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# **Exploratory Team Report on High-Growth Innovative SMEs**

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## 1. Identification of a challenge and the benefit of trans-national cooperation to address it

Small and medium-sized enterprises (SMEs) are the backbone of all economies and are a key source of economic growth, dynamism and flexibility in advanced industrialized countries, as well as in emerging and developing economies. SMEs constitute the dominant form of business organization, accounting for over 95% and up to 99% of enterprises depending on the country. They are responsible for between 60-70% net job creation in OECD countries<sup>1</sup> and in Europe, 65% of European GDP comes from small firms.

Within the SME universe, there is a group that has received the greatest attention over the past years, namely the high-growth SMEs or “gazelles”. They have received increasing attention since they contribute to social wealth through the creation of new business and jobs. These companies are said to provide high returns for investors, promote regional development, generate satisfaction for managers and employees, and play a great contribution to job creation<sup>2</sup>. For these reasons, in recent years, the objective of many governments is to raise the number of high-growth enterprises and have therefore increased their attention regarding public policy towards high-growth SMEs.

Several empirical studies confirm the importance of high-growth firms for job creation. In the United Kingdom, 4% of new start-up survivors in the UK were responsible for 50% of jobs created by all new firms 10 years later. In the U.S., 3% of the fastest growing firms, so-called “gazelles”, generated over 70% of the new jobs created by new firms between 1992 and 1996. Recently, the first Global Entrepreneurship Monitor (GEM) report on “high-expectation entrepreneurship” showed that high-aspiration entrepreneurs representing less than 10% of the population of nascent and new entrepreneurs were responsible for up to 80% of total expected job creation by all entrepreneurs.

*Source: MTI Report on High-growth SME support (2007).*

However, despite all the attention devoted to growth and performance, there is little literature on high-growth SMEs (the gazelles) and research is not well developed, as well as there is a lack of policy initiatives especially designed for them.

Surprisingly, there is still no commonly accepted definition of ‘fast or high-growth’ and the adherence to a specific definition is mainly determined based upon the data available and the objectives pursued. Some authors see high-growth as referring to employment growth, while others see high growth as relating to sales and turnover. Some other authors just use a company’s self-perception of growth and again others use a combination of variables<sup>3</sup>. However, the definition most widely used in the literature characterizes high growth firms as having a sales **growth rate of at least 20% per year for 3 or more consecutive years**<sup>4</sup>.

In addition, most gazelles are not necessarily high-tech companies, but second-movers, followers, who copy and imitate existing technology or business models or the appropriate mix of them and generate their success by exploiting the right timing or business context to get the necessary volumes and profitability.

<sup>1</sup> OECD (2004): Facilitating SMEs access to international markets. 2<sup>nd</sup> OECD Conference of Ministers responsible for SMEs. Promoting entrepreneurship and innovative SMEs in a global economy: towards a more responsible and inclusive globalization. 3-5 June 2004, Istanbul (Turkey)

<sup>2</sup> The small business job creation thesis can be traced to David Birch, who placed great emphasis on the job generation process of very fast growing businesses.

<sup>3</sup> The measure currently in use in the UK is the “Gross Value Added (GVA)”. GVA = Total wage costs + net profit before tax and interest + depreciation. Plus personal wealth earned by the entrepreneur if, and when, they exit the business (common with early stage commercialization ventures).

<sup>4</sup> Birch’s widely adopted definition of gazelles: a gazelle has to grow at least 20% a year for four years, from a base of at least \$100,000 in revenues at least doubling in size over that four year period.

Another problem with the “definition” of high-growth and the identification of high-growth SMEs has to do the very nature of growth, its measurement and firm’s dynamics (or growth trajectories). Assuming that we take a fixed period of time, let’s say 4 years to measure turnover or 10 years to measure the variation in the workforce within the firm, one needs to bear in mind that growth is not a continuous phenomenon. Businesses may experience irregular patterns of growth (with peaks and troughs, slow-downs and spurts of speed) and still continue to grow. Continuous growth over a ten-year period is exceptional (even among high-growth businesses). Empirical studies<sup>5</sup> show that the majority of businesses experiencing strong growth over a given period do not grow continuously over such period. The model of a firm with a yearly increase in its workforce has been taken as the norm in many studies, in many press listings and in many policy statements, but it is the exception. Also the picture in which firms increase their sales annually quietly is not real as growth often takes place through a succession of violent changes<sup>6</sup>.

Definitional issues apart, an understanding of what drives fast growth in SMEs is critical both to managers striving to attain or maintain a competitive advantage as well as to governments with the responsibility for economic development and employment creation. One reason for the fast growth of the gazelles is the source of their differentiation, namely innovation. Obviously, innovation does not necessarily mean radical innovation (which accounts for less than 5% of all innovation). In SMEs (and large firms alike) innovation is usually incremental, involving all sorts of small changes to products, procedures, processes or organizational change.

The Exploratory Team members highlighted that growth is related to a company’s ability to innovate **not only products and processes**. In recent times **the focus is on organizational and managerial practices, or administrative innovation**, related to management-oriented processes such as structure, human resource management, and accounting systems. Therefore, attention should be directed to gazelles operating **as service firms, developing new business models of service development** which represent the third innovation pillar: the organisational innovation.

Notwithstanding differences in the methodology followed and in the data sets used, several empirical studies<sup>7</sup> of high-growth SMEs in the manufacturing sector in France, the Netherlands and Canada’s Province of Quebec have found a number of traits that- are common to high-growth SMEs but make it difficult to define them as an **homogeneous category- beyond the 20% growth rate**:

- **Innovation**: growth is closely related to a company’s ability to innovate; this involves continual changes to products, processes and organizational and managerial practices.
- **Market/technology linkages**: high-growth firms are strongly market-oriented, forge links between their technology and markets and adapt their products to respond to consumer trends and client demands.
- **Organization and Management**: high-growth firms have a decentralized, participatory and readily adaptive organization.
- **Teamwork**: they encourage teamwork among all staff through regular communication, shared decision making, skills training and profit-sharing mechanisms.
- **Networking**: they are well integrated into a network of alliances and partnerships with other firms, service providers and public and private institutions.
- **General distinctive features**: (i) high-growth firms account for a great share of gross job gains, (ii) can be found in all industries<sup>8</sup> and in all regions, (iii) tend to be start-ups, (iv) not all high-growth firms operate in global markets.

<sup>5</sup> OECD High-growth SMEs and Employment 2002

<sup>6</sup> This irregular pattern is not necessarily a negative feature since it implies a growth consolidation process

<sup>7</sup> OECD (2002), Government of Canada (2006); Small Business (2001)

<sup>8</sup> Gazelles are not necessarily high-tech companies launching a new technology; in some cases they are second movers that copy and/or adapt a new technology developed by others.

Being able to sustain rapid growth and high performance depends on many factors, such as business strategy, internal resources and know-how, leadership and management practices but it is also tied to macro-economic and framework conditions such as labor and capital market efficiency, the presence of a stock market where businesses can find funding, a tax system that does not penalize business development and conditions for protecting intellectual property and innovation. Establishing a growth-friendly climate implies inducing firms to innovate and invest, spurring business creation and simplifying business/administration relations.

Rapid growth, although highly desirable, implies higher risk and produces dramatic changes in the scale and scope of a firm's activities. High-growth ventures often stumble because they cannot adapt to the pressures and demands of these changes. Potential problems include: instant size, which produces urgent need of new workforce and gaps in the skills and systems required to manage growth; the internal turmoil associated with the quick integration of new people into the organization; the need for extraordinary resources to meet the demands of rapid growth. Entrepreneurs in rapidly growing ventures often have difficulty determining what kinds of organizational changes or transitions are needed because they face greater managerial complexity than entrepreneurs in firms that are growing more slowly (e.g. product lines and target markets increase faster than responsibility (or systems) can be assigned (or developed) for managing them).

It is clear that major changes in systems, structures, and capabilities are required in order to cope with the increased complexity that accompanies fast growth. Simply stated, high-growth enterprises formal structures and systems that are in place to coordinate activities can rarely keep up with the rate of organizational growth. These firms need to be able to self-organize on a continuous basis in order to respond in real time to the change and unpredictability that accompanies rapid increases in the scope and diversity of their activities. This rapid pace of growth and change means that **there will always be a gap between the demands of the high-growth venture and the public support structures and systems that are in place to manage and support its activities**. The reality is that, in a rapidly growing enterprise, **something is always out of alignment**. Entrepreneurs need to find ways to ensure that order can still emerge so that the venture does not spin out of control. Governments do not have better knowledge than the individual entrepreneur of markets, technologies and projects. It is not government's job to interfere in business strategy but, instead, to act on growth-promoting factors and remove certain hindrances.

