SMEs and innovative entrepreneurship

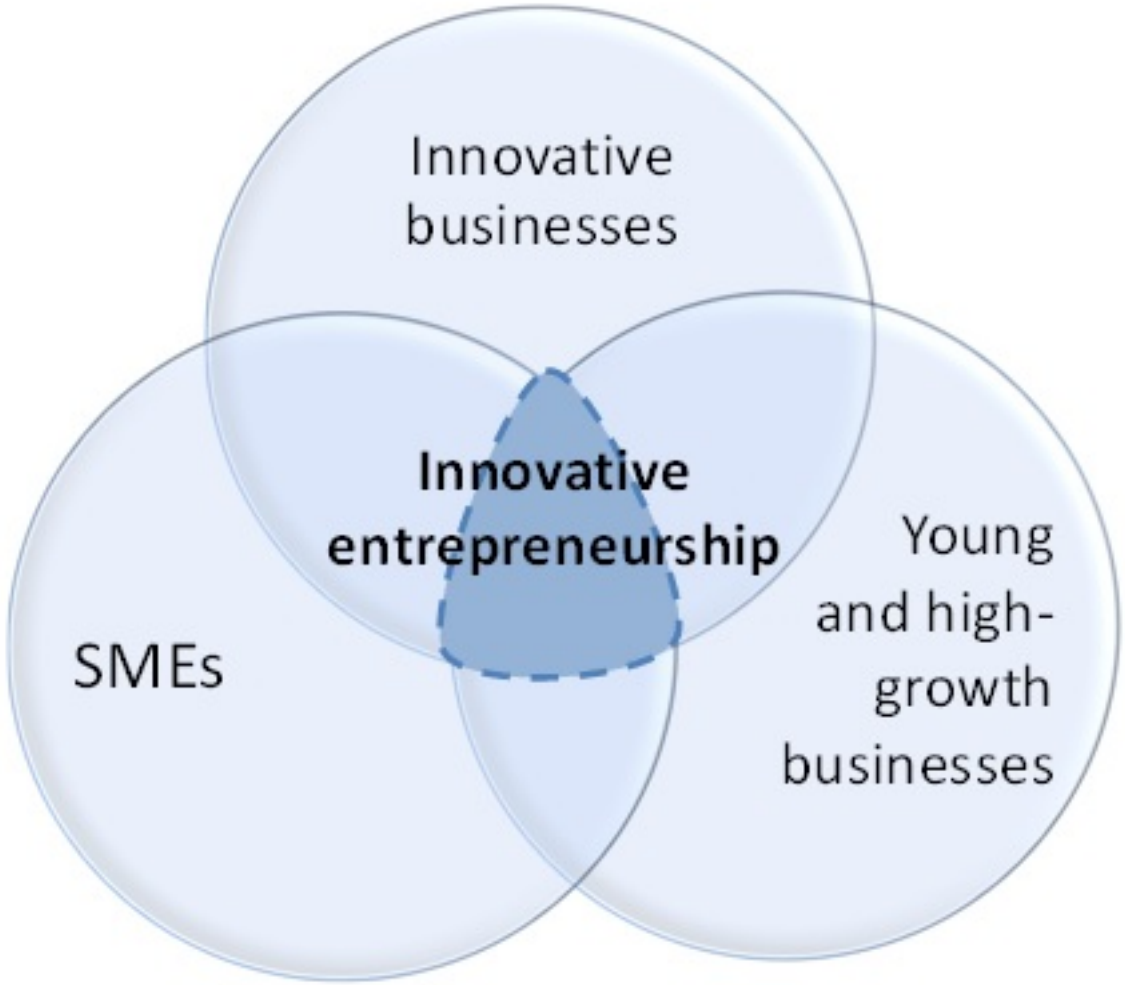
SMEs and innovative entrepreneurship play a key role when it comes to innovation. They are engaged in the development and commercialization innovations. They are also adopters of innovations developed by other organizations, and they provide ideas and inputs to ideas generation that are exploited by large firms, universities/research organisations and other small firms. They often face larger barriers on capital and labour markets than larger established businesses. It is for that reason that multiple policy measures have been adopted to target those firms and their opportunities to engage in innovation.

What are SMEs and innovative entrepreneurship?

Small and medium-sized enterprises (SMEs) are firms that employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union. However, some countries set the limit at 200 employees, while the United States considers SMEs to include firms with fewer than 500 employees. Financial assets are also used to define SMEs.

