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# Exploring the role of Entrepreneurship in the Growth and Development of the Smaller State

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## Abstract

The median sovereign state size in the world has a population of 6.2m with 73 per cent of the states having a population under 20m (World Bank, 2014). Despite this, the mainstream literatures in most academic disciplines have chosen to neglect the *unique* determinants of smaller state growth and development. The purpose of this exploratory paper is to investigate whether smaller developed states actually perform better than other states and why? More specifically it investigates the role that entrepreneurship plays in this performance.

This paper utilises an exploratory ‘cross-case’ analytic approach (Yin, 2014) in attempting to identify cross case patterns in comparative global indices. This approach can help identify the key influences and determinants on smaller state performance with particular emphasis on the role of entrepreneurship.

The analysis shows that innovation-driven smaller states can be differentiated by their high investment in knowledge generation and diffusion, lower knowledge filters and higher levels of entrepreneurial capital (Acs *et al*, 2004). These states – which are predominantly Scandinavian and European - score highly on economic, non-economic and composite indices. These growth-oriented states help create and accumulate entrepreneurial capital by providing their citizens with a conducive institutional and governance environment which supports entrepreneurial learning opportunities. There are significant policy learning opportunities for smaller developing states and regions with policy autonomy.

**Keywords:** Smaller states, Global indices, Entrepreneurship, Cross-case analysis, Economic growth & Wellbeing

## Introduction

Half of all sovereign states in the world have a population below 6.2m (World Bank, 2014). The mainstream literature in most academic disciplines has chosen, by accident or design, to neglect the unique determinants of smaller state growth and development (Armstrong & Read, 2003; Read, 2014). These are extraordinary omissions when the collective evidence on the performance of smaller states on a wide range of economic, political, cultural and social indices is considered. Apart from the disproportionate representation that small states enjoy in the World Banks Upper-Middle and High Income categories, many smaller states also feature in the higher reaches of the World Banks Human Development Indicators (HDI) (Read, 2014). Indeed smaller developed states, particularly northern European ones dominate the top rankings in the more specific development indices such as those in Knowledge economy, peace, contribution to the planet, wellbeing and globalisation. The evidence is suggesting that there is something unique about the growth and development model of the smaller state. Kearney (2008) ponders:

So, why do small countries rank so high? Because, when you’re a flyweight, globalizing is a matter of necessity. Countries such as Singapore and the Netherlands lack natural resources. Countries like Denmark and Ireland can’t rely on their limited domestic markets the way the United States can. To be globally competitive, these countries have no choice [*author added*] but to open up and attract trade and foreign investment—even if they’re famously aloof Switzerland.

What then are the criteria for inclusion ‘as a flyweight’? Not surprisingly categorisations of state sizes are problematic and there have been many attempts over the years to define what is

meant by ‘small’ or ‘smaller’ state (Crowards, 2002). For the purposes of this paper the categorisation adopted by the UNDP is utilised. There are 206 sovereign states – 193 full UN members, 2 observer and 11 others categorised by the UN (UNDP 2015). Table 1 outlines the prevalence of small(er) states in the world. Whilst not reflecting the global population spread, it is important to note that 73 per cent of the UN recognised states in the world have populations under 20m in 2013 with 46 per cent having populations between 1m and 20m. It is difficult to understand the lack of focus on the importance of smaller states in academia until it is understood that the discourse around states and statehood tends to be dominated by academics, policy makers and commentators from larger states.

**Table 1: The Importance of Being Unimportant\***

Category (Population)	States	% of states	Cumulative %
10,000 – 1m	Tuvalu – Fiji	27	27
1m – 20m	Cyprus – Romania	46	73
20m – 1.3bn	Cote d’Ivoire – China	27	100

Notes to Table: The median sovereign state is Libya (6.2m). The mean population size is circa 35m (Canada, 2013). Clearly the states in each category will change as the global population grows from 7.1 billion + (2013) to 10.1bn by 2100 (UN) (Dicken, 2015). However the distribution is likely to skew further in favour of small(er) (1m – 20m) states as homogenous regions in larger states may seek self-determination. (Source: Adapted from UNDP). \* Armstrong & Read (2002).

