

Enabling Growth and Innovation for SMEs

Proceedings from IKED/INSME International Roundtable Meeting

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IKED |
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INSME
International Network for SMEs

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Background

We are witnessing a massive shift from traditional labour and capital intensive methods towards more knowledge-based production. In this perspective, small and medium sized enterprises (SMEs) form the backbone in developed and emerging economies. Knowledge, flexibility and innovation are now critical growth determinants, and SMEs have a special role to play in this context.

Most governments recognise that changes are underway. But there is no easy, let alone single, strategy for how best to handle the challenges arising from the knowledge-based economy. Addressing the new requirements is imperative for all countries, since all are faced with partly similar questions in this field. However, merely acknowledging and discussing the issues is not sufficient. There is a real and urgent need for action - for designing and implementing appropriate policies. At the same time, identifying appropriate policy responses is complicated by increasingly rapidly changing conditions and so is the need to reflect on the possibilities and limitations of policymaking in an increasingly international context.

Against this backdrop, **IKED** and **INSME** (International Network for SMEs) organised an **International Roundtable Meeting “Enabling Growth and Innovation in SMEs”** on 26 February 2004 in Sweden. The International Roundtable Meeting brought together around 80 high-level policy makers, international organisations, NGOs and intermediaries from 23 countries.¹

The objectives and theme of the International Roundtable Meeting were to identify key factors in sustaining the potential of SMEs facing the challenges of globalisation in the knowledge-based society, and discussing how public and private key stakeholders can be motivated to join forces to ensure the concreteness and sustainability of measures and initiatives that improve the SME environment and the related policy framework. The themes covered at the International Roundtable are related to those addressed by IKED and the INSME Association, in their core activities and programmes. Thus, the meeting also provided an opportunity to explore potential synergies and partnerships between the hosting organisations and the participants.

The Meeting was organised around four themes/panels addressing the most urgent issues confronting both developed and developing economies in their struggles to recapture growth rates and firm innovation outlooks. In addition, the themes were identified with the aim of enabling and intensifying the North-South dialog among participants. The present proceedings elaborate on the main conclusions and lessons learned from the International Roundtable Meeting.

The report is published on the responsibility of IKED.²

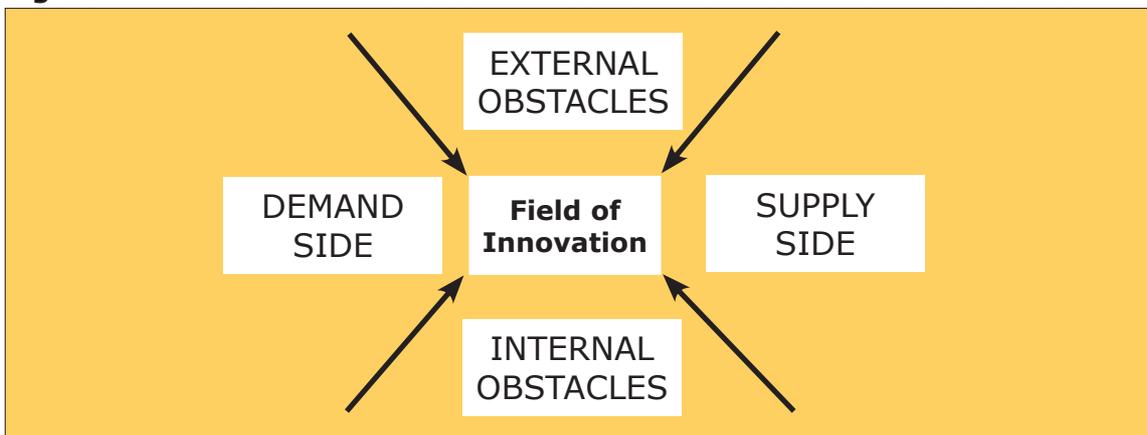
¹ The IKED/INSME International Roundtable Meeting was held back-to-back with the second INSME Promoting Committee Meeting on the 25th of February in Malmo, Sweden. For further information read also the summary records “INSME Promoting Committee Meeting - Summary Records of the Second Meeting”.

