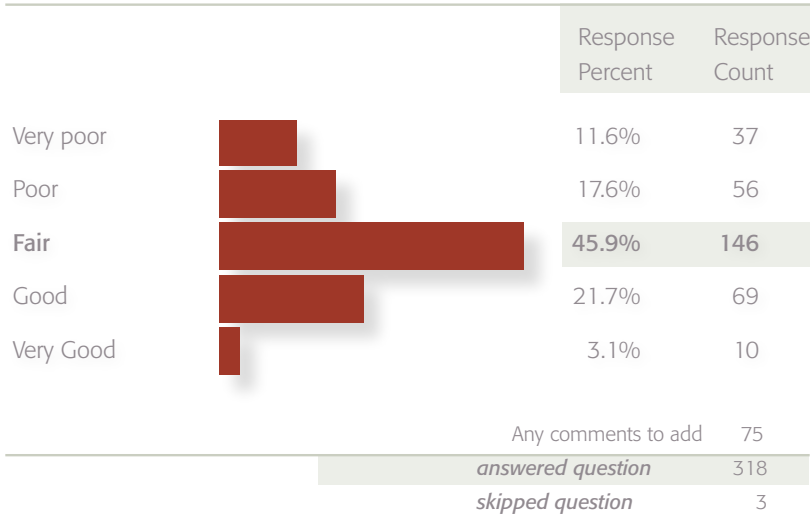
On the other hand, Michael Lauhoff of Bank of Ireland agrees with the current focus. "Enterprise Ireland's priority is businesses with export potential and Ireland's recovery will be export led", he notes.

These responses were indicative of the very limited awareness of the First-Step organisation which is not confined to export-led and manufacturing enterprises in terms of the focus of its support.

Local Enterprise Networks

Among the more interesting findings of the CPA Entrepreneurship Report is the almost universal support for the

How do you rank the job done by Enterprise Ireland and other agencies such as the County Enterprise Boards in supporting entrepreneurship?



City and County Enterprise Boards and strong calls for their retention by the Minister for Enterprise, Trade & Innovation. It is accepted that there is a degree of inconsistency in terms of the performance of the boards across the country but it is claimed that overall they are very effective and helpful and that their role goes far beyond mere grant giving.

The issue that most contributors pointed to was the potential loss of “local knowledge” which would result from their abolition or radical rationalisation. It was argued that this would be very harmful to Irish entrepreneurship.

There was very strong support for their retention as “local enterprise networking hubs” – places and individuals where entrepreneurs could go to as their first port of call in their journey. This would see a change in the formal role of the boards. There was also agreement that the boards should widen their focus to all

entrepreneurs with financial support being limited to those which meet the export and manufacturing criteria which currently exist.

“CEBs have much more understanding of the reality on the ground. Local knowledge is very important and shouldn’t be lost as a result of the current review by the Department of Enterprise, Trade & Innovation”, says Avine McNally.

“I have a lot of time for the Enterprise Boards”, says Brian O’Kane. “They are doing really good work and shouldn’t have been targeted in the McCarthy Report. They are doing good stuff and are needed. They provide a place where entrepreneurs can go and get advice and be pointed in the right direction. These soft supports are extremely valuable. There is a lot of collective wisdom there and should not be lost.”

“I support the County Enterprise Boards – particularly as someone who worked for them for five years”, says

entrepreneur Sean Gallagher. “Their local presence is very important and they need to be resourced. The critical thing when starting up a business is it can be quite lonely. Networking and being part of the entrepreneurial family is very important in this regard. The nature of entrepreneurs is that they will help each other and the CEBs can play an important role in establishing local business networks for mutual assistance under the old Irish meitheal philosophy.”

This point in relation to the establishment and co-ordination of local business networks was repeated by many contributors. The strong view is that the mutual support and assistance which entrepreneurs and small businesses can provide to one another can be far more valuable than grant assistance. There is also a view that the remit of the CEBs should be broadened to enable them to provide their range of non-financial supports to all entrepreneurs regardless of business sector.

Mentoring

Of all of the non-financial supports on offer to Irish entrepreneurs the one generally agreed to be of most value is mentoring from experienced businesspeople and fellow entrepreneurs. Ron Immink of Smallbusinesscan.com puts it quite forcefully: “Entrepreneurs see Enterprise Ireland as being for the elite and the County Enterprise Boards as being for start-up companies. They are not interested in talking to civil servants, they want to talk to people who have been there and worn the tee-shirt.”

"I'm not sure we have managed to tap into the pool of experience and expertise that is there in our successful entrepreneurs", says Brian O'Kane. "They are very generous with their time and the state bodies could be using this to help other entrepreneurs grow their businesses."

"There is a lot of untapped experience out there still to be availed of", according to Michael Marren of AIB. "No one person has all the skills required in a start-up situation. Experienced managers should be used more for mentoring."

Sean Gallagher argues that the reason why so few Irish companies make it on the international stage is because they have no experience of it. "We need to get mentors from the multinational companies and others to help companies in this regard. We also need to use the international networks of Irish people abroad", he says.

One Stop Shop

There is broad agreement that the overlap in support agencies causes confusion and a lack of clarity for entrepreneurs. Several entrepreneurs complained of not knowing where the remit of the County Enterprise Boards ends and that of Enterprise Ireland begins or indeed the difference between a Enterprise Board and a LEADER company.

Many expressed the view that there should be a one-stop-shop or gateway agency with a network of local offices which would cater for the needs of all entrepreneurs and enterprise – regardless of scale. This agency would refer suitable companies to Enterprise Ireland and provide introductions and

assistance to them in that regard while providing a range of other supports, including funding where appropriate, to local entrepreneurs.

"Entrepreneurs are by their nature impatient – they don't like waiting for things", says Sean Gallagher. "We need to get as close to a one-stop-shop for supporting entrepreneurship as possible. We need to join up all the dots on supporting indigenous enterprise."

Funding support

There are numerous sources of funding available to start-up and growth phase businesses in Ireland, some of them more effective than others. The principal sources remain the entrepreneur's own resources, State agencies, business angels, a number of seed capital funds, and the venture capital community.

Seed Capital Scheme

A valuable aid to entrepreneurs availing of their own resources is the Seed Capital Scheme (SCS). The scheme's principal benefit is that it potentially allows the entrepreneur, with their redundancy payment or other savings, to fund the start up of a business and not only receive shares in the company in return but also an income tax refund for the previous six years. The scheme is designed for those who are or were in PAYE type employment who enter into a full-time employment contract for at least one year with the company as an employee or a director and acquire at least 15% of the issued share capital of the company.

Business Angels

Business angels are usually wealthy successful entrepreneurs themselves who are looking for the opportunity to invest in other high growth businesses. They are particularly useful for early stage companies who are too small to attract venture capitalists and could benefit from the business skills and experience that the business angel usually brings to the table. They tend to invest anywhere between €25,000 and €250,000 in individual companies.