Within each category in Table 1 there are states in various stages of development. GEDI (2016) and GEM (2015) provide a useful categorisation in terms of those states that are factor driven, efficiency driven or innovation driven. Innovation driven sovereign states can be differentiated from other categories in terms of their high investment in knowledge, low knowledge filter and high levels of entrepreneurial capital (Acs *et al.*, 2004). Thus in states where high levels of entrepreneurial capital have been created, entrepreneurial learning and behaviours diffuse across other value creating areas in society such as the social, community, family, education and government sectors (Audretsch, 2009). Baumol (1996) reminding us that ‘the entrepreneur is always with us’ and that entrepreneurial thinking and behaviour may be largely influenced by the opportunity and incentive structures provided in the state. Entrepreneurship within the state can therefore be productive, unproductive or destructive. Supportive entrepreneurial and innovation ecosystems (Edquist & Hommen, 2008; Lundvall, 2010) encourages citizens to be more enterprising by providing them with the opportunities to develop the knowledge, skills and abilities (KSAs)(Mincer, 1958; Becker, 1964) relevant to value discovery, creation, capture and evaluation. Individuals living in such a supportive entrepreneurial environment can therefore *learn* to be more enterprising (Kuratko, 2005; Drucker & Drucker, 2007). In this context, Garavan *et al.* (2010: 243) note that:

..... Growth is partially explained by the creation of new ventures, the question of whether it is possible to teach entrepreneurship has become redundant. The more pertinent question focuses on what should be taught and how entrepreneurship programmes should be structured and delivered to ensure a sufficient supply of entrepreneurs and the development of entrepreneurial thinking (Garavan *et al.* 2010: 243).

This paper is structured as follows. Firstly a literature review is undertaken on small(er) states. This highlights the theoretical underpinning of the small state case. This review is followed by the cross-case analysis of relevant global indices (treated as ‘cases’) and a discussion of the tentative findings. The paper ends with a conclusions section.

### Literature Review

One of the key distinguishing factors between small and larger states is population size. This is frequently used as a proxy for both domestic market size and the local labour market. In the

1970's the UN institutions adopted a benchmark of one million; the Commonwealth Secretariat (ComSec) (1998) uses 1.5 million, Easterly and Kraay (2000) use one million and Armstrong and Read (2000) use three million in their respective analyses to classify small states. There remains much debate in the area over the most appropriate measure(s) (Crowards, 2002). Other measures such as GDP or GNP, geographic area, terms of trade and composite size and characteristics measures have been used (Armstrong and Read, 2003; Baldacchino & Bertram, 2009) but population appears to offer a better approximation of what constitutes a small(er) state. Although 'smaller' developed states like Ireland (population 4.6 million), New Zealand (population 4.1 million), Finland (population 5.3 million) or even Denmark (population 5.4 million) for example fall above the maximum threshold of population size discussed above they face similar economic development issues to small states of approximate size. Baldacchino and Bertram (2009) sum up the uncertainty in the literature over small state size categories when they note that smallness is essentially an arbitrary term - the median sovereign state in the world for example has a population of 6.2 million (Libya, 2013). ComSec (2006) and Qureshi & Te Velde (2008) recently adopted an upper threshold of 5 million. For comparative analysis purposes, this paper adopts a categorisation - set out and explained in Table 1 - by dividing all the UN recognised states in the world into three categories - Small < 1m population, Smaller < 20m and Large < 1.3bn. The issue, irrespective of population size, is whether 'small' or 'smaller' states suffer from a growth and development viewpoint from their 'smallness'?

In terms of their explanatory power the Endogenous growth models (Romer, 1986; Lucas, 1988; Barro & Martin, 1995; Jones, 2002; Mankiw, 2003, Armstrong & Read, 2003) and the Export-Led hypothesis (Obstfeld & Rogoff, 1986; Sharma & Panagiotidis, 2004) seem to offer appropriate explanations for the small(er) state case. Orthodox economic growth theory (Lewis, 1955; Solow, 1956) implies that due to scale issues (i.e. smaller domestic market, limited domestic demand, smaller firm size, higher unit cost, limited firm numbers etc.) that this would favour a tendency towards natural monopolistic and oligopolistic market structures and therefore 'sub-optimal' (Armstrong & Read, 1998). Further, this suggests that small states are at a perpetual disadvantage in growth and development terms when compared to larger states. Empirical evidence however seems not to bear this out and smaller states have outperformed their larger counterparts in economic growth terms in many regions of the world. This indicates that despite their smaller size and considerable constraints, smaller open states in particular, are poised for growth if they are open to trade and investment, invest heavily in human capital and/or are well-endowed with natural resources (Easterly & Kraay, 2000; Baldacchino & Bertram, 2009).