² The proceedings have been produced by IKED. The participants are not to be held accountable for any statements in this document. Any mistakes or omissions are the responsibility of IKED alone.

Themes and Presentations

Introducing the International Roundtable Meeting, President of IKED and Vice-President of INSME **Mr. Thomas Andersson** set the general framework for the meeting and underscored the need of approaching the issues that arise from globalisation and growing significance of SMEs. Governments worldwide recognise the importance of SMEs, and that public actors influence the conditions for SMEs and entrepreneurship in multiple ways, both through public support, procurement strategies and by affecting frameworks conditions. Better organised and coordinated strategies are much needed. SMEs worldwide are continuously confronted with obstacles preventing them from developing full-fledged and effective operations, obstacles deriving from both internal and external deficiencies. Reflecting on the inherent internal and external challenges for innovation and high-growth enterprises, Mr. Andersson welcomed everybody to take a stake in the discussions deriving from the day.

Figure 1: The Field of Innovation - External and Internal SME Obstacles



Source: IKED

The first panel “**Funding Fast-Growing SMEs**” put focus on the external barriers for developing SMEs, in particular access to finance and venture capital markets. To ensure innovation, it is necessary to improve access to sufficient financing for innovative and high-growth SMEs. This includes policy options and tools that reduce the financial gap. However, funding is not only about capital, but involves activities to overcome agency problems in the market, establish trust and make investors more willing to take risks, encouraging “intelligent capital” are also key issues. Moreover, both micro-measures (direct lending or equity funding) and indirect measures such as reforms in framework conditions, taxation systems and markets for financial services have impact on opportunity costs and investment attitudes.

Managing Director in Vækstfonden **Mr. Christian Motzfeldt** opened the first panel by providing an overview of the Danish venture capital industry. The venture capital market in Denmark is undergoing a remarkable development reflecting what is referred to as the ‘European paradox’. That is large sums spent on R&D resulting in only few new companies growing out of these investments. Mr. Motzfeldt

underscored that there is no actual lack of funding for SMEs and the paradox is not a matter of a lacking risk-taking culture. On the contrary, sufficient capital and large sums of savings are available, but due to insufficient competencies, skills and entrepreneurial culture, this capital is not activated. He explained this situation with a heavy focus on technology driven investment strategies combined with the provision of “soft money”. Instead, investments should be demand driven with focus on business development, and public intervention must be market driven.

Following the Danish situation, Deputy Director General in the Ministry of Industry in Israel and member of the INSME Advisory Group **Mr. Yohannan Levy** highlighted the experiences with developing a venture capital industry in Israel. In 1993, the Israel government reacted to the market failure in SME financing by setting up a public venture capital fund. After 4 years in function, the government privatised the fund and gained a considerable large return from the fund. The privatisation was viewed as a successful public venture capital strategy, as the market was developed and the need for public intervention was reduced. From Mr. Levy’s point of view, marketing is a key success factor for SMEs and marketing funds and tutor programmes should complement the financial investments in new start-ups.

From Israel, Counsellor in the US Department of Trade **Mr. Mario Cardullo** took us to the US venture capital system. Stating that there are no big market leaders in the US model, Mr. Cardullo considered US venture capital as a guild and a reverse pyramid with “lots of bosses and only few workers”. It was stressed that only through funds of large scales, venture capital firms will achieve the required risk profile and portfolio and which is required in the future. Mr. Cardullo launched the idea of creating a global venture capital fund, and invited participants to consider their role in this respect.