A recent positive development in this area in Ireland has been the establishment of the Halo Business Angel Partnership – a national business angel network which brings together the private equity activities of Enterprise Ireland, InterTradeIreland and the Irish Business Innovation Centres.

Seed Capital

There has been a significant increase in seed funding made available to meet



Ron Immink.

"Finance is never an issue. If the plan is good enough it will always get the money".

the needs of entrepreneurs and early stage start ups since 2008. As part of the Government's bank recapitalisation initiative, AIB expanded its seed and early stage fund while a new fund was launched by Bank of Ireland. During 2009 there was an increase of €49 million in seed capital funding available to Irish companies, with the launch of the new €26 million Bank of Ireland Seed & Early Stage Equity Fund and the €23 million expansion to the AIB Seed & Early Stage Equity Fund.

The increase in the availability of seed capital has continued this year with the Government announcing a further €40 million in seed capital funding from AIB and Bank of Ireland in the continuing context of bank recapitalisation. This increase brings the total amount of available seed capital for early stage Irish companies to €119 million.

The Business Expansion Scheme

The Business Expansion Scheme (BES) is an incentive to private investors to invest long-term equity capital in companies, particularly new and smaller ones, operating in certain sectors of the economy, which would otherwise find it difficult to raise such funding and would instead have to rely on loan finance.

Provided that an investor holds their investment for a minimum period of five years, the scheme allows the individual to obtain income tax relief on investments up to a maximum of €150,000 per annum in each tax year. Relief is available at the investor's highest rate of income tax. An investor who cannot obtain relief on all of their investment in a year of assessment,

either because their investment exceeds the maximum of €150,000 or their income in that year is insufficient to absorb all of it, can carry forward the unrelieved amount to following years. The maximum investment by all investors in any one company or group of companies is €2 million.

Venture Capital

It is estimated that some 20 venture capital funds in the Irish market have a total of approximately €600 million between them available for investment. According to the latest Enterprise Ireland Seed & Venture Capital report, Irish venture capital firms supported by Enterprise Ireland made 87 investments with a value of €52 million in 2009, marking a 53% increase on the value of investments in 2008. The number of new companies invested in during the year, at 25, also represented a significant increase of 47% on the previous year.

Relevance to Entrepreneurs

While there is a general appreciation for the range of funding in itself and for what it is there is broad agreement that on the one hand there isn't enough of it while on the other it is not really that important. This apparent oxymoron is explained by the differing perceptions of the funding needs of entrepreneurs.

For example, Edward Hendrick believes these are minimal and there is actually a virtue in having no funding. "I'm a great believer in lean start-up principles. You have to be able to prove your business will work and get customers cheaply. The lack of money

at the start really focuses you on what will work and what will deliver value for your customers. I know a lot of companies that have blown a lot of money at the start and it hasn't helped them.

Venture capital funding in particular is not seen as relevant for entrepreneurs in the start-up phase. "Companies getting venture capital in Ireland tend to be two or three years old. US venture capital funds won't come here as it's too far away. They will only do deals here with local venture capital firms. Even then the local venture capital funds are moving away from start-ups towards later stage", says Professor Frank Roche.

InterTradeIreland Equity Adviser Bob McGowan-Smith agrees: "Venture capital has moved up the food chain to a later stage. Earlier stage businesses are now more likely to be funded by business angels."

Availability

Again there is an apparent conflict regarding the availability of finance with some contributors saying there is too little while others saying there is sufficient for the requirements of the market. This dichotomy is explained by differing views of the quality of the companies seeking investment.

This is exemplified by entrepreneur Jerry Kennelly who claims that a good business proposition will always attract finance regardless of market conditions. "Any good business plan will get the money but there are a lot of bad business plans being presented out there that won't get any. It's very easy in the world today to make money if you have money but it's a

pain in the neck and it is high risk to be an investor. People need a better understanding and appreciation of realistic valuations. If you look at the technology start-ups the valuations are totally unrealistic. There's a hell of a lot of pain involved in investment from an investor's point of view and the entrepreneur has got to make it worth their while."

Ron Immink of Smallbusinesscan.com agrees. "Finance is never an issue. If the plan is good enough it will always get the money."

Edward Hendrick has a different view of the funding situation. "We've gone after angel investors and other private investment and have got it. It hasn't been easy but it was never going to be easy. We have been lucky to have won a few competitions and this has generated some publicity for the company. A lot of people have lost a lot of wealth over the past two or three years but there is still money out there available for investment in good start-up companies. I've never raised funds before this but I don't think it would have been any easier during the boom when the investment focus was very much on property instead of enterprise. It might actually be a bit easier now than it was then for businesses to raise funds."

Enterprise Ireland's Tom Hayes believes there is funding available for the right ideas. "There is quite a significant amount of money out there through seed capital, business angels, venture capital funds and so on. With the right idea you will always attract finance. Ireland is now a fairly wealthy country despite our economic troubles. But it's still not easy. Equity finance is like marriage or a courtship; the parties

have to get on with each other and see that they will get something out of it. The money is out there."

Bob McGowan-Smith shares this view. "There are people out there with money. The big challenge is how to connect companies to the people with money. There is money out there but companies have to up their game and become investor ready."

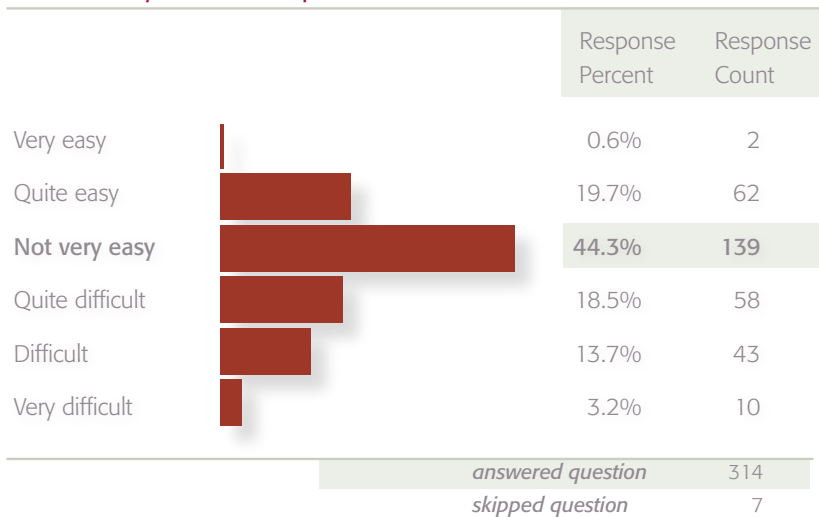
Professor Frank Roche takes a more negative view. "We do have a real problem with funding. The only genuine early stage investment funds are the AIB seed capital fund, the Dublin BIC and Enterprise Equity. Nearly all other investment funds are going to two to three year old companies. Another issue is that it is just as difficult to do due diligence on a €250,000 investment as it is for a €10 million investment for a venture capital company. They also see the larger investment in the later stage company as mitigating the risk. I don't see this issue being addressed by the private sector on its own. We need

large support from Government to make it happen. We need some sort of co-funding or co-financing of private sector investments but I can't see it in the current financial climate."