### **The Unique Characteristics of Smaller States**

Compared to larger states then, there are a number of dimensions on which small states display unique characteristics, these are:

*A small domestic market* - this implies an inability to achieve critical mass in terms of supply and demand making the cost of production higher in smaller states than larger states. This is particularly so in industries and sectors where scale economies are important. Indeed the small domestic market further threatens the development of indigenous technologies and also the emergence of fast growth hi-tech industrial sectors (Kuznets, 1960; Briguglio, 1995). Technological innovation is by its nature limited because local firms can't invest in large scale R&D. Smaller states therefore tend to rely on technologies produced abroad (Milner & Westway, 1993). Thus success in attracting inward investment can be particularly important

in helping 'seed' host country R&D stock. Local indigenous industry can then benefit from these R&D spillovers - given certain conditions (O'Gorman & Kautonen, 2004; Read, 2004).

*Lack of natural resources* - Another disadvantage frequently attaching to smaller states is the lack of natural resources (Armstrong & Read, 2002). This leads to the states dependence on imports of key natural resources for domestic consumption and as key inputs for their internationally trading sectors. Conversely an overabundance of natural resources can create its own problems for other sectors of the economy. This can lead to 'Dutch disease' (Resource Curse Thesis) – the so called 'Paradox of Plenty' (Auty, 1993). This is illustrated in Corden and Neary's (1982) seminal article on the subject. The term 'Dutch Disease' is a double misnomer as the term refers to what essentially is a positive exogenously derived event for the host state (Ebrahim-Zadeh, 2003). But Matsen and Torvik (2004) remind us that 'some Dutch disease is always optimal' in the sense that a positive fraction of the resource wealth should be consumed in each period. Therefore to foster economic growth it is important for smaller states invest the rents earned from their natural resource endowments or FDI into knowledge-driven internationally tradable sectors or low growth may persist (Armstrong & Read, 2002; Jansen, 2004).

*Sectoral specialisation* - Given the relatively small scale of the state in global terms, sectoral concentration can be expected in indigenous industry in smaller states. Indeed there is strong empirical evidence to support the presence of niche specialisation in indigenous firms in small states (UNCTAD, 1977; Armstrong & Read, 2002; 2003). The sectoral specialisations found generally in smaller states are predominantly tourism, financial services and natural resource exports.

*Openness to trade* - Another distinguishing characteristic of small states is their high degree of openness to trade. Given the differences between consumption and production (sector specialisations) mentioned above, domestic demand can only be met by high levels of imports. These imports need to be paid for and so the small state needs to export to help fund the imports thus providing an intuitive rationale for the export-led growth thesis (Kuznets, 1960; Armstrong & Read, 1998; Read, 2003).

There are other endogenous factors which will affect the Small States ability to grow economically. These relate to the internal policies pursued, the strength of the institutions of the state and the competitiveness of firms in the economy.

### **The Vulnerabilities of Smaller States**

Easterly and Kraay (2000) maintain that smaller states have received excessive attention in the literature as special cases calling for special policy measures. They point out that smaller states have higher per capita income than others in their respective regions and do not differ in growth performance from larger states. However they do point out that smaller states are more vulnerable to growth volatility due to terms of trade shocks and other environmental threats. While this is related to their trade openness - on balance - the benefits of trade openness to growth are positive. However this inherent vulnerability is reflected in the higher costs attaching to the growth path of smaller states which consequently leads to greater risk exposure (UNCTAD, 1988).

There are thus significant structural differences between smaller and large states – with both on different paths to achieving growth and the creation of wealth and wellbeing (Katzenstein,

1985, BCG, 2015). In so far as both groups are capable of growth, the issue then becomes one of managing and maximising the benefits from the drivers of growth whilst minimising and reducing/eliminating the constraints on growth at both a macro and micro level (Baldacchino, 2007). Indeed Armstrong *et al.* (2003) maintain that the sources of vulnerability for smaller states can be categorised into those relating to economic, political, strategic and environmental issues.

As small states can be regarded then as *structurally different* from other larger states, these differences have clear implications for the states' ability to grow. The export-led growth thesis and endogenous growth theories highlight two further significant structural issues which affect economic development.

