

**BOLOGNA 2000 SME CONFERENCE
BUSINESS SYMPOSIUM**

**ROUNDTABLE 1:
Enhancing the Competitiveness of SMEs through Innovation**

ISSUES PAPER

This paper is intended to provide a basis for business participants in the Business Symposium Roundtable on SMEs and Innovation to be held in Bologna on 13 June. **Roundtable presentations and discussions will highlight specific suggestions for concrete initiatives** in the spirit of those included in the final declaration of the conference and will be presented to Ministers during the 14-15 June Bologna Conference.

ROUNDTABLE 1

Enhancing the Competitiveness of SMEs through Innovation

ISSUES PAPER

1. An important feature of globalisation is the increasingly fast pace of change in product and service markets. While the most obvious example is provided by rapidly declining product life cycles in the information technology field, there are growing competitive pressures for enterprises of all sizes to respond quickly to the very latest developments affecting their sectors. The capacity for innovation is thus a critical factor for individual firms' success as well as for improved national performance in today's global economy.
2. Innovation is a broad term that encompasses virtually any new development in firms. It can involve creating or re-engineering products or services to meet new market demand, introducing new processes to improve productivity, developing or applying new marketing techniques to expand sales opportunities, and incorporating new forms of management systems and techniques to improve operational efficiency.
3. Recent experience has shown that some governments have been able to engender a climate where SME innovation can flourish, creating a more dynamic economy and greater employment opportunities. In fact, the national climate for private sector innovation has an impact on businesses of all sizes, but public policies and attitudes that constrain creativity, competition, risk-taking and appropriate financial returns on successful ventures can particularly affect small and medium-sized enterprises.

What are the policy obstacles to innovation by SMEs?

4. The OECD recently conducted a survey of SME and other representative business organisations to evaluate what they perceive to be the most important impediments to innovation in their respective countries. While there were certainly variations among respondents depending upon national circumstances, a number of common obstacles emerged from the study.
5. Given the importance of research and development to innovation, and the limited resources within many SMEs for carrying out R&D, access to finance was understandably a primary concern. Most respondents cited the lack of well-functioning venture capital or seed finance markets to support their research and development efforts, or their investments in innovations. Another key issue for SMEs is their ability to keep abreast of the latest developments affecting their sector. Timely information can be crucial to the success of businesses. Inadequate knowledge about or access to new technologies and know-how were a central concern for many survey respondents.
6. One of the best ways of promoting innovation is to ensure that individuals and firms benefit from the results of their research efforts. Effective rules and procedures for the protection of intellectual property are essential. Although most countries have laws and regulations governing

patents and property rights, arcane administrative procedures and inconsistent enforcement can seriously undermine the objectives of such rules. According to the OECD survey, many SMEs consider themselves particularly vulnerable to overly complicated patent procedures and property right laws. In this context, several respondents noted the generally high level of regulatory and administrative burdens in their countries, and the dampening effect this has had on innovation as well as on broader entrepreneurial activities.

7. A number of the issues raised related to the broader economic and social climate for innovation. For example, many respondents noted that effective education and training programmes are fundamental to a country's innovative capacity, but added that their systems unfortunately fell short in delivering the technical and managerial skills required to develop or take advantage of new developments.

What can governments do to promote innovation by SMEs?

8. For each of the concerns mentioned by business associations, a number of interesting solutions were proposed. For example, on the issue of access to financing for R&D, many respondents recommended public programmes and support for venture capital and other types of risk financing through, for example, tax incentives. Others maintained that governments should be prepared to work directly with SMEs, offering special financing arrangements including state guarantees and/or tax incentives for research activities, particularly in the early stages of development. Better co-operation and access to government-supported research centres including, for example, universities, was also mentioned as a useful step that could be taken to promote innovation by SMEs. A number of respondents called for a central clearinghouse, a "one-stop shop", for information related to national, regional and international programmes and support for SMEs.