"There is certainly a role here for the State and, while some progress has been made through Enterprise Ireland funds, much more needs to be done in this area. Easier said than done in the current cash strapped situation in which the government finds itself", says Mark Fielding of ISME.

Entrepreneur Bobby Kerr believes that information rather than quantum is the issue for companies seeking to access funding. "It would be nice to see all the various sources of non-bank funding for entrepreneurs and business co-ordinated in some way. It is a bit of a maze and if I was an entrepreneur looking to access some of it I'd find it a bit of a jungle. The enterprise boards could probably do this co-ordination and point entrepreneurs in the right direction."

Accessing such support services can be an issue for business in Ireland. How easy or difficult do you think it is at present?



Business Angels

There is a reasonably strong consensus that business angels will play an increasingly important role in funding entrepreneurship in Ireland. "Earlier stage businesses are now more likely to be funded by business angels", notes Bob McGowan-Smith.

"Business angels are coming into things more", Sean Gallagher agrees. "Business angels weren't keen on things like bank shares or property and there are an increasing number of them at present. I am involved on the board of the Halo Business Angel Network, the all-island umbrella group for business Angel networks. This is about putting a structure on business angel investment and is a really important initiative."

Avine McNally of the Small Firms Association also sees this source of finance as of growing relevance. "I can see more focus on business angels in the future though, we don't really have a strong angel culture yet and this needs to be encouraged."

Improving Access and Funding Levels

According to Bob McGowan-Smith a key issue, as with entrepreneurship generally, is education. "Entrepreneurs need basic education to make their businesses investor ready. They need a basic understanding of the approach of a business angel or VC fund. Sometimes we see businesses with quite good strategies presenting themselves poorly and missing out on opportunities", he says.

"The climate for raising funds for early stage business is always challenging – downturn or no downturn", he adds. "The downturn has just made it more challenging than it normally is. InterTradeIreland ran a venture conference back in May and the message from the conference was that despite it all money is still there. But companies have to up their game to get it. Business plans are very important. And the businesses themselves have to be investor-ready. A big aspect for entrepreneurs to understand is that the equity process is difficult to commit to. It's like a marriage with a planned divorce. They have to learn to play the equity game. If you go looking for investment you may come out with advice and vice versa."

Bobby Kerr puts forward an idea echoed by several other contributors. "We need more incentives for people to invest in business. It might be a good idea to offer investors a way to write off business investment losses against income tax after a certain period of time. Capital gains are difficult to come by at the moment so writing losses off against them might not be an attractive option. Also, if you allow people to write the losses off against income tax that might encourage them to take the returns from another investment in the form of a dividend rather than a sale – having them stay in there could be very advantageous for the business."

This would, in a way, be a Seed Capital Scheme but for business angels or other investors. All of those who believed that such an incentive be put in place also agreed that it should not

just become another tax shelter and should be tied into real and relatively high risk investments in job creating start-up and early stage enterprises.

Findings and Recommendations

- Enterprise Ireland is doing valuable work in supporting enterprise and exports
- Enterprise Ireland's High Potential Start-Up programme should be supported and given additional resources to be expanded in the coming years
- There is a lack of funding available for very early stage business and micro-enterprise in particular
- The City and County Enterprise Boards should be maintained in some form and their role should be expanded
- Enterprise Ireland and FAS should examine the possibility of providing high level procurement training to entrepreneurs and early stage business owners in order to help them manage costs and achieve better purchasing outcomes
- The Department of Enterprise, Trade & Innovation should examine the application process for State assistance to enterprise with a view to rationalising and simplifying it
- The remit of State enterprise support bodies should be broadened to support all entrepreneurs engaged in job creation activity and not only those engaged in manufacturing or export-

led enterprises

- The possibility of using the City and County Enterprise Boards as the “high street presence” for a national enterprise support one-stop-shop should be investigated by the Department of Enterprise, Trade & Innovation; this may involve the Enterprise Boards being absorbed into Enterprise Ireland
- The City and County Enterprise Boards should be encouraged to become the hubs of local enterprise networks which would involve entrepreneurs engaging in mutual support activities
- The City and County Enterprise Boards should become the primary source of guidance and information for entrepreneurs seeking information on and access to equity finance
- Further resources should be devoted to mentoring programmes
- Enterprise Ireland and the City and County Enterprise Boards should establish education programmes for entrepreneurs seeking to make their businesses more investor-ready; one model would be for them to replicate InterTradeIreland’s highly successful Seedcorn Business Competition
- Further resources should be made available to First-Step to enable the organisation support more entrepreneurs
- The Department of Enterprise, Trade & Innovation should engage with the Department of Finance with a view to putting in place a new tax incentive to allow business angels and other private investors to write

off investment losses in start-up and early stage enterprise against income tax after a specified period of time



The credit environment

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Possibly the most controversial and certainly most hotly debated issue affecting Irish entrepreneurship at present is bank credit; or as many would contend, the lack of it. The main issue of contention relates to the rate of decline of credit applications by the banks with the latest Mazars Report indicating a low rate of just 12.5% while the most recent ISME Bank Watch survey claimed that 55% of all credit applications by the banks were being turned down.

The ISME members' experiences were confirmed by a survey carried out by the Institute of Certified Public Accountants in Ireland among its membership in conjunction with this report (see Section 2) which showed that more than 64% of respondents had a client turned down for credit in the previous 12 months. More worryingly, 75% of respondents to the CPA survey said that the credit refusal had caused trading difficulties for viable businesses. Some 14% said that the refusal had resulted in job losses while a further 70% said it had caused cash flow difficulties.

The gulf between these claims cannot be explained by statistical margins for error. The experience of individual businesses in their day to day dealings with the banks is at strong variance with what might be described as the "official statistics" coming out of the banks' credit approval processes which are the subject of the Mazars Reports.

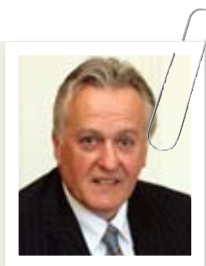
The Mazars Reports date back to the February 2009 Irish Government Bank Recapitalisation Programme. As part of that programme a review was required to determine the actual position in relation to the availability of credit to SMEs in Ireland and to recommend

Have you or any of your clients been refused credit in the past 12 months?

| | Response Percent | Response Count |
|--------------------------|------------------|----------------|
| Yes | 67.4% | 211 |
| No | 15.3% | 48 |
| Don't know | 17.3% | 54 |
| <i>answered question</i> | | 313 |
| <i>skipped question</i> | | 8 |

appropriate actions to improve credit availability.