Firstly the export-led thesis highlights the impact which the degree of openness to trade - the so-called trade multiplier effect (Ashoff, 1989) has on smaller states. Whilst this openness can increase the smaller states economic growth prospects, it also raises the smaller states vulnerability levels to exogenous shocks. Briguglio's (1995) vulnerability index is useful in this regard in highlighting the issues faced by smaller states. However it's cross sectional nature has been criticised by some researchers (Armstrong & Read, 2002). UNCTAD (1997) and the Commonwealth Secretariat (1998) have also developed indices of vulnerability for smaller economies. Baldacchino and Bertram (2009) argue that vulnerability and it's antidote in the literature - 'resilience' represent essentially a 'structurally deterministic' view of the issues facing smaller states. These authors advocate a 'strategic flexibility' model as a counterpoint to the determinism of the vulnerability/resilience approach. See also: Breznitz & Zimmerman (2008).

### **Human Capital Development**

Secondly, the endogenous growth models of human capital show the comparative advantage that investment in education, training and learning by doing (LBD) can bestow on a smaller state (Armstrong & Read, 2003). The development of the concept of human capital theory is attributed to Becker (1964) and Mincer (1974). This can be defined as the knowledge, skills and abilities (KSAs) embodied in people (Coff, 2002). It includes not just factual, 'how to' KSAs but also tacit KSA's which are difficult to articulate (Polanyi, 1966 *cited in* Crook *et al.* 2011). The appeal that human capital development can have for a smaller state becomes evident when it is unable to generate significant investment in physical capital due to market size constraints. The appeal increases when it is further realised that human capital - in terms of knowledge creation and diffusion - is not only *not* size constrained but is also *not* subject to diminishing returns. Human capital investment, in these circumstances, will increase the collective 'absorptive capacity' (Cohen & Levinthal, 1990) in the economy, thus compensating for the smaller state's lack of investment or scale in R&D (Briguglio, 1995; Armstrong & Read, 2003).

Indeed human capital development is of such importance to small state growth that the states relative size, far from being an impediment to growth, sometimes can act as a further stimulant of human capital development. As greater social cohesion is expected to exist in smaller states (compared to larger states), this social cohesion can lead over time to the development of considerable social capital (Putnam *et al.*, 1993; Baldacchino, 2005). However this increased cohesion can also have some negative side effects leading on occasion to increased levels of cronyism, corruption, insider dealing and inefficiency. This is likely if the appropriate democratic, legal and regulatory frameworks (governance structures) are not sufficiently independent and robust (Transparency International, 2009; Kaufmann *et al.* 2010).

### **Income volatility and Terms of Trade volatility**

Related to the degree of openness of the small economy is the volatility that attaches to the state's income. This can be particularly acute in developing countries (Ramey & Ramey, 1995). The equation for growth for the small economy then must ensure that the *positive effects* of openness to trade and the high levels of human capital investment *overcompensate* for the negative effects of income and terms of trade volatility in the medium to long term. The effects of the trade multiplier can be seen most starkly in smaller states with high degrees of trade openness (Ashoff, 1989).

Another issue that impacts income in the smaller, open economy is its ability to affect its terms of trade (Easterly & Kaay, 2000; WTO, 2003, Jansen, 2004). This is particularly true for states which depend heavily or exclusively on indigenous industry to develop international trade. Those small states hosting significant foreign direct investment (FDI) face different issues around the structure of their exports and thus their terms of trade. Positive local linkages and spillover effects however would be expected to emanate from this mobile foreign direct investment into the host small states economy (Read, 2004). However, the local impact of these spillover effects depends on the MNCs strategic rationale for their investment in the small state (resource seeking, efficiency – seeking, market seeking or strategic–asset seeking). The technological development of indigenous industry and its absorptive capacity levels are also an important factor in the leveraging of positive linkage and spillover effects (Forfas, 2005). The effects of FDI however are expected to be positive – employment and technology wise - but limited in other respects given the narrowness and shallowness of domestic economic activity (Read, 2004).

As niche players and primarily price takers in the global economy then - severe fluctuations in trade levels can adversely affect income stability and economic growth in the smaller state. In global terms the smaller, open state typically has a limited number of markets, which can lead to export concentration, increased instability and economic growth retardation in turn (MacBean, 1966; MacBean & Nguyen, 1987). If an exogenous economic shock is severe enough to a smaller, open economy then this can ultimately lead to balance of payments problems further impeding its growth and development (Jansen, 2004).