#### Some considerations on high-growth SMEs

- High-growth enterprises are to be found among SMEs of every size and in every industry. This evidence of considerable heterogeneity makes any kind of policy hard to formulate and implement. If the purpose is to encourage job creation, government action should not focus on size but should strike a **balance among micro, small and medium-sized enterprises**. In addition, even in "declining" sectors, some firms are vigorous and continue to create jobs. Public policies should accept that growth is common to a wide range of businesses.
- High-growth entrepreneurial activity is said to be different. According to most literature, traditional SME policy should be different from policies directed at high-growth entrepreneurial ventures. However, we have to admit that **measures addressed to the SMEs population also have an impact on gazelles**.
- The support needs of high-growth firms may be highly demanding. The volatile character, significant resource needs, and escalating organizational complexity of fast-growth firms means that they need highly sophisticated support. Quite often, the provision of a competence mix requires **intimate understanding and widely established contacts in the relevant business sector**, which is something public sector support organizations-taken as stand-alone players- can rarely offer. In many cases, the contacts and business acumen required have to come from private-sector operators, such as venture capitalists, bankers, experienced managers, and more experienced peers. **Qualified support is particularly important** during the more advanced stages of the venture growth process, but it is also important during the very early stages of the innovation process, for validation purposes. At the same time, the discussion on the role of public services in supporting growth lead to the acknowledgement that public services disturb the creation of more advanced private service. Therefore in some cases the support has shifted from direct service provision to financial support for acquiring private services.

- An important role of the policy- maker is to facilitate the development of **appropriate externalities**: business **service infrastructure**, **legislative environment**, **appropriate social and cultural context** and easy **access to administration**. In fact, fast-growing firms show needs to be dealt with flexibly and quickly. Entrepreneurs are short on time and do not want to be standing in line waiting for bureaucratic processes to take their due course. Therefore, programs need to have sufficient **duration** to reach their objectives, ensure **fast response** and be **flexible** enough in addressing a broad range of specific technical needs.
- Different models of public/private partnership are already key components of many innovation policy tool kits but they differ across countries due to economic, political, geographic reasons. Overall, balancing public/private partnership in service provision for the Gazelles is not easy, because possible overlaps and insufficient synchronization may give rise to crowding and market distortion. On the other hand, **the public-private partnerships model is an important part of the answer to the gazelles challenge**. The significance of public/private interaction is qualitatively very important and a key question is whether and how the public/private contribution to boosting Gazelles innovation could be further improved.

After this introduction we can turn the attention to the following questions:

### ***1.1 What is the challenge / problem to be solved?***

As we have seen from the previous paragraphs, there is evidence of a new typology of enterprises that is receiving increasing attention at European level: the high-growth innovative SMEs, often also called “gazelles”. As already mentioned, gazelles have become exemplary since they contribute to social wealth through the creation of new business and jobs. These companies are said to provide high returns for investors, promote regional development, generate satisfaction for managers and employees, and play a great contribution to job creation.

Therefore, the overall policy objective will be (i) to raise the number of high-growth innovative enterprises to create jobs and to contribute to economic prosperity throughout Europe and (ii) the creation of a favorable environment (framework conditions) for existing gazelles to further develop and grow.

However, these tasks are far from being simple since high-growth innovative SMEs constitute a “special” type of venture (please refer to the previous pages for a thorough description):

First of all, there is still no commonly accepted definition of “fast” or “high-growth” and the adherence to a specific definition is mainly determined based upon the data available and the objectives pursued. Moreover, growth is not a linear process but, on the contrary, it follows irregular patterns with peaks and troughs, slow-downs and spurts of speed.

*The **first challenge** for policy makers is therefore the “identification and selection” of the recipients of the support from public intervention. If public policies are to support high-growth innovative SMEs, first of all, they need to clearly identify them. There is also a methodological issue regarding the type of index/variables that should be used to select the population of high-growth innovative firms.*

Secondly, rapid growth, although highly desirable, also implies high risk and produces dramatic changes in the scale and scope of a firm’s activities. High-growth ventures often stumble because they cannot adapt to the pressures and demands of these changes. In other words, in high-growth enterprises the formal structures and systems that are in place to coordinate activities can rarely keep up with the rate of organizational growth. In addition, the rapid pace of growth and change implies that there will always be a **temporal gap** between the demands of the high-growth venture and the responses given by the structures and systems that are in place to support them. Furthermore, the needs of high-growth firms may be highly demanding and they need to be dealt with flexibly and quickly.

*The **second challenge** for policy makers is therefore to offer high-growth innovative SMEs an appropriate mix of value added services and the necessary externalities facilitating the development of an advanced/modern business service infrastructure that is sophisticated enough to cater to the needs of these enterprises, **both for those who have the potential to become gazelles and for those who are already gazelles.***

Both challenges are dependent and inter-connected although their nature is different; the first one raises selection methodology issues whereas the second one has to do with the creation of appropriate favorable conditions -both direct and indirect - for high-growth innovative SMEs to develop and expand further. To sum up, the challenge to be faced is the identification and selection of high-growth innovative SMEs and the provision of the “right” bundle/mix of public-private support services.

New policy approaches are being contemplated by Regions and member States in dealing with gazelles and it is important that future decisions regarding the actual implementation take into account the above mentioned challenges. In particular, the **trans-national policy cooperation/learning** and the **bridging functions** of public support have to be reinforced, with a view to improve the public policy positioning, steering and funding.

### **1.2 How could trans-national cooperation contribute to the resolution of the problem?**

In the Report reviewing Lisbon Strategy objectives submitted in November 2004 to the European Commission by Mr Wim Kok, the need is stressed for the Member States to undertake key initiatives in order to set an environment where both established and new European businesses can better contribute to growth and job creation. Taking into account the importance of high growth companies for employment and economic development, a specific trans-national policy for the promotion of pan-European high growth companies is necessary.

The rationale for this is that, despite an internal market of 450 million people, an enviable position in science and technology, well trained and qualified human capital, and strong financial institutions, Europe has bred very few young large companies. As a result, Europe not only has to deal with the financial burdens of an aging population but must cope with a population of either too small or too old companies that will not be able to create the required wealth to maintain our welfare system and living standards.

Trans-national cooperation can contribute to the resolution of the problem by nurturing European high growth companies and offsetting geo-strategic marginalisation. Regions and Member States should cooperate as policy catalyst, **transmuting innovative drive** into **tangible** internal policy (which only rarely step beyond regional boundaries) to support high-growth companies.

This also leads to question of the scope of trans-national cooperation initiatives. Initiatives should stretch beyond the specific issues of each single region, to encompass a variety of areas that can bolster the development of high-growth companies. The result is to be a fruitful **competition-collaboration model** that involves **looking for synergies while accepting the competition challenge** from other regions economies in Europe.

Thus, trans-national cooperation needs a **strategy that will promote the regions’ uniqueness, knowledge and know-how while counterbalancing their competitive shortfalls**. Achieving that will involve streamlining regional and national policies for innovation and marshalling resources in terms of exposure, marketing and diversity into enough critical mass to stand up to rival areas focusing on the same opportunities.

### **1.3 What would be the added value to solve this problem through trans-national cooperation?**

Trans-national cooperation value-added is generated by the common policy formulation on a topic which is critical for European development. Nevertheless, the gazelle topic is new and original and there are few clear directions and actions both from the theoretical and from the policy implementation stand-point.

European Regions and Member States need to share different views and common identification of appropriate measures to sustain high-growth firms: they should learn from each other, thus ensuring a more cohesive policy endorsement of this action across Europe. In this logic, trans-national cooperation provides a tool for **lateral thinking** needed to innovate and to effectively to face the above mentioned challenges through: the **elaboration of innovative models of intervention**, adaptable to high-growth companies needs and **methodologies of comparative analysis** and **benchmarking** validated at international level.

The value added from trans-national cooperation will be generated in different ways:

- **Exchange of information and experience**

European Regions and Member States **exchange information on their policies and context of activity**. At this stage, they do not define specific common targets of their co-operation. An example can be a situation where they work on the creation of a training packet for gazelles groups in order to enhance their market internationalization. Their transnational co-operation will include exchange of information on the European Regions and Member States different situation and approach to the problems to be solved. Interesting ideas can be created not intentionally, but transfer of knowledge, experience or expertise may turn out to be fruitful. Such approach to transnational co-operation helps **creating a benchmarking culture**.

- **Parallel development of innovative policy approaches**

European Regions and Member States can implement a specific common target, even acting independently. Exchange of experience is less general and it is more systematic and closely related to the implemented target. As the common target is negotiated and agreed, European Regions and Member States **systematically exchange** knowledge and new approaches, thus **contributing to benchmarking implementation**.

- **Generate new solutions to the problem**

European Regions and Member States can exchange the results of their work and each of them can utilize the exchange of experience for the improvement of its own policy approach (e.g. a training packet, a specific service). This co-operation results in modification, improvement of the chosen approach by **adaptation of certain solutions applied by a partner who is quite often more experienced in a given area**.

- **Optimal distribution of tasks within the implementation of a common target**

Trans-national co-operation is necessary in order to **join forces** because European Regions and Member States need similar approaches to the gazelles reinforcement. Optimal division of work among them can help to find policy solutions with a conscious use of European Regions and Member States experience and achieve **multilateral benefits** from the co-operation with the others.

- **Human Resources exchange**

**Exchange of trainers, experts, scholars and champions** is an additional activity which is quite important in this policy field. Trans-national cooperation based on Human Resources mobility is necessary in order to serve for the purpose of **validating the common approach**, checking the created system, coaching weaker Regions personnel and ensure peer evaluation and learning.

Concluding, increased trans-national policy attention on the theme will imply the optimisation (best available use) of the regional and national financial resources and incentive system and a faster policy learning and policy implementation response. Learning from the experience in other countries or regions in an organised way, exchanging ideas, knowledge, know-how, and staff, and joint development, implementation, staffing and financing of operations where an added value can be expected are simply tools for good governance. In this context,

benchmarking and peer reviews are examples of instruments to achieve learning to improve operations, and when these tools are used beyond national borders even more added value is created.