The five participating banks are Bank of Ireland, AIB, Anglo Irish Bank, Ulster Bank and National Irish Bank and the three reports produced so far have showed a very high rate of credit approvals with the level improving from 86.3% in the fourth quarter of 2008 to 87.5% in the fourth quarter of 2009.



Mark Fielding,
ISME.

"Not only are the banks not lending, but the level of competition in Irish banking is rapidly diminishing".

The chief difficulty in this simmering dispute appears to lie in the definition of a formal credit application. The banks only count applications submitted in writing with all of the supporting documentation required by their processes. The small business community, on the other hand, holds that this is a time consuming and expensive process which is only worth entering into if there is a reasonable chance of success. In these circumstances the preference is for an informal approach to be made to a bank manager or business adviser in the first instance. An indication at this stage that an application is unlikely to be successful is generally taken as a refusal of credit.

The banks, for their part, contend that such indications are only given to businesses that shouldn't be advanced credit in any case due to their poor trading position. The response from the small business community is that the banks' parsimony is a major factor in the poor trading position of many businesses and that a general freeing up of bank credit would have a knock-on positive effect throughout the economy.



John White,
CPA

“Credit availability is the chief difficulty facing entrepreneurs at present”.

There is unlikely to be a meeting of minds on this issue but there is a marked variation in views among entrepreneurs and other stakeholders in the entrepreneurship process with regard to it.

Unsurprisingly, the two main small business organisations have a less than positive view of the credit climate. ISME has called on the Government to intervene through the NAMA process and force the banks to start opening up lending channels to small businesses.

“With Postbank and Bank of Scotland (Ireland) pulling out of the market, other foreign banks clearly looking for exit strategies, Bank of Ireland increasing lending charges and AIB’s refusal to accept switcher mortgages not only are the banks not lending, but the level of competition in Irish banking is rapidly diminishing”, says Mark Fielding of ISME.

Avine McNally of SFA agrees. “Bank credit was an issue 15 years ago and it is again”, she says. “I remember back in the 1990s [former SFA Director] Pat Delaney used to say that an entrepreneur was better off to tell their

bank manager that they were looking for a loan to buy a car rather than to start a business. We’re back there again. If it’s difficult for an established business to get bank finance what hope has an entrepreneur starting out or an early stage business?”

CPA Dick Blake is broadly of the same opinion. “If you’re looking for an overdraft the banks want security or they will offer invoice discounting. The way to get money out of the banks is to be heavily borrowed already. Are the banks in business? Technically yes: But in reality no.”

“Credit availability is the chief difficulty facing entrepreneurs at present”, says fellow CPA John White. “If money was moving around as normal, we would see a lot more entrepreneurial activity. It is very difficult to start up or grow a business without credit.”

Sinead Maher of Boomerang Recycling has particular sympathy for entrepreneurs in a start-up situation. “The banks look for accounts and so on as proof of a business’s ability to repay a loan. An entrepreneur doesn’t have those things starting out.”

Another entrepreneur indicated that the problem with the banks is that they will only fund working capital through invoice discounting and this is too expensive for smaller businesses due to relatively high annual fees associated with it.

Contrary View

A contrary view is taken by many others who contend that the banks’ role is to be prudent lenders of other people’s money and not investors in start-up businesses. Entrepreneur Jerry

Kennelly is one who holds this view. “Bank finance shouldn’t be an issue at first”, he argues. “Entrepreneurs need to get their businesses up and running cheaply and fast. It becomes an issue after that. The banks have behaved absolutely disgracefully for years and a complete regime change is required to make things different. That said, a lot of business plans that get presented to the banks are pretty poor and shouldn’t get backing.”

Kennelly’s point in relation to poor business plans receives strong backing from Ron Immink of Smallbusinesscan.com. “Bank credit is a red herring”, he contends. “Would you give a company with a big overdraft another one if it had no real prospect of paying it off? There is no point in throwing good money after bad. A really good idea always gets money.”

Strong backing also comes from CPA Niall Byrne. “I’m not saying the banks are without sin”, he says. “But I do believe they would respond positively to small business applications if they are supported by good business plans. But there is no doubt that there is rubbish going into the banks and they should refuse rubbish.”

According to Professor Frank Roche of UCD the banks are playing a positive role in relation to start-ups. “At the end of the day the banks are the only ones funding the vast majority of start-ups, particularly in the non-high-tech area. But the banks and bank loans can’t fund real and significant growth. It remains the cheapest form of finance but that’s not what it’s for. I have no expectation of the banks providing funds to start-ups except to a certain limit in the €5,000 to €20,000 range”, he says.

Michael Lauhoff of Bank of Ireland firmly believes that every viable business proposal gets support from the banks and encourages businesses to “put it up to the banks” by formalising their loan applications and using the appeals process now available to them.

“The Credit Review Office has been set up and only 12 cases were referred to it in its first three months”, he says. “I would encourage any business turned down for credit to formalise it if they don’t think they’re getting a fair hearing. Put it into the Credit Review Office. A big issue for the banks is that they need to understand where the business is going and they need to know the background and experience of the promoter. For this we need a proper business plan. I would urge any small business looking for finance to go to their local Enterprise Board first to get advice and assistance on preparing a business plan. This can make a big difference.

AIB’s Michael Marren accepts that there is a certain amount of expense involved in the loan application process but says it is worthwhile. “Making a formal loan application involves a certain amount of trouble and expense”, he notes. “Business people will run their proposals informally by the banks first before incurring that trouble and expense. A lot of supporting documentation is needed for a formal application. But good propositions are always bankable.”

Similar advice to progress down the formal, documented loan application route comes from John Boyle of Ulster Bank. “The Mazars Reports were developed out of evaluation criteria agreed by the banks, business

representative bodies and the Department of Enterprise, Trade & Innovation”, he points out. “The results have reflected that the main three business banks are showing strong approval levels on formal or documented credit applications. The conflict arises over assessed refusal rates on informal or undocumented applications, which of course cannot be independently measured in an objective way. Progressing with a written application and relevant support material has to be a prerequisite to getting the best possible chance of a successful outcome.”

Edward Hendrick of Sonru has had a positive experience of following this path. “We got a start-up loan of €25,000 and that was pretty straightforward. It’s when you come back and look for more that it gets a bit more difficult. Banks traditionally gave out mortgages, car loans and so on and that is what they are good at. They are not going to be part of the life of a start-up. Bank of Ireland has been fairly good to us in terms of overdrafts now that we are generating cash but that’s all you would expect. It is a bank after all and the banks aren’t venture capital houses.”

Centralised Lending

The increasing level of centralisation in the banks over the years is cited by many contributors as a major factor in the poor credit environment for business. It is claimed that even where the banks have nominal local decision making this must still receive final approval from head office in most cases. This lack of local authority means that less weight is given to a

bank manager’s personal knowledge of an entrepreneur, their character and local trading conditions and a consequently lower chance of a credit application succeeding when it gets to the central lending department.