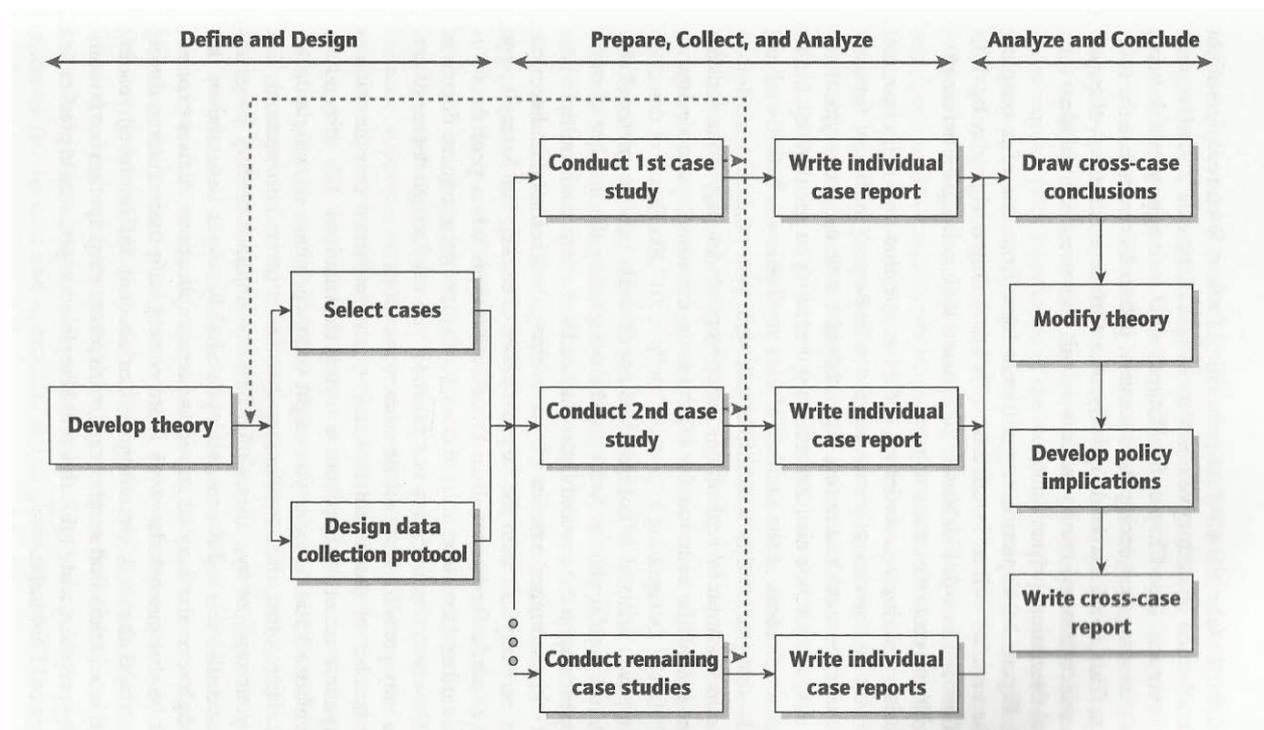
### **Location, Location, Location**

In addition to trade shocks (and FDI export levels) outside of its control, the smaller state may have to contend with the effects of natural disasters. This, of course, depends on a particular state's geographic location. In relation to locational effects, Read (2003) contends that whilst the growth of any country is likely to be influenced by the prosperity and dynamism of the broader region to which it belongs, little attention so far has been paid in the literature to the impact of location on the growth of smaller states. Indeed membership of a 'regional convergence club' can contribute significantly to the economic growth of a small state particularly if the smaller state is located within a wealthy and dynamic region and in close proximity to larger markets (Armstrong & Read, 2003). Even for smaller states outside regional convergence clubs, geography (and history) are not necessarily destiny and the endogenous policies pursued can have a major impact on the smaller states growth trajectory (Acemoglu & Robinson, 2012). However smaller states with populations below a threshold of one million tend to exhibit extreme specialisation termed 'economic speciation'. This involves a decision – conscious or otherwise – to embrace 'crowding-out' or 'Dutch disease' as a growth strategy (Bertram & Poirine, 2007).