The achievement of the expected potential for prospective high-growth firms will generate an immediate benefit for European industry growth and innovation enhancement and facilitate the public investment where it is easier to generate employment and financial performance results. High-growth firms typically feature cross-regional growth pattern and have a cross-regional nature and origin and require cross-regional policy responses to their needs. They hardly require short-term policy support at trans-national level and an overall trans-national policy effort will generate immediate benefits for them. Therefore, a common policy framework will strongly enhance cross-border high-growth firms' transactions and development patterns, increasing the growth potential of gazelles in the short-medium term but also increasing the policy formulation cohesiveness of Regions.

## *2. Type of activities to be developed at trans-national level*

We support the general thrust and direction of the Paper 'Future development and planning for the Europe INNOVA initiative (2007-2011)', in particular its identification of the need for the next generation of Europe INNOVA networks should go beyond the identification and exchange of good practice and follow **a more result-oriented approach**, in particular by providing new forms of support to innovative SMEs and start-ups and its recommendation that future Europe INNOVA networks should be based more explicitly on **Public Private Partnerships** in order to ensure strong institutional support and the sustainability of the funded actions.

A weakness of many business support initiatives funded by the EC in past years is that they have not resulted in sustainable programmes or concrete results, measured in terms of the SME beneficiaries. Much good practice has been identified but little has been transferred. These have been missed opportunities and the Call to be published in May 2007 should explicitly require bids to identify the concrete outcomes and sustainability of the programmes that are being proposed. We do not recommend that the Call should seek to find new tools or instruments, rather it should take as its starting point what has already been done and encourage the transfer of good practices identified from region to another. The PAXIS Manual for Innovation Policy Makers and Practitioners, published in 2006, describes many such good practices and the successful transfer of some of these between the 22 sub-regions that were qualified PAXIS members. PAXIS demonstrated that trans-national transfer can take place, but, in our view, the initiative was too narrow in its ambition. What is now required is a programme that encourages the more economically successful EU regions to work in partnership with the less fortunate. Gazelles can be found everywhere, and they all need to be supported with a raft of initiatives that will help them realise their full potential.

### ***2.1 If the challenge is to be addressed through trans-national cooperation, which specific activities / instruments / actions would be required to make progress?***

A set of initiatives to address these policy challenges have arisen during the discussions among the experts of the Exploratory Team in the meeting held in Brussels in March 27<sup>th</sup> 2007.

#### *1. Identification and selection of high-growth enterprises*

The first action should be the identification of high-growth enterprises. Governments should develop and adopt a common and widely accepted methodology to identify such ventures if public intervention in the field is to be efficient. Several methodologies and indexes have already been developed and are being applied in different regions/countries throughout Europe (e.g. UK uses the GVA index, whereas Norway has recently (April 2007) introduced a diagnostic tool to assess whether the entrepreneur is "willing", "able" and "ready"). The "identification" action should be targeted not only towards the detection of the well established gazelles but also of evaluating the potential of young, recently started ventures.

#### *2. Public source information*

This action complements the first one as it implies to use the available sources of public information (e.g. fiscal and financial data/ statistics on revenues, taxes etc) to identify and select the high-growth ventures. Likely, a systematic identification of high-growth SMEs would require longitudinal firm-level data that may not be available in all regions/member states. An additional problem is the different level of data secrecy/confidentiality across member states. Communication and cooperation among national statistics offices and ministries/departments becomes, in this case, highly desirable and necessary. This aim of this action is also to give a proactive approach to the identification and selection of gazelles. Governments should not wait for the gazelles to come and apply for public support but should actively search for them.

#### *3. Service package tailored to meet the needs of high-growth ventures*

In order to fill the gap between the demands of the high-growth venture and the structures/instruments in place, governments should offer a high-value support package (*“the right support to the right companies”*). There is no need to design new or specific policy instruments/programmes for gazelles but to “assemble” the right service package with the existing instruments, “personalizing” the service.

#### 4. *Qualification/accreditation of professional intermediaries*

Support services should not necessarily come from public sources. Often, the provision of the right kind of support requires in-depth understanding and widely established contacts in the relevant business sector, which is something public sector support organizations can rarely offer. The contacts and expertise required may come from private-sector operators, such as venture capitalists, lawyers, attorneys, bankers etc. The role of the public sector would therefore be the certification of such intermediaries, ensuring the compliance with high quality standards and levels of professionalism. Furthermore, the issue of balancing public- and private-sector service provision (initiatives 3 and 4) is not easy, since overlaps and insufficient synchronization may give rise to crowding and market distortion.

#### 5. *Evaluation process / Fast response*

The needs of the high-growth enterprises have to be dealt with quickly and flexibly. Different regions/countries in Europe have different procedures. For instance, setting up a company can be done in a very short period of time with little bureaucracy like in the case of the UK or it can take extremely long, in terms not only of time but also of resources, in Italy. Therefore, EU governments should ensure a certain level of homogeneity in their response to businesses and programmes need to have sufficient autonomy to reach their objectives, be quick and flexible, and be able to address as large a range of needs as possible for the entrepreneur.

#### 6. *Multi-level training*

Three types of training initiatives at European level have been identified:

- Training for policy makers

There is often a mismatch and misunderstanding between not only policy makers within government but also large company management and the owner/managers of young knowledge-based SMEs. Governments and large business know each other well and are used to dealing with each other, but young businesses have little experience or sympathy for the bureaucracy, long timescales and burdensome financial processes that governments in particular deem necessary to protect the public purse. What are needed are programmes that educate policy makers, both public and private, about the needs, attitudes and capacity of young SMEs.

- Training for service providers

Accreditation of service providers has been discussed in 4 above, and the process will necessarily include facilitated seminars and workshops. There are examples of good practice to be found across the EU, the common feature of all being that the training is continuous and that the service providers, whether they be bankers, accountants, lawyers, patent attorneys or business mentors, see their participation in and contribution to these seminars and workshops as part of a continuous learning and improvement process, not just something that has to be done in order to achieve and maintain accreditation. The other great value of such programmes is that they act as recruitment platforms, particularly of mentors and business angels from the ranks of successful entrepreneurs.

- Training for entrepreneurs (and for workers)

Owner/managers of all SMEs, particularly gazelles, require continuous access to a full range of business support, all of which should be described as training. Whether the lessons are learnt in the classroom or on-the-job as part of a structured mentoring programme, they are all training. We are particularly attracted by the approach that has been adopted by Innovation Norway. Innovation Norway divides its assistance and services into 5 different types - advisory, competence, financing, networking and promotional. Using these basic service types it then elaborates and develops specific programmes to meet the challenges and needs of different target groups, i.e. start-ups, born globals, female entrepreneurs, sectors etc., either separately or together in packages, in order to encourage and contribute to innovation and internationalization of SMEs.

*7. Helping high-growth companies in their internationalization process (European Incubator Network)*

If gaining access to global (EU and international) markets can help realize the potential for prospective high-growth firms, the need to ensure that regulatory, administrative and policy environments do not inhibit access to global markets becomes of paramount importance for EU governments. This implies that the infrastructure for financial markets, advisory services, information access, telecommunications, intellectual property rights markets and regulation, dispute resolution processes, etc. will need to be internationalized. All of this requires active collaboration between governments, agencies and the private sector to address these issues with the view to reaping the significant potential benefits that should accrue from the creation of a simpler, more business friendly, more integrated economy at international levels.

A specific policy action in this context could build on the experience of two European projects, namely *BIO-Link* ([http://cordis.europa.eu/paxis/src/val\\_projec.htm](http://cordis.europa.eu/paxis/src/val_projec.htm)) and *Eurooffice* (<http://www.eurooffice-services.eu/index.php?id=project>) and expand further. The idea would be to ensure that a range of incubators located in different regions/countries of the EU offer the same assistance/service package to its clients, regardless of nationality.

Notwithstanding the necessity and the added value to carry out these actions trans-nationally, some of them (namely, 2, 3, 4 and 5) have a strong local component as far as the implementation process is concerned (i.e. the actions need to be jointly developed but, at the same time, they must be “personalized” to fit the specific context or reality of a given country).

There is no case for changing the present rules on eligibility for partnerships. Only those programmes that are concerned with matters that require changes to government legislation, such as financial and fiscal instruments, should be limited to regions or sub-regions. All others should be PPPs.

**2.2 Upon which existing initiatives, such trans-national cooperation activities could be established?**

We would recommend that bidders be required to base their programmes on previously identified good practices. We should not be re-inventing wheels, but adapting them to fit the peculiar requirements of the gazelles in a particular region. The table below identifies generic measures and good practices that match the seven initiatives proposed in 2.1 above.