Avine McNally calls for this issue to be addressed. “The banks should move away from their centralised lending decision making process and back to a more local process. They should give local managers more authority when it comes to business lending. They have to go back to real relationship banking. It is only local managers who can really understand the businessperson, the business and the environment in which they trade”, she contends.

This view is supported and amplified by entrepreneur Bobby Kerr: “I see the day returning when the local bank manager will be in charge of local business lending. When the managers know the people they are lending to you get better decisions.”

It should be noted that all of the banks claim to have either high levels of local



Michael Marren,
AIB

“Small businesses should look again at invoice discounting”.

decision making or strong local input to the process. However, the experience of entrepreneurs on the ground is that influence has ebbed from the branches and regions to the centre in Dublin and this has had a negative impact on their likelihood of success in credit applications.

Invoice Discounting

While many small businesses claim that invoice discounting is too expensive and not an appropriate solution for them the banks argue the contrary. "The banks aren't going to give hundreds of thousands of euro away unsecured", says Michael Lauhoff of Bank of Ireland. "The debtor book is one way of financing a business. A lot of businesses who go into invoice discounting find it great. I would encourage more to explore this option."

Michael Marren of AIB believes there is some deep rooted aversion to invoice discounting that needs to be overcome. "Small businesses should



John Boyle
Ulster Bank.

"Progressing with a written application and relevant support material has to be a prerequisite to getting the best possible chance of a successful outcome".

If so, what has been the principal effect of this refusal?

| | Response Percent | Response Count |
|---------------------------|------------------|----------------|
| Lost growth opportunities | 12.7% | 55 |
| Job losses | 14.0% | 111 |
| Cash flow issues | 70.3% | 45 |
| No long term impact | 3.1% | 7 |
| <i>answered question</i> | | 229 |
| <i>skipped question</i> | | 92 |

look again at invoice discounting. There is some visceral objection to it – it is seen as credit factoring. But we can show it doesn't work out any more expensive than an overdraft when amounts of €100,000 and over in a year are involved. We certainly believe many businesses could find it beneficial."

Again, there appears little possibility of a meeting of minds on this issue at present but action by the banks to make this form of credit better understood and indeed more affordable may improve the situation over time.

Addressing the Issues

According to CPA Dick Blake another issue facing both the banks and entrepreneurs is communication. "The greatest barrier many entrepreneurs face is themselves and their lack of wider business skills. They might be good innovators or inventors but this doesn't mean they can talk to the banks. They amount of entrepreneurs I've heard of who go to the banks or Enterprise Ireland and say 'the market size is X and I only need y% of it'. They

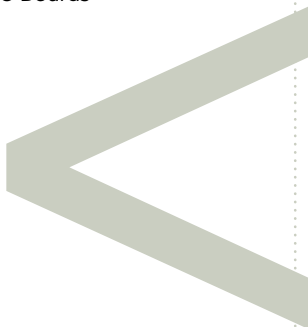
don't like to hear that, they want to know who the business's first customer is going to be and how they are going to get that customer. Entrepreneurs need assistance in this regard."

Fellow CPA Niall Byrne has a novel suggestion to free up credit for start-ups. "Perhaps one solution might be for the Government to guarantee up to 50% of a bank loan to a start-up subject to a maximum of €10,000. This would partly de-risk the loan for the bank and hopefully would cost the exchequer very little."

Findings and Recommendations

- The Mazars Reports accurately reflect the experience of businesses going through the formal, documented loan application process
- The refusal rates for informal credit applications remain high and are having a negative effect on many businesses

- The banks should not be forced to change their stated lending criteria
- The banks should simplify their formal credit application processes to encourage more businesses to go through them
- The banks should offer assistance to entrepreneurs wishing to go through the formal loan application process
- The banks should give more authority for business credit – particularly small overdrafts and loans – to local managers and business advisers
- The Government should step up efforts to promote awareness of the Credit Review Office
- The banks should work together with one another and with the Department of Enterprise, Trade & Innovation to promote awareness and understanding of invoice discount as well as to make it more affordable for small business
- The Department of Enterprise, Trade & Innovation should, in conjunction with the Department of Finance, introduce some form of limited loan guarantee scheme for start-up businesses to be administered through the City and County Enterprise Boards



The Taxation Regime

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There is near universal agreement that the Irish tax system is very favourable to entrepreneurs. The system of business taxation in Ireland is viewed as fair, equitable and transparent with few if any calls for changes to it.

Small businesses enjoy the same 12.5% rate of Corporation Tax as the vast majority of other trading companies in Ireland. In addition, companies incorporated after October, 2008 which have a tax liability of less than €40,000 per year for their first three years trading are exempt from tax. This is seen as a strong incentive for entrepreneurs both to establish new businesses and to incorporate them.

However, some 64% of respondents to the CPA Entrepreneurship Survey 2010 (see Section 2) believe it is still too early to tell if this change has had any effect.

Entrepreneurs who choose not to incorporate their businesses operate as sole traders and their profits are taxed at income tax rates and are also subject to PRSI at the self employed rate.

In addition, the Revenue Commissioners come in for much praise for their proactive attitude towards business and the Revenue Online Service (ROS) which many contributors say is an example of how all areas of Government should interact with business.

Entrepreneur Jerry Kennelly speaks for many when he says that Ireland has one of the most positive tax systems in the world for entrepreneurship. "The three most important things for Irish entrepreneurs are the 12.5% tax rate,

The Finance Minister has brought in changes to the tax early start ups. Have these changes had a positive effect?

| | Response Percent | Response Count |
|--------------------------|------------------|----------------|
| Yes | 17.7% | 56 |
| No | 25.6% | 81 |
| Don't know | 56.8% | 180 |
| <i>answered question</i> | | 317 |
| <i>skipped question</i> | | 4 |

the fact that we speak English and that we have never invaded anyone. We were able to grow Stockbyte aggressively because of the tax system and this helped make us an attractive acquisition target as well – Getty not only bought the company but the attractive tax regime led to them moving significant elements of their international operation to Ireland as well."

While the system of corporation tax is widely lauded there is an issue relating to the level of income tax paid by entrepreneurs. Entrepreneurs, even if they are employees of their own companies, do not enjoy the same level of tax credits as other PAYE workers meaning that they pay a higher effective rate of income tax on their earnings.

According to the Revenue Commissioners "All PAYE taxpayers are entitled to a tax credit known as the PAYE Tax Credit. This is worth €1,830 in 2010 (unchanged from 2009). If you are married and taxed under joint assessment, then you and your spouse may both claim the PAYE Tax Credit."

This does not apply to self-employed persons and proprietary directors of companies, however.

"The income tax system is unfair to self-employed people who don't get the same tax allowances as employees", says CPA Niall Byrne. "Self-employed people lose out on the PAYE tax credit and this is unfair."

Other Tax Issues



Niall Byrne
CPA

"The income tax system is unfair to self-employed people who don't get the same tax allowances as employees".