Setting out from the national venture capital markets, Project Officer in IKED **Ms. Glenda Napier** widened the perspective by drawing attention to the global market addressing the inherent global policy challenges. Venture capital in knowledge economies is gaining increasingly importance, particularly when taking into account the need to fund innovative R&D in high-risk firms. Globalisation reflects international cooperation on many levels and various set-ups and cross-border activity are increasingly becoming keywords in the global venture capital industry entailing the need to restructure markets responding to the growing trans-national demand. Consequently, governments should consider opening up the national governmental investment mandates. At the same time it was highlighted that funding is not merely a supply side issue. It was recommended, that in order to design efficient policy tools, both demand side e.g. entrepreneurs and supply side e.g. investors must be targeted appropriately.

In the second panel **“Raising Management Skills and Competencies in SMEs”**, the internal shortcomings in SMEs were discussed. Stakeholder issues and questions regarding the role and responsibility of the various actors involved in the process of raising SME skills appear. Ideas on how to raise internal management skills and competencies in SMEs in global knowledge based economies, including the role of policy measures, practical tools and methods, which can support efforts in raising skills and competencies were presented.

Director and Head of Innovation Systems Analysis Division in VINNOVA in Sweden **Mr. Göran Marklund** initiated the discussions by highlighting the relatively low level of start-ups in Sweden. This significant limited entrepreneurial activity and the low or no growth within SMEs are caused by external factors as outlined previously, as well as internal lack of sufficient skills and competencies among Swedish start-ups.

Head of Task Force SME in SECO in Switzerland and member of the INSME Advisory Group **Mr. Christian Weber** emphasized new training programmes targeting young professional entrepreneurs. It was recommended to use internet platforms to build data collections and to exchange global experiences and best practices within this field.

Following, **Mr. Per Koch** Norwegian Correspondent for EU Commission Trend Charter of Innovation in Centre for Innovation Research (STEP) in Norway stressed that competencies in SMEs is a matter of the absorptive capacity on a single firm level. Accordingly, innovation policy is a matter of learning policy and ultimately companies which are unable to build in-house competencies will fail. The current “learning failure” present in many SME origins, according to Mr. Koch, from lacking SME experience, lacking access to useful knowledge and/or lacking entrepreneurial culture.

From the Nordic experiences we moved to the Mediterranean. Principal Director in the Agency for Industrial Promotion in Tunisia and member of the INSME Advisory Group **Mr. Mounir Zalila** pointed to the weaknesses in the Tunisian SME structure due to insufficient level of supervising and training of start-ups, and in particular a weak rate of applying innovative technology. The unique Tunisian situation is worsened by a high level of imports without high-tech mastery. With the European Partnership Agreement from 1998, Tunisian SMEs are encouraged to position themselves within international markets and various measures are implemented to encourage entrepreneurship and to improve skills and capabilities among SMEs.

Director General of the International Association Science Parks (IASP) **Mr. Luis Sanz** stressed the unique challenges that SMEs face in knowledge economies such as combining managerial and entrepreneurial skills with the capabilities of continued accessing growing information flows. The global knowledge economy has produced new types of firms, workers, corporate location strategies, markets, customers and social, political and mental rules all together. Accordingly, SMEs must be excellent networkers and in order to succeed they must incorporate the crucial importance of the mentioned aspects in their training strategies.

In the third panel “**Enabling Local Services for SME Development**”, national and regional services providing SME development were discussed. Implementing local services is partly about the interplay between SME development programmes and initiatives carried out at national and local level, respectively, and partly about the interplay between public and private involvement. The extent to which such activities should be decentralised to local and private authorities/service providers depends on several factors including the competencies of these actors.

This panel was opened by a delegate representing a country that stands out remarkably when it comes to determinants of economic competitiveness including factors such as innovative capacity and high-tech developments. Senior Technology Advisor in the National Technology Agency of Finland (TEKES) **Mr. Kari Penttinen** shared his experience based on the successful TEKES programme “Technology Clinics” aiming at developing national ICT structures within SMEs in Finland. However, in order to better utilize the regional competencies for identifying specific SME needs, a new programme “TUPAS” is being introduced. Local service providers, research organisations and companies will offer technology transfer and marketing services to SMEs based on regional technology strategies, TEKES technology programmes, development needs in local SMEs and recognized competencies within the local organisations.