Innovative entrepreneurship (see Innovative Entrepreneurship [1]) can be defined as being at the intersection of three areas: i) innovative businesses, ii) young and high-growth businesses, and iii) SMEs. Obviously precise definitions for each of these groups are subject to interpretation.

Figure 1. Innovative entrepreneurship.



Evidence on SMEs and innovative entrepreneurship
In most OECD countries, SMEs account for more than 80% of all firms (OECD, 2013). Yet, there are significant variations across countries in the distribution of employment among enterprises of different sizes: in Japan, Hungary, Mexico, Portugal and Greece more than 70% of employment is in enterprises with less than 250 persons, while in Russia, Brazil, the United States, the United Kingdom, the share is less than 55%.

Despite their key role in the economy, gazelles, defined as high-growth enterprises that have been employers for a period of up to five years, represent on average a small share of the total population of enterprises. (Figure 2).

Source

- OECD, 2005, OECD SME and Entrepreneurship Outlook: 2005, OECD Paris, page 17

Figure 2. Gazelles (employment definition) of enterprises with 10+ employees

How do SMEs and innovative entrepreneurship influence innovation?

SMEs and innovative entrepreneurship play a key role in innovation. They develop and commercialize innovations, they adopt innovations developed by other organizations, and they provide ideas and inputs to ideas generation that are exploited by large firms, universities/research organisations and other small firms (see Innovative Entrepreneurship [1] and Contributions to socio-economic objectives [2]).

In the literature, entrepreneurs have been considered as (OECD, 2010):

- Disrupters: Schumpeter (1934) saw entrepreneurs as the principal actors in innovation. It is [illegible] of an industry, or management processes within a firm. They disrupt markets, leading to long-run evolutionary growth in the economy.

- Breakthrough innovators: Baumol (2002) considers that small and large firms both play [illegible] are seen to undertake more incremental innovation, based on systematic research in their existing development channels.

- Opportunity identifiers: Kirzner (1973, 1997) stressed the role of entrepreneurs as discoverers and early exploiters of previously-unnoticed profit opportunities. Innovation occurs as entrepreneurs discover new opportunities.

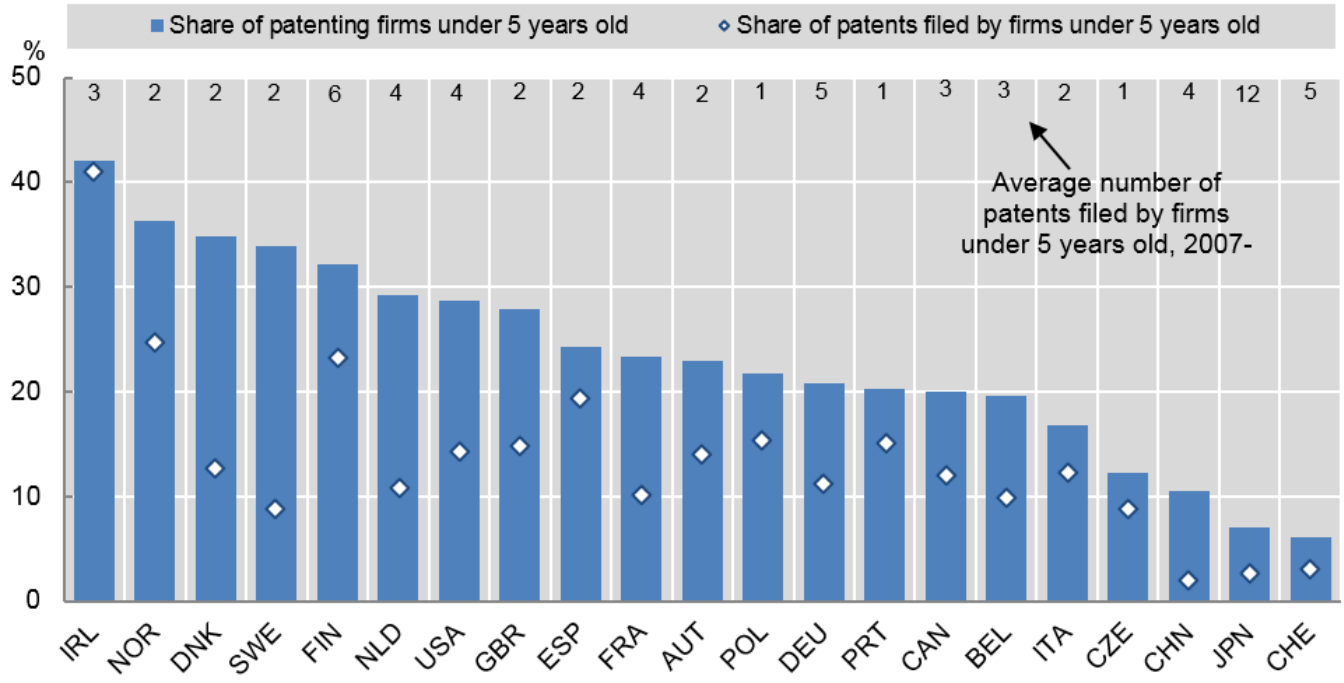
- Risk takers: Knight (1921) focused on a related aspect of the role of entrepreneurs in [illegible] and proving products, processes and business models to fit – at the risk of failure. The entrepreneur innovates by experimenting.