### **Methodology**

Many supranational organisations – both governmentally funded (World Bank, International Monetary Fund, Central Intelligence Agency, United Nations, OECD, EU etc.) and non-government (Institute for Economics and Peace, Good Country Index, Reputation Institute, Boston Consulting Group, Economist Intelligence Unit, INSEAD etc.) produce indices to evaluate areas of interest to their specific organisations and agendas. These indices then feed into the policy process at sovereign state or regional level as benchmarks or targets or both. Many of the indices cited in this study draw on the same datasets produced by the reputable supranational organisations highlighted here. However individual indices need to be treated with caution as they are in many cases crude summations of disparate measures. In some cases the measurement of variables is contentious and the interactions between the measured variables are in most cases not considered either. This study addresses some of these concerns raised by considering each index as a ‘unique case’ thereby allowing for a ‘cross – case’ analysis to be conducted (Yin, 2014) on the outcomes of the indices. This approach allows then for the identification of patterns in the collective indices which can then be further researched.

**Figure 1: Cross case analysis approach for indices**



(Source: Yin 2014)

## Findings

The findings of this study are summarised in tabular form below to meet the requirements of the conference. The indices (cases) analysed are profiled below in Table 2 with the smaller state rankings on the particular index highlighted in column three.

**Table 2: Cross Case analysis of Smaller State performance on key Macro Growth & Development indices**

Index name/Source	Categories	Comparative Small State Rankings
Income indicators	High, Upper-middle, Lower-middle, Low.	<b>Top 10</b>
-	Measure: Gross National Income	IMF ( 8 Smaller States)
IMF, World		WB ( 7 Smaller States)

<b>Bank, CIA and UN</b>		CIA ( 8 Smaller States) UN ( 9 Smaller States)
<b>Human Development Indicators – World Bank</b>	Weighted index of economic and non-economic development indicators – Four indicators - Life expectancy, education, expected education and GNI per capita (Across Health, Education and Living Standards dimensions) Two further indices developed from HDI – one without GNI per capita values ( <u>Non-income index</u> – 186 countries) – second is <u>inequality – adjusted index</u> (IHDI – 132 countries).	<b>Top 10</b> HDI (In very high group 24 – 16 are Small & Smaller States) <b>Top 10</b> – IHDI ( 7 of top 10 are smaller states) Non-income HDI rankings (6 out of top 10 are smaller states)
<b>Knowledge Economy Index – World Bank</b>	World Bank - Four pillars – Education, Innovation, Governance and ICT infrastructure Surprisingly no Quality of life measure (Florida, 2004). See: OECD Better Life Index for composite QoL measure (7 of top 10 are smaller states).	<b>Top 10</b> (6 are smaller states)
<b>Global Peace Index IEP</b>	162 Countries > 1m pop. Institute for Economics and Peace (Killelea, 2015)	<b>Top 10</b> (8 smaller states)
<b>Good Country Index (Anholt, 2016)</b>	125 countries Simon Anholt 35 datapoints from UN data (generally), international agencies and NGO's – 7 categories Categories – Science & Tech/knowledge, Culture, International peace and security, World order, Planet & climate, Prosperity & climate, Health & wellbeing	<b>Top 10</b> (9 Smaller States)
<b>World Happiness (Wellbeing) Index – UN</b>	UN 150 countries Gallup conduct survey – 2010-12 Complements HDI Six key factors explain variations in annual national average scores over time and among countries Real GDP per capita, healthy life expectancy, having someone to count on, perceived freedom to make life choices, freedom from corruption and generosity	<b>Top 10</b> (8 are smaller states)
<b>World Governance Indicators – World Bank</b>	World Bank – 212 states in index Voice & Accountability, Political stability & Absence of violence, Government effectiveness, Regulatory quality, Rule of law, Control of corruption (Kaufmann <i>et al.</i> 2010) Correlation with non-income HDI indicators Good governance and institutional quality act as countervailing factors to smaller size	Top quartile (86%+ smaller states) (Read, 2014)
<b>Global Entrepreneurship Monitor (GEM)</b>	62 countries participated in the 2015 survey. Countries are not categorised by stage of development and so rankings are not relevant here.	NA
<b>Global Entrepreneurship Development Index (GEDI)</b>	130 countries included in its survey for the global entrepreneurship index. Countries are divided into factor – driven, efficiency – driven and innovation –driven based on their stage of development	<b>Top 10</b> 4 out of top 10 13 out of top 20
<b>Global Innovation Index – INSEAD, Cornell &amp; WIPO</b>	The Global Innovation Index 2015 (GII), in its 8 <sup>th</sup> edition this year (2015), is co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO, an agency of the United Nations). The core of the GII Report consists of a ranking of world economies' innovation capabilities and results. Over the last eight years, the GII has established itself as a leading reference on innovation. 140 countries are in the index.	<b>Top 10</b> 8 out of top 10
<b>Global Reputation Index – Reputation Institute</b>	The Reputation Institute's Country Reprtrak report " <u>measures</u> the reputation of 55 (largest by GDP) countries based on levels of trust, esteem, admiration and respect based on an online panel of more than 27,000 people	<b>Top 10</b> 8 out of top 10

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representing the G8 countries.”