There is also widespread criticism of the fact that entrepreneurs are not entitled to Jobseekers Benefit should their business fail. In addition, some entrepreneurs referred to the lack of marginal relief for employees when they change rates of PRSI and the problems this can cause them as employers.

On the question of VAT there were a number of calls for thresholds to be raised to at least the UK level which currently stands at more than €85,000 as opposed to the Irish rules of €37,500 for service businesses and €75,000 for others. These calls were made mainly in the interests of simplifying business administration rather than as a means of lowering the burden of taxation. Several contributors point out that Northern Ireland based businesses enjoy a competitive advantage in this regard.

The proposal to increase VAT thresholds receives strong report from the CPA membership with 63% of respondents to the Entrepreneurship Survey saying that an increase would provide a boost to entrepreneurship.

Finally, a number of contributors referred to local authority commercial rates as representing quite a burden on small business and there were a number of calls for Government to intervene to ensure that cash strapped councils do not increase this burden still further.

Findings and Recommendations

- The Irish system of corporation tax is positive for entrepreneurs and should not be changed

Would an increase to the VAT threshold provide a boost to entrepreneurship?

| | Response Percent | Response Count |
|--------------------------|------------------|----------------|
| Yes | 63.0% | 201 |
| No | 23.5% | 75 |
| Don't know | 13.5% | 43 |
| <i>answered question</i> | | 319 |
| <i>skipped question</i> | | 2 |

- The small companies tax exemption has been beneficial to entrepreneurship and should be maintained
- The Revenue Online Service is extremely effective and its example should be followed by other Government Departments and agencies
- The income tax system should be amended to grant the same tax credits to self-employed workers as those enjoyed by PAYE employees
- As part of the current review of the PRSI system anomalies such as the lack of marginal relief when changing rates and the non-qualification of self-employed individuals for Jobseekers Benefit should be addressed
- VAT thresholds should be increased at least to the level pertaining in the UK
- The Department of Enterprise, Trade & Innovation should, in conjunction with the Department of the Environment, Heritage & Local Government, examine the

impact of local authority rates on small business and seek a means of alleviating this burden if it is found to be too great.



Compliance and Regulation

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Avine McNally,
SFA.

“Everyone accepts the need for regulation and no one is really looking for less regulation, what is being sought is for compliance to be made easier”.

Red tape or excessive bureaucracy is an issue which entrepreneurs have complained about for a very long time. It is encouraging to note that among contributors to the CPA Entrepreneurship Report there is general agreement that the situation regarding red tape in Ireland has improved greatly in recent years with the Revenue Commissioners coming in for particular praise.

According to Mark Fielding of ISME the average cost of regulatory administration is approximately 3.6% of GDP, meaning that this year’s cost of regulatory administrative compliance in Ireland would be approximately €5.4 billion.

“While it appears to be easy enough to set up a business the cost of compliance with regulation is quite high”, says Avine McNally of the SFA. “Nearly every aspect of business is regulated and depending on the market sector very heavily so. Employment law, health and safety the list goes on and on. There has been some progress made through the High

Level Group on Business Regulation and this has been welcome. Everyone accepts the need for regulation and no one is really looking for less regulation, what is being sought is for compliance to be made easier.”

There are those who believe the regulatory burden is not too great, however. “Red tape is made to be a bigger issue than it is”, says entrepreneur Jerry Kennelly. “It is certainly something that should be looked at on an ongoing basis but if people can’t find their way around red tape in Ireland then they shouldn’t be in business.”

Michael Lauhoff of Bank of Ireland agrees. “If the last few years have shown us anything it is the need for proper regulation and control of businesses in all sectors. I don’t think red tape is hindering entrepreneurship.”

CPA Survey

These findings are reflected in the results of the CPA Entrepreneurship Survey 2010 (see also Section 2). Only 30% of respondents believed that company law filing requirements represented a barrier to entrepreneurship while an equal number thought it did not. Some 40% neither agreed nor disagreed with this proposition.

The main focus of those who believed changes should be made was the audit exemption for small groups. Another issue raised was the fact that groups of small companies do not enjoy the audit exemption. A further proposal is to examine ways in which filing requirements can be reduced for smaller companies by introducing a simplified checklist of submissions.

Solutions

In terms of solutions to the perceived issue of excessive red tape Mark Fielding calls on regulatory bodies to consider the “think small first” principle for any new regulations and to carry out regulatory impact analysis (RIAs) of new regulations prior to their inception. “These RIAs would give a better indication of the different requirements of companies in relation to the regulation and the disproportionate affect that blanket regulation has on smaller enterprises”, he contends

Avine McNally supports this call. “There needs to be a Regulatory Impact Assessment carried out on each piece of legislation that affects business in order to ensure that the burden doesn’t become too great. There are 40 plus pieces of employment legislation. The Government is going through a consolidation process with the Companies Acts at the moment, perhaps something similar could be done with employment law.”

“We need to make life as easy as possible for entrepreneurs and remove bureaucratic barriers wherever possible”, says Tom Hayes of Enterprise Ireland. “We’re not bad in this regard in Ireland but we need to ensure good practice. This requires the establishment of a thought leadership group to ensure that anything standing in the way of business is addressed in a constructive way.”

Findings and Recommendations

- Ireland does not have an overly onerous regulatory regime for business but there are areas such as employment law where compliance could be simplified
- The Department of Enterprise Trade & Innovation should examine the range of employment legislation which exists at present with a view to consolidating as much of it as possible into a single Act which would be easier to understand and comply with for small business
- The Revenue Commissioners have achieved much in terms of facilitating easy compliance among business clients
- The law should be amended to allow small companies who file late returns retain their audit exempt status
- Groups of small companies should be allowed qualify for audit exemption



Tom Hayes,
Enterprise Ireland.

“We need to make life as easy as possible for entrepreneurs and remove bureaucratic barriers wherever possible”.

- Filing requirements should be reduced and simplified further for very small companies
- The Government should carry out a Regulatory Impact Assessment on every new piece of legislation affecting business before it is passed into law

Do you agree that current company law filing requirements represent a barrier to entrepreneurship?

| | Response Percent | Response Count |
|-----------------------------------|------------------|----------------|
| Strongly disagree | 17.7% | 56 |
| Disagree | 25.6% | 81 |
| Neither agree nor disagree | 56.8% | 180 |
| Agree | 22.9% | 73 |
| Strongly agree | 7.5% | 24 |
| <i>answered question</i> | | 319 |
| <i>skipped question</i> | | 2 |

Findings and Recommendations

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Climate:

- Despite the economic downturn the overall climate for entrepreneurship in Ireland is positive at present with business confidence improving and people continuing to start new ventures
- Among the greatest challenges facing entrepreneurs and small businesses at present are credit difficulties, increased risk averseness among target customers and the re-emergence of the black economy
- The Government should take urgent action to ensure that all its Departments and Agencies are meeting the early payments target and should enlist major companies to subscribe to the same regime in order to achieve a change in the payments culture in Ireland
- Action is required by both Government and the enterprise community to prevent the growth of the black economy; this could take the form of an awareness campaign similar to those run by the insurance industry alerting people to the threat the black economy poses to jobs and economic recovery
- The Government should establish a high level group led by the Department of Enterprise Trade & Innovation to develop a National Entrepreneurship Strategy which would align social, enterprise, industrial, taxation and educational policy in order to create and sustain an environment and culture which will be conducive to entrepreneurship