**Table 1 Generic Good Practice**

Initiatives	Generic Good practices
1. Identification and selection of high-growth enterprises	Diagnostic tools Innovation scorecards
2. Public source information	Analysis of company accounts (eg Fast Track 100/ Dun & Bradstreet)
3. Service package tailored to meet the needs of high-growth ventures	Innovation advisory services Innovation management toolkits Virtual incubators (eg Enterprise Hubs)

	Leadership development Funding – R&D grants Proof of Concept funds Regional Equity co-funds Enterprise capital funds Business angel networks Fiscal incentives
4. Qualification/Accreditation of professional intermediaries	Business advisors (eg SFEDI accreditation <a href="http://www.sfedi.co.uk">www.sfedi.co.uk</a> )
5. Evaluation process / Fast response	Regulatory environment
6. Multi-level training	Investment readiness Mentoring Business Angel
7. Helping high-growth companies in their internationalisation process	Gate2Growth networks (eg Proton, Incubator Forum, InvestorNet) PAXIS initiatives (BioLink, EuroOffice) National programmes (eg UKTI, Enterprise Ireland, Scottish Enterprise, Maltese Enterprise)

The Finnish Ministry of Trade and Industry has recently commissioned a study on support initiatives for high-growth ventures (*“High-Growth SME Support Initiatives in Nine Countries: Analysis, Categorization, and Recommendations”, MTI Publications1/2007 Industries Department<sup>9</sup>*). The study examines policy measures in several countries designed specifically for high-growth entrepreneurial firms. We present here below a sample of some specific measures directly taken from the above mentioned report, which includes more than 20 measures found in EU and non-EU countries (Finland, Netherlands, UK, Hungary, Italy, Spain, Hong-Kong, Brazil and Australia).

### **Finland<sup>10</sup> - Growth Firm Service**

The Growth Firm Service was started in 2003 by the Finnish Ministry of trade and industry. The program aims to proactively identify firms and entrepreneurs with a high growth potential and direct these to appropriate services offered by the various public agencies that support SMEs and innovation. This successful program is implemented as a cooperative effort between these agencies, and it is coordinated by the private SME Foundation PKT.

- *Description*

The goal of the program is to act as a “one-touch shop” for public services relevant to growth firms. There are four major public agencies that offer services to SMEs in Finland, and through the contact with a business consultant in one of these agencies, a firm can get information about and be referred to appropriate services offered by all the agencies. These institutions are Finpro (Internationalization services), Finnvera (State-owned financing company), SITRA (Finnish National Fund for Research and Development), and TE-keskus (Regional Employment and Development Centres). Consultants in all of the agencies proactively seek to identify promising growth firms. When identified, the consultant offers a growth analysis session with the firm, and based on the growth analysis, specific needs for achieving growth are prioritized and appropriate services from the four participating institutions are enlisted. In total, there are approximately 100 different support services that can be offered by the participating institutions to the firms. The majority of these support measures concern financing, since financing is the main activity for 3 of the 4 participating institutions, while the fourth institution is focused on support for internationalization. The target group is SMEs with a high-growth potential in all sectors. Nevertheless, most participating firms are technology companies, since these companies often may be more interested in the services

<sup>9</sup> Downloadable at: [http://www.baf.cuhk.edu.hk/research/gem/materials/GEM\\_report/High\\_Growth\\_Policy\\_ReportB.pdf](http://www.baf.cuhk.edu.hk/research/gem/materials/GEM_report/High_Growth_Policy_ReportB.pdf)

<sup>10</sup> Please note that all the measures/programmes cited here have been extracted from the MTI 2007 report

that are being offered. These firms are often in the expansion stages of development since firms younger than this may not yet be recognized (“on the radar screen”) of the public business consultants. The younger firms are often born globals or firms with a strong technology-focus. The program was started in 2003, and each consultant or service is financed by the respective institution. It is thought that approximately 300–400 people spend around 10–15% of their time on offering growth services. The cooperation between institutions is coordinated by the private SME Foundation PKT and financed by the Finnish Ministry of Trade and Industry. The budget for the coordination and follow-up of the program is 0.5 Million EUR per annum.

- *Results and Lessons Learned*

The growth firm service is distinctive because of its explicit and sole focus on high growth firms. The program is still being phased in, and it has been approximately one year in operation. So far, 300 growth firms have been identified and received a growth analysis through the program. This corresponds to approximately one firm per consultant. It is thus clear that the number of firms that are supported through the program has room to grow significantly, although no target for the number of firms to be processed has been set. The total population of potential growth firms in Finland is estimated to be in the range of 2 000–30 000, depending on the definition of growth. The growth rates of the participating companies has not been analyzed yet, but an analysis will be carried out when enough time series data is available. The program is generally considered to be successful. The participating firms have been very happy with the service, especially with the aspect of firms being approached proactively and provided with a single contact person instead of one for each institution. Only few firms have declined the growth analysis, arguing that they do not need any of the services that the four participating institutions have to offer. This evaluation is based on feedback from business consultants. A more thorough qualitative evaluation will be carried out this year. A key lesson has been that the coordination of four strong institutions is quite difficult.

Each institution has different working methods, values, and they may have different objectives. It has also proven difficult to engage all of the regional institutions and business consultants in the program, and there is a large spread in the degree of activity. Furthermore, the ability of consultants varies. This is important, since the success of the program depends on the quality of consultants employed in approaching firms. The current focus in developing the program is on further strengthening commitment among the participating institutions, spreading good practice among participating institutions, and thus evening out regional differences. Efforts are also being invested in reaching out for companies that do not rank among the primary clients of the four participating institutions; these include, e.g., mature companies that have a renewed motivation to grow. In the future, the concept could be further developed to cover not only financing for R&D which is the current focus, but also e.g. marketing and sales and other financial needs of the participating firms. In all, the measure is quite original in that it acts as an interface to all services of the major public support institutions and is proactive in locating high-growth potentials and directing them to appropriate services. The practice can thus be similarly appropriate in cases where there is a network of disparate public organizations offering support services.

### **Netherlands - Mastering Growth Program**

The Mastering Growth Program is one of the few initiatives around to focus on the initiation and management of growth from a managerial perspective. This is one of the few initiatives to ask two crucial questions: (1) “How can I initiate growth in my firm?”; and (2) “How can I manage rapid organizational growth?” The program was started in 2006 and is financed by the Ministry of Economic Affairs. The program arranges training events for entrepreneurs who have growth expectations.

- *Description*

The program supports “master-classes”, in which ambitious entrepreneurs with growing companies learn from each other (through interactive case studies and experience sharing) about how to achieve high growth, e.g. in terms of funding, human resource management, strategic planning, and growth management. These workshops provide an opportunity for entrepreneurs to share notes and ideas, and these are combined with tailored lectures on growth. The classes are implemented by the management academy De Baak and the national innovation agency Syntens. The goal of the program is to improve both the motivation to grow, as well as the management skills of the participants. The classes are aimed at leaders of firms of all sizes and in all stages of development. The common

denominator is that the entrepreneur should be ambitious and aim for growth. The courses are carried out in 4 different regions, and there are four different modules that target firms of different sizes: start-up (<15 employees); moderate growth (15–35 employees); fast growth (> 35 employees); and large firms (>250 employees). The program focuses specifically on a few select sectors, including human health, agriculture & food, manufacturing, logistics, construction, and creative industries. Each participant is charged 3 000 EUR for participation in the program, and the courses are subsidized by the Ministry of Economic Affairs. The budget for the co-financing is 250 000 EUR.

- *Results and Lessons Learned*

Although the program has just been started, there are high expectations attached to the program. An innovative aspect of the program is that the participants primarily learn from one another. Any training input is highly customized and application-oriented, and input and feedback is actively solicited from participants in interactive sessions. The program thus seeks to achieve sharing of tacit skills and experiences, which is often overlooked in formal training programs. A good concept of the program is that it divides entrepreneurs leading firms of different sizes and growth prospects in different groups, as each group is expected to have somewhat different needs and be facing different growth constraints. The program expects 10–15 firms to participate in each of the 4 modules in every region, i.e., a total of approximately 200 in the country as a whole. To a larger degree than many other programs, this program aims to improve the skill and motivation of the entrepreneurs. It could be argued that more programs could benefit from focusing on the improvement of the motivation and the sense of self-efficacy of the entrepreneurs instead of focusing on firm-level resources, as it is mainly the entrepreneur who is responsible for initiating and maintaining a growth process in the firm.

### **Spain - Prestecs Participatius del CIDEM – Participative Loans**

[www.cidem.com/cidem/cat/actualitat/noticies/2006/03/306prstecscapitalconcepte.jsp](http://www.cidem.com/cidem/cat/actualitat/noticies/2006/03/306prstecscapitalconcepte.jsp)

Prestecs Participatius del CIDEM is a new public venture capital fund for young firms and spin-offs in Catalonia. The fund is a collaborative effort between six universities. It is funded by the Catalonia Investment Promotion Agency. The fund offers seed-stage loans and start-up equity investments.

- *Description*

The venture capital fund offers two types of financing for the seed, start-up, and early growth stages for technology-based firms. First, firms can be granted a so-called concept capital of up to 100 kEUR as a subsidized participative loan. Second, firms can get seed capital of up to 300 kEUR as an equity stake in the firm in order to accelerate growth during the early growth stage. The program can also refer firms to venture capitalists for additional funding. The target group of firms is high-growth start-ups in the technology sector. There is a maximum age limit of 2 years for the participating firms. Six universities in Catalonia cooperate around the venture capital fund. The main part of the capital comes from the public Catalonia Investment Promotion Agency. The annual budget of the fund is 2.6MEUR(2006), and it involves more than 25 staff.