The report looks at 16 attributes for each nation. Evaluations include the country’s safety, whether the residents are welcoming, whether the government is effectively progressive socially and economically, and even the beauty of the countryside.

**BCG- Sustainable Economic Development Assessment (SEDA) index**

BCG’s Sustainable Economic Development Assessment (2015) evaluates how effectively countries convert wealth into well-being relative to other countries—and raises important questions in the field of development. SEDA’s measure of well-being is based on three elements that comprise ten dimensions with 43 indicators gleaned from publicly available sources (WB, UN, OECD etc). The data set covers 148 countries plus Hong Kong, which is an administrative region of China.

**Top 10**

7 out of 10 on current score

In summary, best performing smaller states perform better on a host of indices compared to larger states or very small states. Citizens appear to have higher levels of well-being but prosperity is more vulnerable to the globalisation process. Strategic flexibility is reflected in the inclusive and responsive political and economic institutions and nearness of the governed to government. Effective (optimal) policy design and implementation is crucial as the margins for error are finer in smaller states. Equality of opportunity, property rights and rule of law are also necessary for success. Supportive entrepreneurial and innovation ecosystems (Edquist & Hommen, 2008; Lundvall, 2010) encourages and incentivises citizens to be more enterprising by providing them with the opportunities to develop their knowledge, skills and abilities (KSAs) (Mincer, 1958; Becker, 1964) relevant to value discovery, creation, capture and evaluation – particularly in the international context. Individuals living in such a supportive entrepreneurial environment can *learn* to be more enterprising (Kuratko, 2005; Drucker & Drucker, 2007) and are therefore more likely to engage in productive entrepreneurship (Baumol, 1996). Indeed the rootedness of enterprise in these best performing smaller states is demonstrated by their performance on the knowledge economy index (6 out of top 10), Innovation index (8 out of top 10) and on the GEDI index (13 out of top 20).

## Discussion

The cross-case findings above clearly indicate that smaller states are the top performing category on most indices above. In particular it is Scandinavian and smaller European countries which consistently appear in the top ten placings across most indices. These states seem to have managed ‘over time’ to respond successfully to changes in their external environments (strategic flexibility) whilst fostering a domestic environment which supports inclusiveness, provides institutional quality and proximate governance, encourages entrepreneurship and innovation and thus ultimately improve the well-being of its citizens. The SEDA index in particular (BCG, 2015) demonstrates how a state translates wealth generated into well-being relative to other nations. Seven out of the top ten ranked states are in the smaller state category. Whilst much work remains to be done in validating the robustness of the respective indices, this exploratory paper has identified a consistent patterns of high achievement by smaller states across the majority of the indices - suggesting that the smaller states category is worthy of further study. Close analysis of the influences and determinants of development in these states can provide valuable insights to developing regions and states of all sizes. There are therefore significant future research opportunities in this area. Comparative analysis techniques such as QCA (Ragin, 1987) or decision trees

(Breiman et al., 1984) may prove particularly useful for identifying deeper cross –case patterns in the comparative index data.

## Conclusions

Smaller states are unique in the issues that they face. They are *structurally* different from larger states. These differences have implications for the smaller state's ability to grow economically and to provide for the well-being of its citizens. The equation for growth then for the small state must ensure that the positive effects of openness to trade and high levels of human capital investment overcompensate for the negative effects of income and terms-of-trade volatility in the medium to long term.

In addition to the structural characteristics it is important to note that the internal policies pursued, institutional strength and the competitiveness of the firms in the economy also have a bearing on sustainable growth and well-being. Thus it is the combination of exogenous and endogenous factors which determine the small state's ability to grow economically.

The knowledge, skills and aptitudes developed in the citizens through entrepreneurship is thus a fundamental building block of economic growth in smaller states.

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