



14 May 2008

## Framework paper

### **New practices of entrepreneurship and innovation – taking stock for the OECD Innovation Strategy**

**Copenhagen, 28-29 May 2008**

#### **Introduction**

The Copenhagen workshop is the last in a series of three workshops that aim to uncover emerging themes, trends and practices in innovation. The core purpose of the workshops is to build a broader understanding of new forms of innovation and to analyse the key challenges posed to companies and policy makers by the emergence of new forms of innovation.

Relatively little work has been done on these issues, so the specific drivers of innovation are not yet fully understood, nor are the policies and factors that help shape these drivers. Innovation is important for increasing competitiveness and sustainable growth and employment opportunities. However, it is, as yet, often not measured and therefore not sufficiently taken into account in policy design and implementation.

The outcome of the workshops will contribute to the development of the OECD Innovation Strategy (Box 1).

#### **Box 1: The OECD Innovation Strategy**

Innovation is a key driver of growth and wealth creation and is becoming a key tool for addressing global challenges such as improving health care and mitigating climate change. At the same time, the nature of innovation is changing, with non-technological innovation gaining importance. Rapid changes are occurring in the global knowledge-economy, with new technological developments transforming business models and opening up new markets.

In response to these developments, the OECD Innovation Strategy has been established to improve understanding of how to promote, measure, and assess innovation and its underlying dynamics of change. In doing so, it will provide knowledge and insights to policy makers to enable them to further harness the potential of innovation as a driver of sustainable growth, productivity and development.

Key deliverables will include new tools for characterising and measuring innovation that are forward-looking and relevant to evolving markets, actors and geography of innovation. They will also include improved insights into the changing nature of innovation and good practices to help firms, institutions and countries engage in innovation.

## The previous workshops

### *London, UK*

The first workshop in this series of workshops on innovation was held in London (UK) in November 2007 on “Taking account of hidden innovation”.<sup>1</sup> The discussions at this workshop underscored the importance of refining approaches to measurement in response to changes in the economic environment and in the nature of innovation itself. Appropriate indicators are needed as essential inputs for policy formation (*e.g.* in relation to market failures). Moreover, regulation, standards and culture each have aspects related to innovation that will need to be taken into account by governments.

Public administration, as a major channel for service provision in the economy, should be examined as part of innovation promotion (*e.g.* with respect to government procurement). Private sector experience can help inform public sector innovation. Partnerships also have a role to play in promoting innovation, including public-private partnerships. The examination of case studies and best practices highlighted the importance of people and education, and how to develop the skills to promote innovation. Another issue is the creation of an appropriate knowledge base, not only on natural sciences, but also with respect to soft sciences such as anthropology. There are regional and local dimensions of these issues, as well as national and global aspects.

### *Trento, Italy*

The second workshop, held in Trento (Italy) in January 2008,<sup>2</sup> was on “Partnerships for development and diffusion of innovation” and addressed such issues as (i) private-private partnerships, illustrated by three business cases of firms using partnerships as part of their competitive strategies, (ii) public-private partnerships in attainment of shared objectives, and (iii) regional experiences with respect to promotion of innovation and development.

The business cases on private-private partnerships demonstrated the importance of looking beyond a firm’s walls, in order to better leverage the assets of the enterprise. Fuel for growth can come from outside of the firm, whereby partners and customers can provide ideas or complementary inputs that enable all the stakeholders to achieve a welfare-enhancing outcome. Finding the right partners is a challenge but is crucial, but not all potential partnerships come to fruition and some risk-taking is involved. There is also a strategic choice to be made whether to seek a partnership or to strive for an acquisition. From the business cases, it is clear that in the emerging innovation environment value creation depends on maintaining a customer focus. Dialogue with customers can play a key role not only in marketing existing products, but also in promoting new or enhanced product development, including through increased customisation. While some innovation remains driven by R&D, the importance of other sources, such as customer input, can also increase.

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<sup>1</sup> [www.oecd.org/sti/innovation/hiddeninnovation](http://www.oecd.org/sti/innovation/hiddeninnovation)

<sup>2</sup> [www.oecd.org/sti/innovation/partnerships](http://www.oecd.org/sti/innovation/partnerships)

Public-private partnerships have attracted renewed attention from policy-makers and business. While these arrangements are sometimes anchored in government, many of these partnerships are built around state-sponsored institutional partners like universities. As for the private partners, larger firms tend to be more engaged in such partnerships than smaller ones, though small firms certainly play an active role in many cases. Small firms can gain valuable exposure to new technologies and knowledge and networks that facilitate commercialisation of their products, they may gain access to knowledge on means to improve operating efficiency, which can in turn reduce environmental and financial costs. They may form alliances that enable them to compete for larger contracts. Larger firms may find that small firms can bring useful technology and specialised know-how to the table, which can lead to mutual benefits.

Examination of five regional case studies highlighted the advantages of focusing policies on framework and environmental conditions such as infrastructure and quality of life factors. A successful approach may encourage diversity and experimentation in finding business niches, then providing support strategically (e.g. to address bottlenecks) based on experience. Such an approach may prove more effective than promotion of particular partnerships from scratch. Where a region has developed some strengths and innovative capacity, business consultants may be of assistance in providing input on models for commercialisation. Platform policies can help to initiate the process of cluster development, though this sometimes takes decades to play out. One particular challenge facing regions is that business is increasingly international or global in perspective, whereas the competence of governments is limited to a specific area (be it national, regional or local).