Culture:

- Ireland has a positive culture for entrepreneurship which has improved greatly over the past two decades
- More work needs to be done in changing attitudes towards business failure in Ireland; this will possibly be best achieved in the long term through the education system
- In the context of future changes to the PRSI system the Government should give self-employed people the same social welfare entitlements as PAYE employees
- The Department of Enterprise, Trade & Innovation in consultation with the Department of Social Protection should promote awareness of the Short Term Enterprise Allowance Scheme which facilitates and supports redundant workers who wish to become self-employed; the two Departments should also work together to make the scheme easier to avail of.
- The Department of Education should as a matter of urgency make provision for the introduction of entrepreneurship to the second level school curriculum
- The CPA should add entrepreneurship modules to its courses

Supports for Entrepreneurship:

- Enterprise Ireland is doing valuable work in supporting enterprise and exports

- Enterprise Ireland's High Potential Start-Up programme should be supported and given additional resources to be expanded in the coming years
- There is a lack of funding available for very early stage business and micro-enterprise in particular
- The City and County Enterprise Boards should be maintained in some form and their role should be expanded
- Enterprise Ireland and FAS should examine the possibility of providing high level procurement training to entrepreneurs and early stage business owners in order to help them manage costs and achieve better purchasing outcomes
- The Department of Enterprise, Trade & Innovation should examine the application process for State assistance to enterprise with a view to rationalising and simplifying it
- The remit of State enterprise support bodies should be broadened to support all entrepreneurs engaged in job creation activity and not only those engaged in manufacturing or export-led enterprises
- The possibility of using the City and County Enterprise Boards as the "high street presence" for a national enterprise support one-stop-shop should be investigated by the Department of Enterprise, Trade & Innovation; this may involve the Enterprise Boards being absorbed into Enterprise Ireland

- The Department of Enterprise, Trade & Employment should encourage the City and County Enterprise Boards to become the hubs of local enterprise networks which would involve entrepreneurs engaging in mutual support activities
- The City and County Enterprise Boards should become the primary source of guidance and information for entrepreneurs seeking information on and access to equity finance
- Further resources should be devoted to mentoring programmes
- Enterprise Ireland and the City and County Enterprise Boards should establish education programmes for entrepreneurs seeking to make their businesses more investor-ready; one model would be for them to replicate InterTradeIreland's highly successful Seedcorn Business Competition
- Further resources should be made available to First-Step to enable the organisation support more entrepreneurs
- The Department of Enterprise, Trade & Innovation should engage with the Department of Finance with a view to putting in place a new tax incentive to allow business angels and other private investors to write off investment losses in start-up and early stage enterprise against income tax after a specified period of time

The Credit Environment

- The Mazars Reports accurately reflect the experience of businesses going through the formal, documented loan application process
- The refusal rates for informal credit applications remain high and are having a negative effect on many businesses
- The banks should not be forced to change their stated lending criteria
- The banks should simplify their formal credit application processes to encourage more businesses to go through them
- The banks should offer assistance to entrepreneurs wishing to go through the formal loan application process
- The banks should give more authority for business credit – particularly small overdrafts and loans – to local managers and business advisers
- The Government should step up efforts to promote awareness of the Credit Review Office
- The banks should work together with one another and with the Department of Enterprise, Trade & Innovation to promote awareness and understanding of invoice discount as well as to make it more affordable for small business
- The Department of Enterprise, Trade & Innovation should, in conjunction with the Department of Finance, introduce some form of limited loan guarantee scheme for start-

up businesses to be administered through the City and County Enterprise Boards

The Tax System

- The Irish system of corporation tax is positive for entrepreneurs and should not be changed
- The small companies tax exemption has been beneficial to entrepreneurship and should be maintained
- The Revenue Online Service is extremely effective and its example should be followed by other Government Departments and agencies
- The income tax system should be amended to grant the same tax credits to self-employed workers as those enjoyed by other employees
- As part of the current review of the PRSI system anomalies such as the lack of marginal relief when changing rates and the non-qualification of self-employed individuals for Jobseekers Benefit should be addressed
- VAT thresholds should be increased at least to the level pertaining in the UK
- The Department of Enterprise, Trade & Innovation should, in conjunction with the Department of the Environment, Heritage & Local Government, examine the impact of local authority rates on small business and seek a means of alleviating this burden if it is found to be too great

The Regulatory Regime

- The Department of Enterprise Trade & Innovation should examine the range of employment legislation which exists at present with a view to consolidating as much of it as possible into a single Act which would be easier to understand and comply with for small business
- Ireland does not have an overly onerous regulatory regime for business but there are areas such as employment law where compliance could be simplified
- The Revenue Commissioners have achieved much in terms of facilitating easy compliance among business clients
- The law should be amended to allow small companies who file late returns retain their audit exempt status
- Groups of small companies should be allowed qualify for audit exemption. Acknowledging that it is important to keep submission levels high, CPA recommends that a compromise of an increased monetary penalty be imposed and the loss of audit exemption be removed.
- Filing requirements should be reduced and simplified further for very small companies
- The Government should carry out a Regulatory Impact Assessment on every new piece of legislation affecting business before it is passed into law



CGA Entrepreneurship Report

Executive Summary

In the spring of 2010, CGA-Canada undertook to examine key issues relating to small and medium size enterprises and entrepreneurship in Canada. In June 2010, CGA-Canada conducted research on key issues facing SMEs which culminated with the CGA-Canada/CPA Australia Forum on SME Issues.

On the heels of the success of the SME Forum and to further its examination of the issues, CGA-Canada partnered with another leading professional accounting body, CPA Ireland, to examine more specifically the issue of entrepreneurship and what supports and strategies are needed to stimulate growth and innovation in the current economic climate. Throughout late summer, both organizations engaged with members and stakeholders on issues relating to climate, culture, regulations and taxation. The result of this work is contained in two papers – the CPA Entrepreneurship Report, to be released in Dublin, Ireland on September 22, 2010 and the CGA Entrepreneurship Report, to be released in Ottawa, Canada during Small Business Week in October.

CGA-Canada is proud to have worked with CPA Ireland on this project. We learned a lot from each other and we hope the lessons learned from Canada and Ireland will help inform policy making.

Our members – business and accounting leaders – have much to contribute to the growth of businesses and organizations in Canada, Ireland and around the world. We are pleased

to support them in making Canada's businesses successful.

Key conclusions for Canada

Climate

Canadians are highly entrepreneurial and Canada provides many opportunities to start and run a successful business. Canadians are well educated and Canada fares well when compared to other countries in its ability to provide the right environment to launch a business and see that business thrive. However, the climate is still uncertain, the economy volatile and business people, including Certified General Accountants, are fairly guarded in their optimism for the near future.