Deputy Secretary General for the Chinese Academy of Engineering in China **Mr. Bai Yuliang** updated us on the unique Chinese development. Mr. Yuliang demonstrated how state-owned enterprises are a declining phenomenon in China, and that private-run enterprises, on the contrary, are increasing activity. Nevertheless, large scale enterprises continue to appear. In China, SMEs are defined as firms with less than 1000 employees. Many reforms have been implemented on firm level in the 1990s, in particular addressing non-governmental technology companies. However, still central issues should be put in place in order to ease the Chinese SME development including augmenting the private property protection through revision of the charter.

Unit Chief of the SME Branch in the United National Industrial Development Organisation (UNIDO) and member of the INSME Advisory Group **Mr. Rick Kennedy** defined local SME services to be societal services (health, safe and legal matters), utilities (water, heating and electricity), infrastructure (transport, communication and buildings) and business specific services (training and advisories). SME services should be based on a SME-centred approach and arranged in clusters. Networking development governments and international organisations should only catalyze the formation of collaboration, facilitate demonstration and encourage replication. It was stated that in this process, many governments need assistance to develop their capabilities.

Hereafter, Director in the European Association of Development Agencies (EURADA) **Mr. Christian Saublens** contributed to the discussion by adding further dimensions to the perception of failure in the market for SME services. Public policy is too often driven by a supply focus, contrary to demand driven action. When applying a more demand driven approach, policy makers should consider the somewhat inherent reluctance to innovate which exist in some SMEs, the insolvency of the local service provider markets as clients can not afford the costs of the services and the unwillingness among service providers to serve certain groups of SMEs.

From a European perspective, Managing Director in the European Business Networks **Mr. Philippe Vanrie** underlined the importance of focused and segmented nature in local business support systems. Still lots of support centres aim at doing all building on a one-stop-shops perception resulting in lacking focal points and concentration in their activities. Local SME services should be more concerted on core services, while seeking partnerships with their national and international counterparts.

Senior Programme Officer in IKED **Mrs. Sylvia Schwaag-Serger** contributed to the discussions by linking local and national SME services to favourable policy making. Local services have a higher level of proximity, fewer levels of bureaucracy and the ability to adjust quickly to changes in local circumstances. However, the disadvantages are the dangers to be locked-in, path dependency and vested interest by not seeing the overall framework. On the other hand, national services tend to a higher degree to be policy coordinated (seen within the greater picture) and more often object of policy learning and evaluation. Therefore, it was recommended that local programmes should be plugged into national efforts.

The fourth panel **“Strengthening SME policies through International Cooperation”** addressed the urgent need to strengthen multilateral dialogue and international cooperation including public-private partnership in order to develop conducive SME policies and measures and to help SMEs face the challenges of innovation, competitiveness and globalisation. Benchmarking SME policies and exchange of good and bad practices among countries/regions is one way to foster the mutual learning process, and several kinds of cross-border collaboration can be envisaged to help policymakers in planning and developing relevant and sustainable SME policy options.

Head of Division in the Swedish Business Development Agency (NUTEK) **Mrs. Christina Nordin** opened the last panel stating that identifying best practice in terms of promoting small businesses is a difficult task and something that mutual learning in international teams can foresee. NUTEK is involved in international cooperation on three levels being analysis, evaluation and benchmarking programmes. However, to succeed in international alliances objectives, structures and outcomes must respond to the specific demands of the participating countries.

Moreover, Acting Director in the Polish Ministry of Economy, Labour and Social Policy **Mr. Krzysztof Gulda** pointed to the concrete experiences with international cooperation within the field of innovation and SMEs in Poland. Through international collaboration, the government has selected four out of eighteen innovation schemes that is been implemented in the country. In general, innovation platforms and R&D research have been exchanged between high-level working groups and primary actors in various countries. But noticeably, there is still room for intensified action and much more can be done internationally.