- *Results and Lessons Learned*

In May 2006, three firms had been funded. The expectation for the full year is that 26 firms will receive funding. It is too early to pass any judgment on the success of the program. The expectations are high, though. One supported company, that has already seen growth, is Activery Biotech. The fund represents a good example of cooperation between universities, government agencies, and entrepreneurs. As such it may also give participating universities an incentive to further encourage entrepreneurship and commercialization of research.

### **United Kingdom - High-Growth Start-up**

[www.yorkshire-forward.com](http://www.yorkshire-forward.com)

High-growth Start-up is regional project (Phase 1: 2001–2004; Phase 2: 2004–2009) started by the Business Link organization in South Yorkshire in 2001. The program is co-financed between the EU and the Yorkshire Forward

Development Agency. The program provides coaching and mentoring by former entrepreneurs to growth-oriented start-ups in the region. The program is generally considered very successful, and it has assisted several hundreds firms that have created close to 2000 jobs.

- *Description*

The program provides up to 18 months of pre-start and start-up mentoring and coaching support for high-growth start-up firms. The mentors will assist the firm in making a plan for growth, and they also broker appropriate support for the business to overcome any identified challenges. The mentors used are usually experts in the particular business sector and have experience of starting and growing their own businesses. The program also aims to stimulate the enterprise culture by helping to identify and develop business opportunities, support businesses that are capable of achieving high levels of growth, and remove barriers to growth for these firms. The overall goal of the sub-regional program is to make South Yorkshire the best place to start and grow a business in the United Kingdom. The program is targeted at 'high-growth companies', which are defined as start-up firms that target a turnover of approximately 400 000 EUR by year two. The prioritized sectors are technology (e.g. biotech, advanced manufacturing, environment, and energy technologies) and professional services.

The current second phase of the program will run from 2004 to 2009. Nine private sector organizations based in South Yorkshire have been contracted for the delivery of the support. The program employs 7 staff, and the total annual budget is 2.5 MEUR. The program is co-financed by the Yorkshire Forward Development Agency and the European Regional Development Fund.

- *Results and Lessons Learned*

During the first phase of the program in (2001–2004), 595 start-ups were supported, and these firms have created a total of 2010 jobs. For the second phase of the program (2004–2009), the target is to support 295 start-ups creating 1744 jobs. Last year, 150 firms were supported. South Yorkshire has historically had a low rate of entrepreneurship in the region, but the program has generally been considered very successful in increasing the level of growing new firms. One success story is the DVD software company ZOOtech. A reason for the success has been that the program focuses on unblocking progress and providing the firms with the managerial skills and insight that they need for growth. Another important success factor is that mentors have private-sector experience from entrepreneurial activities. In many other programs, business coaches tend to be publicly employed or do not necessarily have personal experience from starting and running a firm. A lesson learned has been that entrepreneurs need to be shielded from data collection requirements and bureaucracy that often may accompany national and European support programs. The program also must ensure that all interaction with entrepreneurs is timely and based on the client's time and availability and not on the needs of the support organization. For the development of the project, the program is trying to design and implement a new diagnostic process that allows the program to identify certain entrepreneurial traits that give projects greater success.

### **United Kingdom - Mustard.uk.com**

[www.mustard.uk.com](http://www.mustard.uk.com)

The Mustard.uk.com program was started in the West Midlands, UK, by the two public organizations Advantage West Midlands and BusinessLink in 2000. The program is co-financed by the E.U., and it offers business coaching and subsidized private consultancy services to nascent entrepreneurs and young start-ups. The program has been regarded as very successful.

- *Description*

The program refers firms to and subsidizes private consultancy services (e.g. in management consulting, law, accounting) for new nascent entrepreneurs and start-up firms. The firms should have a target of at least 250 kGBP turnover in their second year and be willing to locate in the West Midlands region. In addition to access to subsidized consultancy services, available support includes workshops for start-ups and nascent entrepreneurs, access to a business opportunity database, and mentoring services for young firms through a dedicated business coach. Support is provided for up to 18 months, but can be extended for up to 36 months.

The program aims to aid the start-up of new growth-oriented firms by facilitating access to business expertise for entrepreneurs and firms in the seed and start-up stage. While the program is not limited to firms in any specific sectors, the priority sectors are creative industries, food, and tourism. The program was started in 2000, and it is run by the Advantage West Midlands and Business Links in the West Midlands organizations, and co-financed with the European Regional Development Fund. The budget is 2,6 MEUR per annum, and the program employs 3 full time staff in the central management team and 15 managers working as business coaches across the region, plus contracted private sector consultants.

- *Results and Lessons Learned*

Since the inception of the program, approximately 2000 firms have been supported. In 2006, 300 firms were supported. The current average size of the companies that have participated in the program is 400 kGBP in turnover and 8 employees. Some star companies have grown to over 100 employees. The program is generally considered very successful. The reasons for success have been a clear and independent brand identity of the program, a focus on nascent entrepreneurs who are already in employment, the co-pay system for the services, and a good quality control of the private sector partners.

A brand identity is especially important since many in the target audience have traditionally had a skeptical or outright negative perception of government support programs. It is of great importance to let the program be quite independent from government and have a high degree of interaction private sector partners such as banks, financial advisors and consultants that are well respected by the target audience. Also important is the insight that potential high-growth entrepreneurs may often be employed, and therefore need support and guidance on their career change path to self-employment. Having a co-pay system for the subsidized services challenges and motivates the clients. Finally, only private sector partners that have gone through a quality assurance process are involved in the program. This ensures that the clients get what value for their money and time investment in the program. A lesson learned has been the importance of looking at the needs of each individual business and entrepreneur and tailor the support for that business. This involves packaging the right solutions, with the right consultant and the appropriate coaching. There is no one-size-fits-all in supporting new growth-oriented firms.

### **United Kingdom - West Yorkshire Ventures**

[www.wyventures.co.uk](http://www.wyventures.co.uk)

The West Yorkshire Ventures program was launched by the West Yorkshire Enterprise Partnership organization in 2005. The program provides business coaching for firms with high-growth potential through its own consultants. The program is considered very successful.

- *Description*

The program offers business coaching through its own consultants and provides financial support for professional services based on a diagnostic analysis of the firm's needs. The level of funding for the services depends on the firm's likely level of growth and the type of activities to be undertaken. Advice and coaching is provided for up to 24 months, and financial support for professional services is provided for up to 12 months. The program also arranges training and networking events for entrepreneurs. The aim of the project is to ensure that high-potential firms have the most appropriate and substantial support needed to assist their business development, and thus create sustainable jobs in the region. In order to be eligible for support, the firm must be an SME based in the West Yorkshire region, which targets a turnover of over 1.5 MEUR within three years. There is an implicit focus on the start-up and early growth stages of development. The program is open to all sectors, with the exclusion of franchisees, real estate, and professional services. The program is similar to the South Yorkshire program, with the difference that this program relies on its own consultants for coaching while the South Yorkshire program contracts private organizations for coaching. The annual budget of the program is 1.78 MEUR, and it is co-financed between the Yorkshire Forward agency and the European Regional Development Fund.

- *Results and Lessons Learned*

So far, 566 businesses have been supported through the program. These firms have created 920 jobs. The program is generally considered very successful in assisting firms to achieve growth. However, the number of jobs created per firm is quite small, or on average less than two per firm. The program is still new, and it may thus be too early to judge the development of supported firms. A lesson learned is the need for the program to be flexible and adapt to

the varying needs of high-growth entrepreneurs and understand entrepreneur's dislike of bureaucracy. Equally important is to manage intermediaries (i.e. organizations that refer firms to the program) in order achieve a flow of high-caliber clients, and to ensure that the advisors are competent and can thus are able to build credibility with clients.

### **Australia - Commercializing Emerging Technologies (COMET)**

<http://www.ausindustry.gov.au/index.cfm>

The COMET program is very successful program started by the Australian department of industry, tourism, and resources in 1999. The program sponsors the commercialization of new technologies by subsidizing business development services for technology-based ventures.

- *Description*

The program provides subsidies of 80% for business development activities such as marketing, commercialization, and IPR management services to individuals (e.g. researchers) and small firms in their early stages who want to commercialize anew technology and target significant growth. Examples of supported activities include business plan market research, product trials, and patenting. The program is competitive and offers services through a network of affiliated private sectors advisors. The criteria on which applicants are judged are that they: (1) Are looking to grow substantially through commercialization of an innovative product, process or service; (2) Have identified weaknesses that are preventing them from implementing a commercialization strategy; and (3) Are unable to fund activities to address these weaknesses. The annual budget for the program is 6,5 MEUR, and the typical size of support is 50 kEUR (64kAUD) per firm or project. A50% subsidy for an additional 64kAUD can be obtained in a second stage of the program. The program targets all technology sectors.

- *Results and Lessons Learned*

Thus far, the program has assisted 300 firms. The program has been extended and expanded and was rated as very successful in an independent review prior to its continuation. For example, in the five years to July 2004, firms supported under COMET raised around \$275 Million in capital and created over 500 strategic alliances, licenses, and other agreements to enable their businesses to grow. The program has also been shown in surveys to increase the motivation of participating firms. However, there has been a shortage of experienced people in specialist areas that can assist the firms over the full 12 months of support. The network of affiliated advisors is currently being expanded to cover a larger area of expertise.