Key recommendations:

- The federal government should establish an expert panel to develop a National Entrepreneurship Strategy. The report of the Competition Policy Review Panel delivered in 2008 could serve to inform the strategy. The strategy would have as a main objective to stimulate innovation as a central component of government policy, with strong leadership at the highest political levels. Research has indicated that innovation is a central element to entrepreneurship and fostering an environment which stimulates innovation is central to the future of entrepreneurship and the resulting job creation. The strategy would also address the importance of pan-Canadian

cooperation in the quest for innovation and growth.

- All governments need to be particularly cautious in their decisions that may negatively affect the business climate. Specifically, for the recovery to succeed, governments need to refrain from increasing taxes and other charges that hinder job creation, entrepreneurship and investment. This includes rejecting the proposal to significantly increase the Employment Insurance payroll tax.

Culture

The pool of businesses with entrepreneurial potential is being replenished regularly in Canada. New firms have high survival rates. Yet data shows there is untapped potential for improvement in the kinds of investments that generate growth and innovation.

Canada's youth are not necessarily attracted to working for small entrepreneurial organizations. One of the biggest challenges SMEs face is competing with larger companies in recruiting and retaining young talent. While progress has been made, entrepreneurship education or training is not readily available.

Key recommendations:

- Governments, universities and the private sector should collaborate to grow centres of excellence in entrepreneurship with a focus on youth entrepreneurship.
- The federal government should

make available funds to support research chairs in entrepreneurship through the federal granting councils and bursaries be made available for students to pursue university studies in the new and growing field of entrepreneurship.

- Governments should support mentorship programs that allow experienced and successful entrepreneurs to mentor new and inexperienced entrepreneurs. Entrepreneurs could be encouraged to join these mentorship programs through tax credits, promotion, or other supportive means.

Supports & Funding

Government has a unique facilitator role in spurring entrepreneurship. Keeping taxation at competitive levels, eliminating red tape, facilitating the expansion of foreign markets and implementing initiatives like the new Small and Medium-sized Enterprise Innovation Commercialization Program, establishing business-led Networks of Centres of Excellence, and supporting and directing the federal granting councils to accelerate the translation of knowledge into practical applications are helpful and should be continued.

Governments have the responsibility to create the conditions favourable for investment, growth and innovation.

Key recommendations:

- The government of Canada should continue to foster its international competitiveness through the liberalization and diversification of its cross-border trade and investment.

Bilateral free trade agreements, multilateral trade liberalization and foreign investment protection agreements open new markets to Canadian products and incentivize Canadian companies to boost their productivity.

- All governments in Canada should collaborate to ensure that information about programs and services directed to entrepreneurs are accessible and available in a timely manner.
- Governments should continue to find ways to financially support new entrepreneurs. The federal government could, for example, allow for a contribution holiday to Employment Insurance premiums for start-up companies for the first three years of operations or until they reach a certain threshold of revenue, whichever comes first.

Access to Credit (financing)

The Canadian financial system has weathered the global financial crisis better than most. The Extraordinary Financing Framework measures introduced by the federal government have expired. Under the framework, direct support has been provided to small and medium-size businesses. However, tighter lending conditions are here to stay for the foreseeable future. As entrepreneurs continue to adapt to these new conditions, their professional accountants are likely to play an even larger role. Meanwhile banks and other lenders will have to better communicate with their entrepreneur clients and seek to

understand their specific needs. We agree with CPA Ireland that local managers and business advisors should have more authority. We also agree that the tax system should provide incentives to angel investors.

Key recommendations:

- Early signs of recovery could prove misleading and policymakers need to remain on the alert, at least until 2011, and evaluate the need to continue helping businesses find financing solutions to fund growth.
- Governments will need to encourage asset and equity finance, including business angel investment. This is a matter of stimulating demand as much as it is of encouraging supply – building the capacity for SMEs to understand these sources of finance, choose suitable modes of financing from the full range of options, and make themselves attractive as recipients of non-bank finance.

Taxation

Lowering taxes is key to labour productivity growth as it frees up business cash flows with which to invest in physical and human capital and research and development.

Key recommendations:

- In line with its commitment, the federal government should lower the general business tax to 15 percent by 2012.
- All provinces and territories should move toward retail sales tax harmonization with the GST.

- The government should undertake a study of the effect of the small business tax threshold on the growth of enterprises

Regulations & Red Tape

Time and again, Certified General Accountants working in business or providing services to companies of all sizes tell us that it is the cumulative effect of compliance measures that are wearisome. They cite the duplicative and uncoordinated nature of federal, provincial and in some cases municipal regulation that takes time to understand and to comply with. Companies are frustrated with the unaddressed barriers to the movement of goods and services across provincial barriers. Publicly-listed companies, especially SMEs, say that the fractious nature of the securities regulation system in Canada is a clear disincentive. CGAs tell us that the tax code has grown to be too complex. Productive federal/provincial/territorial relationships are crucial to the regulatory reform agenda.

Key recommendations:

- The federal government should immediately implement commitments to address red tape made in Budget 2010.
- The federal government should continue streamlining the process of complying with regulations at three different government levels (municipal, provincial and federal).
- Government should move to reduce and eliminate as soon as possible costly barriers to interprovincial trade.

- The federal government should adopt open trade legislation and establish a permanent internal tribunal to deal with interprovincial barriers to the trade of goods and services.

- The regulatory burden needs to be measured through the creation of a simple, standard means of assessing red tape and its impact on businesses.

- The federal government should appoint an independent panel of experts to undertake a comprehensive review of Canada's tax regime, with a view to ensuring the system is simple, fair and efficient.



The Institute of Certified Public Accountants in Ireland

The Institute of Certified Public Accountants in Ireland (CPA) is one of the main Irish accountancy bodies with in excess of 5,000 Members and Students.

The CPA designation is the most commonly used designation worldwide for professional accountants and the Institute's qualification enjoys wide international recognition. Its current Membership operates in Public Practice, Industry, Financial Services and the Public Sector and CPAs work in over 28 countries around the world.

The Institute is active in the profession at national and international level participating in the Consultative Committee of Accountancy Bodies – Ireland – CCAB (I) and together with other leading accountancy bodies the Institute was a founding member of the International Federation of Accountants (IFAC) – the worldwide body. The Institute is also a member of the Federation des Experts Comptables Europeens (FEE), the representative body for the main accountancy bodies in 25 European countries.

The Institute fulfils its statutory role as a recognised body by overseeing the professional activities of its members in practice, and ensuring that education and training standards are maintained. As the first accountancy body to introduce a mandatory regime of Continuing Professional Education the Institute ensures that all CPAs remain at the leading edge throughout their careers. The Institute provides a quality service to its Members and Students, which has been recognised through the award and maintenance of ISO9001:2000.

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