Evidence

The presence of young firms among patent applicants underlines the inventive dynamics of firms early in their development and their desire to develop new activities and products (OECD, 2011). During 2007-09 firms less than five years old filing at least one patent application represented on average 25% of all patenting firms, and generated 10% of patent applications. The share of young patenting firms varies considerably across countries, led by Ireland (42%) and followed by the Nordic economies (Figure 4)

Figure 4. Patenting activity of young firms, 2007-09

Share of young patenting firms and share of patents filed by young patenting firms, EPO and USPTO



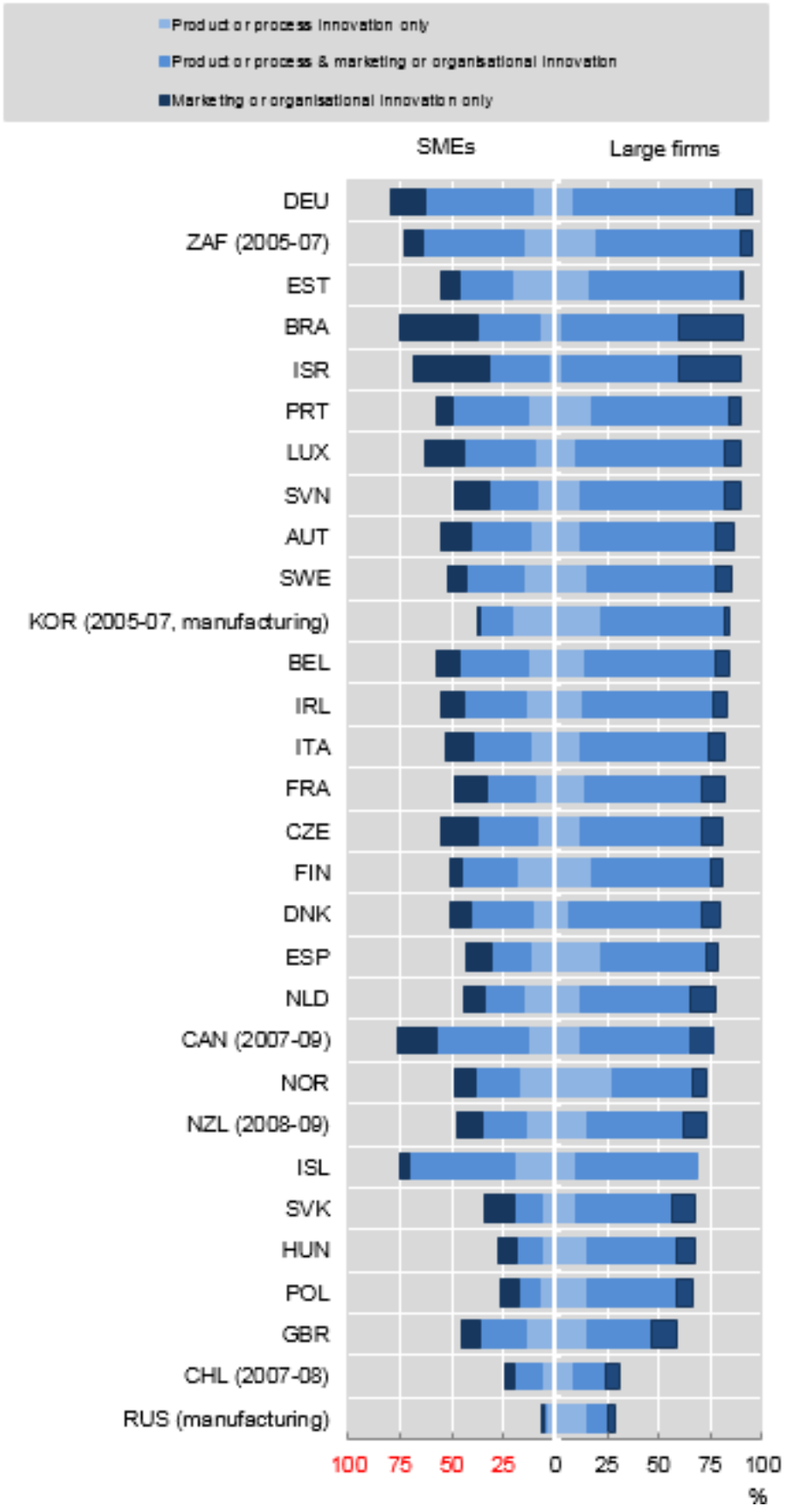
Source: OECD calculations based on the Worldwide Patent Statistical Database, EPO, April 2011; and ORBIS© Database, Bureau van Dijk Electronic Publishing, December 2010; matched using algorithms in the Imalinker system developed for the OECD by IDENER, Seville, 2011.