### **The Copenhagen workshop**

The previous workshops have highlighted various forms of emerging innovation practices. The final workshop in Copenhagen will build on these insights to analyse broader questions raised by the emergence of new forms of innovation and the challenges they present to companies and societies.

The Copenhagen workshop<sup>3</sup> will gather 50-60 carefully invited business professionals, leading academics, expert advisors and consultants, innovation practitioners and high-level policy-makers. It will be a two-day event consisting of a mix of presentations and working groups. All attendees are expected to actively take part in the discussions. During the workshop moderators will document and organise the discussions. Following the workshop, selected experts may be invited to build on the workshop documents to write a number of theme papers. The work related to entrepreneurship will be followed up via a workshop organised by the Kauffman Foundation in Kansas City in 2009 in collaboration with the OECD Working Party on SMEs and Entrepreneurship.

The first two workshops and other related OECD work have pointed to the need for a common language and common definitions to facilitate the broader discussion of innovation. Drawing on the experience of the first two workshops and the discussions in Copenhagen, participants will be invited to react and share their insights in this regard. Following the workshop, selected experts will be invited to build on the workshop documents to write thematic papers on the themes covered at the workshop. These papers will feed into the OECD Innovation Strategy.

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<sup>3</sup> [www.oecd.org/sti/innovation/entrepreneurship](http://www.oecd.org/sti/innovation/entrepreneurship)

The Copenhagen workshop is built around a series of questions relating to new forms of innovation and entrepreneurship. The workshop will focus on the following two main themes.

### ***Theme 1. Organising company innovation***

In the industrial era new technology was a major source of disruptive and market shaking innovation. It is becoming more and more evident that in the global knowledge economy successful innovation goes further than simply mastering and developing new technologies. To create innovation, companies need access to knowledge that is not found in their traditional R&D divisions.

As a result, new sources and models of innovation are emerging including partnerships with other companies and users. In the global networked economy consumers are becoming more powerful and are organising themselves in new ways. Companies will have to react to these developments and adapt and adjust their organisation to the innovation process. Academics agree that innovation is becoming more broad-spectred and the importance of mastering the innovation challenge is more than ever a top-management concern. Consequently, the organisation and systematisation of innovation is increasingly being discussed and analysed.

Through targeted presentations (Box 2), this session will address the following issues:

- How will companies organise themselves to systematically master disruptive innovation?
- How can companies create relations with users and partners and get them involved in the innovation process?
- What will it take for a company to be systematically innovative given that the term systematic innovation implies an understanding that companies and not only individuals can be innovative?

### **Box 2: Key speakers and business cases under theme one**

The keynote speech will be delivered by C.K. Prahalad, Professor of Corporate Strategy at the University of Michigan Ross School of Business. Prof. Prahalad is widely regarded as one of the world's most influential thinkers on business strategy and is a globally recognised business consultant. He is also recognised as an unorthodox and inspiring speaker with a straight-forward delivery style. His current academic work focuses on the challenges and opportunities offered by globalisation as well as the complex issue of poverty. He earned the first spot on Suntop Media's 2007 "Thinkers 50" list and was voted as the third most influential business thinker in 2005.

Several business cases will also be presented to highlight the challenges faced by companies in the global economy - and to show how successful companies react to a constantly changing business environment. One of the cases involves Google and its organisational model for innovation, thematically understood in relation to Microsoft and IBM. A manufacturing sector case study will highlight how a car manufacturer like Renault-Nissan in cooperation with Project Better Place is innovating by turning environmental challenges into promising business opportunities. Unimerco, a Danish toolmaker, will illustrate how organisation and new ways of organising the workforce enables innovative responses in the supply chain. Jordan is a case study on how user driven innovation can lead to growth, and a case on salesforce.com will provide understanding on how a company works to systematically integrate user-driven innovation into their business model.

### ***Theme 2. Matching innovation and entrepreneurship***

Entrepreneurs are often described as important drivers of innovation, but it is not known what share of a country's total innovation efforts actually stems from entrepreneurs. Filling this knowledge gap has great importance for the emphasis that entrepreneurship should be given in policy making. The links between entrepreneurship and innovation are complicated for many reasons. For example, innovative entrepreneurs may leave a company if their ideas cannot be developed within the company's boundaries. At the same time, companies use corporate strategies (such as mergers and acquisitions and strategic alliances) to buy innovative companies as part of their innovation model.

Through targeted presentations (Box 3), the theme will address issues such as:

- What is the impact of entrepreneurship through the contribution to innovation on a countries wealth creation?
- How important are existing companies activities on the level of entrepreneurship?
- What is the role of entrepreneurs across sectors and technologies?

### **Box 3: Key speakers and business cases under theme two**

The keynote speeches in this theme will be delivered by David B. Audretsch, Director of the Max Planck Institute of Economics in Jena (Germany), and John C. Haltiwanger, Professor of Economics, University of Maryland.

Prof. Audretsch's research has focused on the links between entrepreneurship, government policy, innovation, economic development and global competitiveness. He was ranked as the 21st most cited scholar in economics and business from 1996-2006. He has received support for his research from a broad spectrum of foundations and government agencies, and his research has been published in over one hundred scholarly articles in leading academic journals.

Prof. Haltiwanger's current research focuses on the process of job creation, job destruction, restructuring, and investment activity at the plant level and the connection to aggregate fluctuations in employment, investment and productivity. He is the recipient of numerous awards, grants and honours in relation to his research on labour market dynamics and his teaching.

Danfoss, a Danish company producing mechanical and technological products will illustrate the business case on how a company can build a large cooperate venture scheme unleashing the entrepreneurial capacity within the company and the surrounding region.