### **Australia - Innovation Investment Fund**

<http://www.ausindustry.gov.au/index.cfm>

Innovation Investment Fund is a venture capital scheme created by the Australia Department of Industry Tourism and Resources in 1998. Through this program, the government co-invests in early-stage equity companies together with private venture capital funds. The scheme has been considered very successful.

- *Description*

Under the program, the government has licensed nine private sector venture capital managers to provide venture capital to small, technology-based firms at the seed, start-up or early expansion stages of development. About one third of the capital is provided by private investors or VC funds, while the government provides the remaining share. The aim of the scheme is threefold: First, to encourage the growth and development of new technology-based firms through the supply of venture capital; Second, to develop a self-sustaining early-stage VC market in Australia; Third, to develop experienced fund managers that knowledgeable in early-stage VC investments. The program provides for asymmetrical payoff, benefiting private investors. In the first stage, both the government and the private sector investors receive an amount equivalent to their subscribed capital and interest on that capital. Any further capital gains are shared on a 10 per cent to 90 per cent basis between government and private sector investors. The private investor component is shared with the fund manager as a performance incentive. The program was started in 1998 by the Australia Department of

Industry, Tourism and Resources. The size of the funds is currently 65 Million EUR, of which the government has contributed the equivalent of 44 Million EUR. The government plans to invest 7.8 Million EUR during 2006.

- *Results and Lessons Learned*

Approximately 75 firms have received funding through the program. The program is currently being evaluated but can generally be considered successful. The government has made a profit on its share of investment. Nevertheless, although the program has been designed to be a scheme that supplies venture capital to early-stage firms, in practice, most participating firms have been in later stages of development. There have been criteria for what type of firms that can be invested in through the scheme, but due to investor risk aversion, the invested capital has tended to go towards as late a stage as possible. Therefore, for the continuation of the program, the scheme is being redesigned in order to support earlier stage firms to a greater degree.

### **Australia - Commercial Ready Program**

[www.ausindustry.gov.au](http://www.ausindustry.gov.au)

The Commercial Ready Program was started in 2004 by AusIndustry of the Australia Department of Industry Tourism and Resources. The program offers grants to SMEs for commercialization activities, and it has been regarded as very successful.

- *Description*

The Commercial Ready Program provides competitive merit-based grants to SMEs for commercialization activities, for R&D with high commercial potential, and for proof-of-concept activities. The program supports both R&D in new ventures as well as applied research leading to new innovations by established SMEs. The aims of the program are to support Australian businesses in the technology sector to develop innovative products, processes and to encourage collaboration between industry and research institutions. The grants range from 30 000 EUR to 3 Million EUR, and they require matching contributions by the receiving firms. Thus, they can be considered subsidies for commercialization activities. Projects can be supported for up to three years. The program is exclusively targeted at SMEs in any stage of development; but the grants are not available to large companies. The program was started in 2004 by AusIndustry, which is part of the Australia Department of Industry Tourism and Resources. The annual budget of the program is 120 Million EUR until 2011.

- *Results and Lessons Learned*

In 2005–06, 600 firms were supported through the program. The average support was approximately 200 000 EUR per firm. The program is generally considered very successful. It is very highly regarded by firms, and there are more applicants than funds available. However, due to the requirement of matching contributions, access to the program is in effect limited to firms that already have significant financial resources. It is thus rarely accessible for very young firms that do not already have a steady cash flow. An exception is start-up firms that have already received some type of VC financing, for whom the Commercial Ready program can function as a supplementary source of funding. Nevertheless, the program is particularly useful to SMEs in the expansion stage, e.g. to assist in the funding of product customization activities for a new market. It can thus contribute to an increased growth motivation for established SMEs by facilitating the continued development of new products and product lines.

### ***2.3 What are the stumbling blocks for trans-national cooperation which prevent spontaneous solutions to emerge?***

The biggest stumbling block is at the political level, where public policy often requires regional development agencies to be inward looking and focused on the economic development of their own regions rather than look outwards to the rest of the EU. This is a characteristic of the more successful regions, and there are good (or should it be bad?) examples of this chauvinistic attitude in France, Germany and the United Kingdom. This attitude is best changed by a two pronged attack:

1. An appeal to the selfish pride of the offending regions, encouraging them to join partnerships which will add lustre to their reputations and where they will be able to boast of the good things they do. By joining others they will discover that they do not have a monopoly of wisdom and that they can learn from even from the most economically disadvantaged.
2. Using those regions, whom the reluctant players regard as their peers or betters and who have successfully engaged in EC programmes, to promote the benefits of transnational co-operation, particularly for gazelles, who will be important contributors to the region's future wealth. This promotion is best done bilaterally and might be facilitated by a private sector company as part of the May 2007 call.

This stumbling block is not found in the private sector, either among business support firms working with KIS SMEs or the gazelles who are the beneficiaries of the programmes they deliver.

## ***2.4 What would be the most relevant action to respond to the identified challenge?***

In order to respond to the policy challenge, i.e. identification and selection of high-growth innovative SMEs and provision of the “right” bundle/mix of public-private support services, the exploratory team members propose the set of actions already presented in section 2.1 with the following modifications:

- “Public source information” (action 2) has been integrated in “Identification and selection of high-growth enterprises” (action 1) and together address the identification and selection issue
- “Helping high-growth companies in their internationalization process” (action 7) has been integrated in “Service package tailored to meet the needs of high-growth ventures” (action 3), since action 7 is a specific case of action 3.

Therefore, the resulting Action is a “complex” one made up of the following 5 sub-actions:

**Table 2: Action /initiative proposed**

<b>Sub-Actions (initiatives)</b>
1. Identification and selection of high-growth enterprises
2. Service package tailored to meet the needs of high-growth ventures
3. Qualification/Accreditation of professional intermediaries
4. Evaluation process / Fast response
5. Multi-level training

We recommend that a partnership should be a minimum of 3 and a maximum of 5 regions or sub-regions, at least one of which should have an established good practice and at least two should be from a NAC, with all regions being from different EU members. In the case of a programme being delivered by a PPP, each region or sub region should be have both a private and public sector partner. There should be no limit on the value of work that can be sub-contracted, but each sub-contractor should be identified at the EoI stage.

### 3. Potential actors to drive the agenda for trans-national cooperation further

#### 3.1 Which institutions / organizations would be interested and needed to make practical progress?

The trans-national cooperation institutions / organizations interested in making practical progress should share the same need to accomplish a lasting improvement in the access to training and support for gazelles. The underlying problems should be comparable in the European Regions and Member States where institutions / organizations are located: unemployment, lack of appropriate policy measures to foster the take up of gazelles or supporting measures that have been put in hand are partly not leading to the desired goal.

Typical public institutions /organizations to be involved in the trans-national cooperation policy exercise should: (i) be entitled to develop new approaches, to improve the existing policy measures, (ii) possess the competence and the experience to test new models and methods to support the gazelles and identify opportunities for their future development , (iii) be public sector bodies providing funding or directly managing national and territorial government innovation policy incentive system, (iv) help national and territorial government to develop a more effective innovation policy incentive system.

In addition other potentially interested actors are: (i) higher education institutions research and education units /centres; (ii) private institutions for education / lifelong learning; (iii) technology and innovation centres (non-profit); (iv) business organisations (chambers of commerce, industrial associations and cluster associations); (v) new technology based firms/new knowledge intensive service firms;

The following table shows the institutions/organizations that would be interested and needed to implement the 5 sub-actions identified in section 2 that respond to the identified policy challenges:

**Table 3: Potentially interested institutions/organizations**

Action/Initiative	Interested institutions/organizations
1. Identification and selection of high-growth enterprises	<ul style="list-style-type: none"> <li>• Ministries/Departments of R&amp;D / Innovation</li> <li>• Ministries of Economy/Finance</li> <li>• National/Regional Innovation/Development Agencies</li> <li>• Statistical Offices of the Member States</li> </ul>
2. Service package tailored to meet the needs of high-growth ventures	<ul style="list-style-type: none"> <li>• National/Regional Innovation/Development Agencies</li> <li>• IRCs</li> <li>• BICs</li> <li>• Chambers of Commerce</li> <li>• Private sector expert consultants (e.g. lawyers, IPR experts, marketing, accountants/attorneys, venture capitalists, innovation intermediaries, etc.)</li> <li>• European Incubators</li> </ul>
3. Qualification/Accreditation of professional intermediaries	<ul style="list-style-type: none"> <li>• National/Regional Innovation/Development Agencies</li> </ul>

	<ul style="list-style-type: none"> <li>• Private sector expert consultants (e.g. lawyers, IPR experts, marketing, accountants/attorneys, venture capitalists, innovation intermediaries, etc.)</li> <li>• Certification bodies</li> </ul>
4. Evaluation process / Fast response	<ul style="list-style-type: none"> <li>• Ministries/Departments of R&amp;D / Innovation</li> <li>• National/Regional Innovation/Development Agencies</li> <li>• Innovation intermediaries</li> </ul>
5. Multi-level training	<ul style="list-style-type: none"> <li>• Ministries/Departments of R&amp;D / Innovation</li> <li>• National/Regional Innovation/Development Agencies</li> <li>• Innovation intermediaries</li> <li>• Chambers of Commerce</li> </ul>

Experience shows that partnerships are more effective when the partnerships are "well matched" because there is a synergy between the aims and objectives of the national and the trans-national activity. In practice this means that national initiatives should easily translate into the objectives of the trans-national project. A good mix of relevant organisations is also needed to successfully implement the action and a good geographical balance plays a decisive role in success and made the partnerships much more enriching for the members.