According to the President of European Business Angel Network (EBAN) **Mr. Peter Jungen** policy makers should consider the difference between invention and innovation, whereas the inherent difference is the entrepreneur. As stated in the Lisbon process, Europe is lagging behind. However, Mr. Jungen questioned whether government spending lead to more growth and asked if the European social model really helps. Accordingly, there is an urgent need to enhance private initiatives and institutions in the market private and hence also pay a greater attention the role of the informal capital market e.g. private investors or business angels.

Senior Economic Advisor in the World Association of SMEs (WASME) and member of the INSME Advisory Group **Mr. V.N. Prasad** highlighted the potential capabilities and capacities in developing economies to reorient very sharply. If not, the globalisation could be perceived as a phenomenon

purely driven by developed countries. Owing to rigid mindset both on an administrative and enterprise level, many SMEs face problems related to transition resulting in what Mr. Prasad called 'reorganisation hiccups' on national and international arenas. International cooperation can overcome some of these obstacles providing infrastructure and exchange of know-how. However, lack of expertise in forging collaboration between SMEs in different countries cause difficulties.

From Denmark, the Director in Ministry of Economic and Business Affairs Centre for Economic and Business Research (FOR A) **Mr. Jørgen Rosted** revealed the latest results of a FORA benchmark survey examining the conditions for entrepreneurship in selected countries indicating that especially SMEs in US, Italy, Spain, Netherlands, Switzerland and Sweden have high employment growth rates. Based on the survey, Mr. Rosted pointed to the international dimensions of SME framework conditions and the call for comprehensive international and comparative statistic data facilitating the development of conclusions and recommendations on framework conditions. Vital needs to collaborate in similar surveys were stressed by FORA.

Secretary General in the Nordic Council of Ministers **Mr. Per Unckel** concluded the fourth panel stressing that intensified cross-border cooperation is a core stone in any future policy work, in particular within business research and innovation programmes. The Nordic countries, as well as other countries can not stand alone, and must seek committed involvement in cross-country and international cooperation. When doing so, it is important that international cooperation not merely rest on building institutions, but more accurately assembled by real capacity building.

Newly appointed Secretary General of the INSME Association **Ms. Simona Marzetti** expressed appreciation for the fruitful discussions in the International Roundtable and encouraged further dialogue among INSME Members, non-Members and potential partners on innovation and technology transfer to SMEs, as INSME serves as a forum for such discussions and its portal acts as a platform for the diffusion of the knowledge shared by the Members. Hope was voiced that new Members from the Nordic countries join the INSME Association so as to broaden the geographic reach and relevance. Moreover, INSME wishes to create synergies with a wide range of bodies and countries so as to stimulate transnational cooperation and public and private partnership in this field.

Wrapping up and concluding the International Roundtable **Mr. Thomas Andersson** highlighted and complimented the unique high level of participation in the International Roundtable Meeting. It proves that the discussed issues are on the agenda in most developed and emerging economies and that the process is viewed as valuable and taken seriously. There is a need for multiple fora to develop our strategies further and to co-ordinate better solutions. IKED will continue a number of activities in these areas, both with individual partner countries and through partnerships with other international networks and organisations, such as INSME. Through the deliberations this day, IKED, INSME and the many other participants have had an ambitious look at demand- and user-oriented strategies. These need to feature even more strongly in our future analyses and policy-strategies.