StatLink: http://dx.doi.org/10.1787/888932488122

Data also reveal that the majority of innovative SMEs have complementary strategies, introducing product or process innovations, as well as marketing/organisational innovations (Figure 5). Yet, evidence also shows that in almost all countries, SMEs tend to innovate less than large firms.

Figure 5. Innovation strategies by firm size, 2006-08

As a percentage of all SMEs and large firms



Source: OECD, based on Eurostat (CIS-2008) and national data sources, June 2011. See chapter notes.

StatLink: http://dx.doi.org/10.1787/888932487058

Source

- OECD (2011), OECD Science, Technology and Industry Scoreboard 2011, OECD Publishing.doi: 10.1787/sti_scoreboard-2011-en
- OECD (2010), SMEs, Entrepreneurship and Innovation, OECD Studies on SMEs and Entrepreneurship, OECD Publishing. doi: 10.1787/9789264080355-en

What innovation policies relate to SMEs and innovative entrepreneurship?

Policy intervention on innovative entrepreneurship (see Policy intervention on innovative entrepreneurship [3]) describes the challenges of policies in support to innovative entrepreneurship. It also provides links to policy instruments, including supply-side policy instruments for innovative entrepreneurship (see Supply-side policy instruments for innovative entrepreneurship [4]), demand-side policy instruments for innovative entrepreneurship (see Demand-side policy instruments for innovative entrepreneurship [5]), and connectivity policy instruments for innovative entrepreneurship (see Connectivity policy instruments for innovative entrepreneurship [6]).

References

- Baumol, W. (2002), The Free-Market Innovation Machine: Analyzing the Growth Miracle of Capitalism, Princeton University Press, Princeton.
- Kirzner, I. (1973), Competition and Entrepreneurship, The University of Chicago Press, Chicago, Illinois.
- Kirzner, I. (1997), “Entrepreneurial Discovery and the Competitive Market Process”, Journal of Economic Literature, Vol. 35, pp. 60-85.
- Knight, F. (1921), Risk, Uncertainty and Profit, Chicago University Press, Chicago.
- OECD (2013), Entrepreneurship at a Glance 2013, OECD Publishing.
- OECD (2011), OECD Science, Technology and Industry Scoreboard 2011, OECD Publishing.doi: 10.1787/sti_scoreboard-2011-en
- OECD (2010), SMEs, Entrepreneurship and Innovation, OECD Studies on SMEs and Entrepreneurship, OECD Publishing. doi: 10.1787/9789264080355-en
- Schumpeter, J. (1934), The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle, Harvard University Press, Cambridge MA.

Related Link: Firms' access to knowledge for innovative entrepreneurship
Access to finance for innovative entrepreneurship
Innovative Entrepreneurship
Technological co-operation between firms
Supply chains

Source URL: https://www.innovationpolicyplatform.org/content/smes-and-innovative-entrepreneurship

Links
[1] https://www.innovationpolicyplatform.org/content/innovative-entrepreneurship?topic-

filters=11381
[2] https://www.innovationpolicyplatform.org/content/contributions-socio-economic-objectives?topic-filters=12078
[3] https://www.innovationpolicyplatform.org/content/policy-intervention-innovative-entrepreneurship?topic-filters=12060
[4] https://www.innovationpolicyplatform.org/content/supply-side-policy-instruments-innovative-entrepreneurship?topic-filters=12117
[5] https://www.innovationpolicyplatform.org/content/demand-side-policy-instruments-innovative-entrepreneurship?topic-filters=12236
[6] https://www.innovationpolicyplatform.org/content/connectivity-policy-instruments-innovative-entrepreneurship?topic-filters=12059