### ***3.2 What kind of commitment to enter into trans-national cooperation can be expected?***

Trans-national co-operation should foster the establishment of formal and informal European networks dealing with the topic. The creation of networks should improve communication between partners and actors (projects, Member States, business and educational institutions etc.) and increase their commitment and understanding of the problems faced. Participating in European networks and building contacts in other Member States will open up opportunities for future co-operation and sustainable collaboration, while adding a European dimension to the policy problem solving exercise. More specifically, the commitment should address the following topics:

- Definition of work methodologies based on the cooperation and the complementarities of actions realized in the framework of the national and regional policies.
- Promotion of a proactive attitude in developing integrated methodologies of work, promoting valorisation processes and good practice exchange among the participating member States and Regions.
- Favour the participation of regions which risk to be excluded from the policy learning exercise

All trans-national cooperation results should be made available to the general public.

### ***3.3 Which evidence exists for such an interest?***

The international review confirms that many European governments have recognised the need to include additional international perspectives in their innovation policy. Increasingly, more emphasis is paid by innovation policies to address the specific needs of the high growth companies. In a number of Member States, new innovation policy initiatives in support of innovation in services were recently launched or are currently planned. The policy measures range from a better understanding of high-growth companies needs, the development of quality standards for new

services and a better equity participation platform to sustain new business models and supply chain innovations. At the same time, discussions have started on how to foster trans-national cooperation in this field, by sharing best practice and preparing for closer cooperation between different national innovation programmes.

Major driver for collaboration is the EU cohesion policy, supported by the Structural Funds, which increasingly focuses on knowledge, research and innovation. Regions and Member States will foster increased growth and job creation. A strong effort has already been made in the programming period (2000-2006); spending on research and innovation amounted to 7.4% of the total European Regional Development Fund for less developed regions (EUR 7.5 billion) and 11% for regions under economic restructuring (EUR 2.4 billion). **Member States will significantly increase expenditure in this area in the next programming period** and the 2006-2013 Structural Funds will be targeted on key high-growth sectors and bottlenecks in these areas that require support for the gazelles' take-up.

This approach is reflected in the Commission's draft Strategic Guidelines for Cohesion Policy, which expects the Structural Funds to fully back the implementation of the Partnership for Growth and Jobs. A broad range of research and innovation related actions will be funded, such as regional and trans-regional clusters, poles of excellence, technology transfer, business support services and actions to develop human capital and to help workers and enterprises anticipate and adapt to economic change. Regions and Member States can use the Structural Funds in a flexible manner to help meet their specific needs and exploit the synergies with FP7 and CIP. The Commission will, through the strategic guidelines and its interactions with Member States and regions, promote the use of Structural Funds to improve knowledge and innovation for growth.

#### *4. Funding instruments to implement the proposed action*

##### **4.1 Would the proposed action supported by the relevant actors respond to the identified challenge?**

The present analysis indicates a high level of relevance of the targeted challenges identified under Section 1: (i) the **identification and selection** of the recipients of the support from public intervention and the related methodological issues and (ii) the offer to high-growth innovative SMEs of an appropriate **mix of value added services** and the **necessary externalities** facilitating the development of an advanced/modern business service infrastructure.

The action logic will produce or contribute to a number of concrete tangible results, as well as to some that are more intangible in nature. Hence, by bringing selected policy players together in partnerships, the action underpins the development of a culture of **trust and co-operation** among different policy makers and stakeholders as well as the development of a **common vocabulary** and **methodological knowledge** among the participants.

For the more tangible types of result, the projects may lead to a sharing **good practices** among the participant organisations concerning operational policy issues (definition of selection methodologies, measures design, training, quality checks), as well as the development of **new methods and techniques (benchmarking)**. Both types of result may contribute to increased operational capacity both nationally and trans-nationally, which inter alia means greater effectiveness in the support of high-growth companies.

Concluding, the Action not only favors multi-regional partnerships arrangements, improvement of **institutional capabilities in policy design and delivery**, the diffusion of a growth culture, and the exchange of best practices, but can also contribute to better governance at all levels by improving **responsibility and ownership of the Lisbon objectives at sub-national level**.

##### **4.2 What kind of funding instruments would be needed to implement the proposed action? (all funding possibilities to initiate this action should be explored, from national and European funds)**

There is presently a variety of instruments which can theoretically be addressed in order to implement the proposed action: Europe Innova, PRO INNO Europe, Regions of Knowledge, INTERREG, PIC, Structural Funds.

###### **1. EUROPE INNOVA**

The specific objective of Europe INNOVA initiative<sup>11</sup> is to create more efficient links between universities, entrepreneurship and finance through the creation of a pan-European incubation platform in this sector. In addition, Europe Innova aims at the realisation of a Pan-European Platform for innovative start-ups in knowledge-intensive services and addresses the challenge of how to put knowledge on new business models and services value chains. It builds upon the former Gate2Growth initiative<sup>12</sup> as well as experience from the ongoing Europe INNOVA financing networks. The major objectives are:

- to identify and further disseminate main research results on new business models and methodologies for knowledge intense services;
- to develop better incubation services for start-up's in knowledge intense services, in particular for those with high growth potential;

<sup>11</sup> For more information see : [www.europe-innova.org](http://www.europe-innova.org)

<sup>12</sup> For more information see: [http://www.gate2growth.com/q2g/q2g\\_welcome.asp](http://www.gate2growth.com/q2g/q2g_welcome.asp)

- to create a pan-European start-up acceleration pathway through significantly larger risk financing for young innovative companies in knowledge intense services

## 2. PRO INNO EUROPE

This initiative aims to become the focal point for innovation policy analysis, learning and development in Europe, with the view to learning from the best and contributing to the development of new and better innovation policies in Europe<sup>13</sup>. PRO INNO Europe's objective is the development of trans-national and trans-regional co-operation in innovation policy. Within PRO INNO Europe, the INNO-Nets aim to stimulate trans-national co-operation among different national or sub-national innovation programmes.

## 3. REGIONS OF KNOWLEDGE

Regions of knowledge Programme can support projects eligible under the "People" and "Capacity" strands of the VII Framework Programme. In order to successfully take up the challenges listed above, the programme aims at the following objectives: (i) a map of RTD infrastructure and of key "dormant" public and private stakeholders, (ii) a SWOT analysis of existing and potential technology clusters, (iii) a directory of RTD offer and demand, (iv) a graphical representation of the complementarities of the key stakeholders, of clusters, (v) organisation of thematic seminars for key stakeholders from all partner regions, aiming to compare their respective regional business models and strategies to stimulate RTD and innovation, transfer innovative practices, and define areas of joint cooperation.

## 4. INTERREG

The INTERREG community initiative is a specific instrument contributing to the implementation of cross-border, inter-regional and trans-national co-operation intended to encourage the harmonious, balanced and sustainable development of the whole Community's territory. With regard to the interregional cooperation topics of the "cooperation" strand, the European Union supports regional economic bodies such as Technoparks, Technopoles, Incubators, Chambers of Commerce, Clusters, Technology Transfer Agencies, Regional seed and equity Funds. The Programme is not so efficient in terms of "transfer of knowledge" and "capacity building": most of the current Interreg III C projects never produced best practice or how-to-do-it guides drawn from the implemented projects.

## 5. PIC (Community Initiative Programmes)

The European Union pursues cohesion policy geared to enhance economic and social cohesion between the Member States and reduce regional disparities in development. The EU channels Structural Funds co-financing to the Member States through its Objectives and **Community Initiative programmes**. The current programme period started in the beginning of 2007 and will last till the end of 2013.

Projects are co-financed by the European Regional Development Fund (ERDF) and the European Social Fund (ESF). There are a number of ESF projects which concern economic development and high growth companies. Many of them are linked to projects co-financed by the ERDF.

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<sup>13</sup> <http://www.proinno-europe.eu/>

## 6. STRUCTURAL FUNDS

The cohesion policy and its instruments between 2007 and 2013 **will be worth € 308 billion** to support regional growth agendas and to stimulate job creation. 82% of the total amount will be concentrated on the “Convergence” objective, under which the poorest Member States and regions are eligible. In the remaining regions, about 16% of the Structural Funds will be concentrated to support innovation, sustainable development, better accessibility and training projects under the “Regional Competitiveness and Employment” objective. Another 2.5% finally are available for cross-border, transnational and interregional cooperation under the “European Territorial Cooperation” objective. Certain spending targets have been agreed upon to pursue the objectives of the Growth and Jobs Agenda: in the case of the “Regional Competitiveness and Employment” objective, the target is 75% of the total available funding, which needs to be “earmarked” for interventions supporting, e.g. research and innovation, the information society and sustainable development.

This activity relates to the bulk of DG Regional Policy’s budget, i.e. regional assistance in the Member States, under Objective 1 ERDF programmes, Objective 2 ERDF programmes, ERDF Community Initiatives, ERDF Innovative actions and technical assistance. This activity pursues the objectives set out in Article 160 of the Treaty and Regulation (EC) N° 1260/1999, the promotion of economic and social cohesion by correcting the main regional imbalances and participating in the development and conversion of the regions. The ERDF contributes to the co-financing of (1) productive investment to create and safeguard sustainable jobs (2) investment in infrastructure and (3) development of endogenous potential by measures which encourage local development and employment initiatives and the activities of small and medium-sized enterprises. It is likely that DG Regio and DG Employment will dedicate a significant percentage of ERDF and ESF financial resources to support innovative actions as stated in the Lisbon Strategy.