Conclusions

The presentations and comments at the **IKED / INSME International Roundtable Meeting** illustrate that both developed and developing countries are faced with somewhat similar challenges when approaching the external and internal obstacles for SME development. Overall, the following **key policy messages** were identified during the presentations and discussions:

- Inadequate funding for fast growing enterprises is generally viewed to be a major external constraint for many businesses, or so at least it is perceived. Moderating this widespread perception, the discussions in the International Roundtable Meeting revealed that insufficient funding is not the main issue. In principal, the capital is there. The exercise is rather how to activate the sums of passive capital in the market, increase risk-taking culture among investors and how to raise the level of investment readiness among entrepreneurs. This is a topic requiring reflections among a broad set of actors, and comprehensive policy actions must be taken. In this respect, the importance of applying a full-fledge demand and supply approach was recommended. When designing and implementing innovation strategies, it is crucial for succeeding efficiently with public policy and measures, that both demand side e.g. entrepreneurs and supply side e.g. service providers or investors are addressed and equally incorporated in policy making.
- Besides external obstacles for SME development, internal shortcomings of SMEs and the lack of a sufficient entrepreneurial culture in many countries were focal points during the discussions. The right cultural elements combined with competitive environment and high-level of entrepreneurs seeking to accomplish or take advantage of industrial changes or strategic inflection can provide the ability of technological economic growth through entrepreneurship. However, limited absorptive firm capacities prevent the companies from developing full fledge, lucrative businesses. Policy makers should incorporate learning policies and SME training programmes so as to build thorough measures in the field.
- When advancing in the provision of SME programmes and services, policy makers should consider path dependency and vested interest in national measures by plugging local programmes into national efforts. Moreover, local programmes should keep focal points in their activity and seek collaboration with national and international counterparts.
- There is a pressing need to continue strengthening SME development through intensified international cooperation. As economies are faced with similar challenges, countries benefit mutually from bilateral and multilateral collaboration. The reorientation in developing economies calls for immediate improved North-South dialogue and international cooperation worldwide. In addition, the models of cooperation and learning processes must include both public and private sector actors, and the development should strongly encourage them to join forces also across borders.

List of Speakers For IKED / INSME International Roundtable Meeting

Name:	Organisation/Country:	Contact:
Andersson, Thomas	IKED	www.iked.org
Motzfeldt, Christian	DENMARK	www.vf.dk
Levy, Yohannan	ISRAEL	www.moit.gov.il
Cardullo, Mario	US	www.ita.doc.gov
Napier, Glenda	IKED	www.iked.org
Marklund, Göran	SWEDEN	www.vinnova.se
Weber, Christian	AUSTRIA	www.seco.admin.ch
Koch, Per	NORWAY	www.step.no
Zalila, Mounir	TUNISIA	www.tunisianindustry.nat.tn
Sanz, Luis	IASP	www.iaspworld.org
Penttinen, Kari	FINLAND	www.tekes.fi
Yuliang, Bai	CHINA	www.tsinghua.edu.cn
Kennedy, Rick	UNIDO	www.unido.org
Saublens, Christian	EURADA	www.eurada.org
Vanrie, Philippe	EBN	www.ebn.be
Schwaag-Serger, Sylvia	IKED	www.iked.org
Unckel, Per	NORDIC COUNCIL OF MINISTERS	www.norden.org
Gulda, Krzysztof	POLAND	www.parp.gov.pl
Jungen, Peter	EBAN	www.eban.org
Nordin, Christina	SWEDEN	www.nutek.se
Prasad, V N	WASME	www.wasmeinfo.org
Rosted, Jørgen	DENMARK	www.foranet.dk
Marzetti, Simona	INSME	www.insme.org

The last part of the International Roundtable Meeting offered the participants Networking Opportunities enabling the delegates to discuss the INSME Association and its services, the INSME Think-tank, the Thematic Working Group (TWG) on Innovation Finance and Venture Capital chaired by IKED, the TWG on ICT chaired by Innovation and Technology Agency in Spain (ADEI) and other bilateral issues.

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IKED specialises in activities linking the primary actors forming the knowledge-based economy: government, industry, academia and civil society. The organisation engages in international networks, arranges policy forums and policy reviews, and works with partners aiming for reform and concrete actions in support of the development and use of knowledge.

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