9. Recommendations to address the problem of access to new technologies and know-how focused on co-operative information-sharing arrangements at the local, national, regional or international levels. Such initiatives would not only give SMEs the opportunity to benefit from a broader pool of information resources, but would also provide a ready network of potential business partners. It was further suggested that such co-operative resource centres would best be owned and controlled by SMEs themselves. In some countries, SME organisations were more concerned about obtaining new technologies and urged governments in those countries to reduce barriers to certain imports.

10. On the important role of effective patent protection in spurring innovation, the operative word is simplicity. SMEs need user-friendly patent offices with lower cost, streamlined procedures. Some even suggested a special patent regime for SMEs with simplified registration processes. The OECD survey respondents who were concerned about protection of property rights were consistent in calling for new or reformed legislation in their countries, harmonised with regional or international standards.

11. The issue of education and training is crucial, not only for promoting innovation, but also more generally for providing a competitive foundation for national economies. Because they often lack the resources to engage in in-house training, SMEs have a particular stake in the effectiveness of local and national education and training programmes. There was thus broad agreement in the survey for public support for basic education, for financial assistance with SME training, and for promoting greater co-operation and exchanges between business and universities.

12. Finally, in a refrain that continued throughout the policy recommendations, many SME organisations suggested that the climate for research and development would be improved if regulatory and administrative burdens were reduced.

ISSUES FOR DISCUSSION

13. What are the best ways to stimulate the development of venture capital, including business angels' financing and seed capital? Is financial support to R&D and innovation (through tax incentives or grants) efficient for all types of SMEs, including micro firms? If not, what other measures are warranted to correct market failures that affect the financing of investment in innovation, including in training and organisational change? Is there a role for large firms in financing innovation in smaller enterprises?
14. The availability to enterprises of relevant information (technical, commercial, etc.) is essential to successful innovation. SMEs often have problems in finding information. What should governments be doing to support information programmes?
15. Do government-supported national, regional and local technology diffusion programmes work? To what extent are such programmes adapted to the specific needs and characteristics of SMEs?
16. What barriers impair SMEs' participation in existing innovation networks? Is there a need for government action to promote the internationalisation of existing national or regional innovation networks? How can the linkages between SMEs and the public research sector be improved? How can governments better support the diffusion of technology between technical universities (and high-schools) and SMEs?
17. How can governments raise awareness in SMEs that innovation is crucial to survival in a globalised world?
18. What role should business organisations play in the stimulation of innovation, (awareness programmes, information and training, diffusion programmes etc.)?

ANNEX

SURVEY OF BUSINESS REPRESENTATIVES:

Summary of the principal suggestions for policy actions

Impediments *	Suggested policy actions
Difficulty in accessing finance for R&D or other innovative efforts	<ul style="list-style-type: none"> • Reduce red-tape in access to public R&D programmes. • Provide more public funding at the national level to facilitate SME access to R&D. • Introduce tax incentives, such as pro-innovative investment tax credits and allowances. • Encourage co-operative agreements with government-paid R&D infrastructure (universities, research institutes).
Lack of qualified personnel	<ul style="list-style-type: none"> • Foster links between universities and SMEs. • Liberalise the hiring of qualified foreign workers. • Enhance co-operation between schools, entrepreneurs and branch organisations. • Improve education, orienting it more towards entrepreneurship. • Harmonise vocational training system with innovations and technological change.
Inadequate access to technological know-how	<ul style="list-style-type: none"> • Foster links between enterprises and research centres and laboratories. • Improve information networks on technological know-how. • Introduce tax incentives or tax relief for SMEs. • Promote the creation of joint ventures between SMEs to stimulate technology transfer.
High costs or complex procedures to register or defend patents	<ul style="list-style-type: none"> • Reduce red tape! • Lower rate for patents and utility models for SMEs. • Increase public funding for the protection and registration of patents. • Use all of the EU languages in patent registrations.

* In the order of the impediments most frequently rated by the respondents.