The following table summarises a comparative evaluation of the different measures and funding instruments based on 4 criteria:

1. The relevance is related to the topic of supporting the creation and the consolidation of High-growth companies (gazelles).
2. The funding is related to the scope of public support for both trans-national cooperation and the accessibility in terms of timing and investment by the potential proponents.
3. The trans-national policy cooperation criteria deals with the measure focus on enhancing trans-national cooperation
4. The timing criterion has to do with the availability of new Calls during the second half of 2007

**Table 4: Comparative analysis of the funding instruments needed to implement the proposed action**

PROGRAMME	(1) Relevance	(2) Funding	(3) Trans-national	(4) Timing
EUROPE INNOVA	H	M	H	H
PRO-INNO Europe	H	H	H	H
ROK	M	M	H	L
INTERREG	L	L	H	L
PIC	L	L	M	L
ERDF/ESF	M	H	L/M	M

The evaluation of the funding instruments needed to implement the proposed Action in favour of gazelles shows that some of them are not fully eligible in order to achieve the trans-national cooperation goals. The most appropriate programmes are EUROPE INNOVA and PRO-INNO Europe and this leads to the following considerations:

- Regions of Knowledge programme is quite focused on **RTD infrastructure enhancement** and aims at transferring innovative practices, defining areas of joint cooperation especially in the R&D domain, by involving public and private stakeholders, technology clusters, matching RTD offer and demand,
- ERDF and ESF funding for 2007 -2013 **is worth € 308 billion**. The amount is huge and represents a major challenge for Europe in terms of resources.
- The Community Initiative programmes **focus is on economic and social cohesion in general**
- On the other hand, the potential eligible measures, actions and projects mentioned in the current **ERDF and ESF regulations are too numerous**. A quick scan shows that there are at least 70 measures and this show a strong fragmentation.
- Projects currently funded within **INTERREG** are not tailored to trans-national policy cooperation.

#### ***4.3 Would the proposed actions require financial support under the Competitiveness and Innovation framework programme (CIP) of DG Enterprise?***

As mentioned above, the most appropriate programmes to implement the proposed Action are Europe INNOVA (public-private partnerships) and PRO-INNO Europe (INNO Nets projects). In particular, as shown in the table below, sub-actions 1 and 4 could be implemented through PRO-INNO Europe (INNO Nets) whereas the other actions (2, 3 and 5) through Europe INNOVA (Public-Private Partnerships). However, we see no case for the different levels of support for PPPs and Public-only partnerships and recommend that all should be funded at 100%. The 75% restriction means that prospective private sector partners are reluctant to join bidding consortia unless they can find matched funding for the 25% balance, either from the public sector, or from the SME beneficiaries. For some proposed actions, funding contributions from beneficiaries will be either inappropriate, and for other the public sector funding will not be available because of EC rules on double funding. This will mean that some opportunities will either be foregone or not attract the best partners.

The sub-actions can mobilize additional resources from public or private national sources: it is very important that the launch of a specific trans-national policy cooperation action in support of gazelles can count on **a leveraging effect on the Structural Funds** in the targeted Regions. **ERDF and ESF** should devote significant financial resources to support innovative actions as stated in the Lisbon Strategy and the action should leverage these funds by generating **strong momentum** and investment **in favour of gazelles**. The Europe INNOVA funds should be used only for the development of content and its testing by pilot programmes in the partner regions and sub-regions.

## 5. Leveraging the impact of the proposed action

In 4.3 above we have recommended that the proposed action should be a ‘complex’ one made up of 5 sub-actions, as set out in table 6, which is reproduced below:

**Table 5: Proposed sub-actions and suitable funding programs**

Action/Initiative	Funding Programs
1. Identification and selection of high-growth enterprises	PRO-INNO Europe (INNO Net)
2. Service package tailored to meet the needs of high-growth ventures	Europe INNOVA (public-private partnerships)
3. Qualification/Accreditation of professional intermediaries	Europe INNOVA (public-private partnerships)
4. Evaluation process / Fast response	PRO-INNO Europe (INNO Net)
5. Multi-level training	Europe INNOVA (public-private partnerships)

Each of the proposed initiatives will benefit from complementary action in related areas with a view to using synergies and ensuring strong impact over time either for the sustainability of the project or to prepare for sustained support at both national and European level. The complementary EC funding instruments have been described in 4.2 above. In the sections that follow we discuss some of the ways that these European funding instruments should be matched by complementary programmes within member countries, both at national and regional level. In every case of proposed complementary activity the bidding partnerships should demonstrate that they will adhere strictly to the principles of additionality and subsidiarity in their use of EC funding.

### 5.1 How the potential impact of the proposed action can be maximized?

All proposed actions should include, as a necessary component, a set of Key Performance Indicators (KPI), which will not only set minimum targets and milestones for outputs, but also allow comparative benchmarking. This impact measurement, which should be undertaken at regular and predetermined intervals, will allow corrective action to be taken during the lifetime of the project should a KPI target or milestone be missed. Benchmarking of projects falling within the same sub-action will help identify successful good practice and encourage learning with EC project managers having the ultimate sanction of withdrawing funding if the project is seen to be failing. Benchmarking will enable the actual performance to be measured.

KPIs and milestones should be chosen by partnerships and consortia at the time of the bid and should be relevant. We recommend that the EC should not prescribe or define the KPIs to be used, except in the case of sub-action 2, Tailored Service Packages. For this sub-action, the one that specifically targets gazelles, we recommend that Gross Value Added (GVA) should be one of the KPIs. It is a more effective measure of economic success than either turnover or profits, and one that can be applied uniformly and simply across the EU. Rate of growth rather than absolute value should be measured, since this is the unique identifier of a successful gazelle.

### 5.2 Which complementarities between the proposed action and other support actions at national and European levels in this field could be used?

There will be some overlap with INTERREG and ESF/ERDF initiatives, particularly in the area of training and leadership development for which ESF/ERDF co-funding has allowed the delivery of many successful programmes, many of which are good candidates for transnational transfer. DG Regio's Innovation Coach programme has also encouraged the dissemination of and transfer of good practice to NACs, but has a fundamental weakness in that it has not enabled partnerships between the beneficiary NAC regions and others in the old EU, since the advice and support is being delivered by experts acting on their own account rather than on behalf of the organisations or regions from which they come. A sampling of Innovation Coach newsletters reveals critical references to this lack of contact by representatives of the NAC development agencies involved in the programme.

However, the most frequent complementarities will be found with existing programmes being delivered at national or regional level by EU members. For example, in the UK each of the 9 English regions, and in Scotland, Wales and Northern Ireland, the regional development agencies have been funding a variety of high growth business support programmes for many years, and much transferable good practice has resulted. Similar programmes can be found in Scandinavia, France, Ireland and elsewhere, but in all cases there has been very little inter-regional co-operation or transfer, even within the same country. A 'not invented here' attitude would seem to infect both national and regional governments. The proposed Europe INNOVA action gives a good opportunity to correct this and build on what good things already exist.

### ***5.3 What measures could be taken at national and European level to enhance the impact of the sustainability of the project?***

Of the five sub-actions proposed, numbers 1, 3 and 4 (Identification, Accreditation and Evaluation) will provide a platform and methodology should by their nature be sustainable once developed without any further public subsidy. Accreditation will be supported by registration fees, in the same way as diagnostics that will be used for the other two should not require maintenance or development. They will be instruments that the programmes developed by the remaining two sub-actions (Tailored Support and Training) will use.

It is these last two that will be dependent upon continuing public subsidy, as it will always be the case that gazelles will only realize their full potential with external help, and that in most cases will be unable to afford to pay the full economic cost of such help at the time when they need it most. The horticultural analogy often used to inform the business incubation process identifies accelerated growth as one stage. The plants selected require a special environment, with appropriate warmth, feeding and water, if they are to realize their potential as early croppers. The environment and care is provided by the market gardener, not the plant. So it is with farmer as it is with the gazelle. However, we see the responsibility for ensuring the sustainability of the programmes developed by the Europe INNOVA action passing to national and regional governments. The gazelles will be contributing to the economic prosperity of their region and country first. It therefore is the duty of the region and country to ensure the sustainability of that programmes that nurture gazelles. As we have argued earlier, Europe INNOVA funding should be used only to develop programmes. Other EC funding, ERDF/ESF in particular, and national government funding is available to ensure that the impact is sustained.

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- Supporting High-Growth Potential Firms: The Policy Challenge of Building Tomorrow's Winners. November 2006
- International practices: New Zealand: New Investment Fund to help high-growth SMEs ([www.beehive.govt.nz](http://www.beehive.govt.nz))
- Financing technology based high-growth companies: Presentation made by PERA (J. Hill). TAFTIE [http://www.taftie.org/Events/upload/Hill\\_Financing\\_Technology\\_Based\\_Companies.pdf](http://www.taftie.org/Events/upload/Hill_Financing_Technology_Based_Companies.pdf)
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